INDUSTRIAL & SYSTEMS ENGINEERING SEMINAR

Wednesday, May 4
3:15 PM – Refreshments before the seminar
3:30 PM – Graduate Seminar
Mechanical Engineering Room 4125 A & B

Bandwagon Effects Can Cause Persistent Stockouts of New Products

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The bandwagon effect is a social phenomenon where people do things merely because many others do the same. To capture the bandwagon effect in consumer purchases, we consider a two-period model with two types of consumers: leaders and followers. Leader-demand is random and occurs in the first period, follower-demand arises in the second, and the latter is increasing in the former. Demand is unobservable and the market forms rational expectations based on whether the product is out-of-stock. We show that the firm has an incentive to deliberately understock and increase the prevalence of stockouts. We compare our equilibrium results with a full-information benchmark in which demand is perfectly observed. Our results provide an explanation for why new product offerings are always initially out-of-stock and why the firm may prefer to obscure rather than reveal demand information.

BIO: Xuanming Su is an Associate Professor from the Haas School of Business at University of California, Berkeley. He obtained his PhD in 2004 from the Graduate School of Business at Stanford University. His areas of research include operations management, revenue management, health care and behavioral decision-making, with a focus on modeling consumer behavior.

FOR MORE INFORMATION ON PROFESSOR SU'S RESEARCH, please visit:
http://www2.haas.berkeley.edu/Faculty/su_xuanming.aspx