

Establishing Product Quality in The Market Through Flash Sales

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Abstract

Every firm works to create products that create a buzz in the market and do not lie on the shelves for a long time. Firms use a specialized marketing team to devise strategies to make the product more desirable by the customers. With the increasing popularity of the internet, a new strategy to sell the products on an exclusive platform with limited availability has become quite popular. Such a strategy raises the question that why the firm should not increase the price or availability and synchronize the demand and supply. We develop a game-theoretic model to explain this flash sales strategy. We find that such a strategy can help a new entrant signal the quality of their product to uninformed customers credibly. Such a strategy works more efficiently than the traditional method of differentiation based on the price distortion of the product. The success of the artificial scarcity strategy depends on the market factors like fraction of informed customers in market, difference in marginal cost of the high and low quality product, and the difference in reservation price for high and low-quality products. Our model suggests that a new firm can cease to create artificial scarcity when a sufficiently high number of customers are aware of the quality of their product. This explains why artificial scarcity is not used by firms that are well established in the market.

Keywords

Flash Sale, Limited Availability, Quality Signaling, Perfect Bayesian Equilibrium.