

Behavioral Anomalies in Consumer Wait-or-Buy Decisions and Their Implications for Markdown Management

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Abstract: A consumer's decision to buy an item at a regular price or wait for a markdown involves a three-dimensional trade-off between the delay in getting an item, the likelihood of getting it and the magnitude of savings - all of which are prone to behavioral anomalies/regularities. We propose a model that incorporates such anomalies and analytically solve the consumer wait-or-buy problem. Through a behavioral study estimate the model parameters and numerically show that with realistic parameters, accounting for the behavioral anomalies a firm would offer larger markdowns yet generate higher revenues compared to the current literature's predictions.