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The Study of Direct Selling Management Strategies and Consumer Behavior an Example of the Companies in India

Manish Singh Sengar	Research Scholar, ShriVenkateshwara University, Gajraula
Dr. Piyush Kant Srivastava	D.S.N. P.G. College, Unnao
Rajesh Dubey	PERI, Lucknow, UP

ABSTRACT

Companies in a variety of industries often use sales& selling to dispose of unsold capacity. Although this may generate incremental in a short term,the long-term consequences of such a strategy are not immediately obvious: more discountedlast-minute tickets may lead to more consumers anticipating the discount and delaying thepurchase rather than buying at the regular (higher) prices, and hence potentially reducingrevenues for the company. To mitigate such behavior, many service providers have turned toopaque intermediaries such as hotwire.com that hide many descriptive attributes of the service so that the buyer cannot fully predict the ultimateservice provider. Using a stylized economic model, this paper attempts to explain and comparethe benefits of last-minute sales directly to consumers vs. through an opaque intermediary.

KEYWORDS :

Introduction:

Firms in the travel industry face the problem of uncertaindemand for their services. While these firms typically begin by selling regularly priced productsthrough direct channels as well as through a variety of intermediaries, they often later utilizelast-minute sales discounts to sell off their leftover capacity. Since service capacity in these industries is hard to adjustin the short term and the marginal cost of providing service is negligible, such dynamic discountsare pervasive. Unfortunately, last-minute sales directly to consumers are dangerous in that they conditionpotential consumers to expect that there might be a deal available at the last moment at a muchlower price. As a result, some consumers may prefer to wait for last-minute sales rather than purchasing earlier at a higher price. Many industry analysts, observers and executives have questionedthe last-minute sales approach altogether since it starts a cycle of price degradation that willeventually lead to destroying the airlines" (Sviokla 2004).Another mechanism for selling distressed inventory appeared more recently under the name ofopaque selling. Before purchasing the opaque product from an intermediary, a consumer does notknow which company will ultimately provide the service, when exactly will the service commenceand how long it will take (for air tickets) etc. In the travel industryand many others have popularized this sellingmechanism in which the intermediaries hide some attributes of the product from the consumersand reveal them only after the purchase has been made. This is the opposite of transparent sales discussed above, whereby all attributes are observableup front. One frequently cited reason for the existence of the opaque channel is that it enablesairlines to generate incremental revenue by selling distressed inventory cheaply without disruptingexisting distribution channels or retail pricing structures" (Smith et al. 2007).

Literature Review:

To summarize, our study is the companies to shed light on the comparative advantages of direct selling and sales strategies. We explicitly model the companies of consumers' strategic behavior regarding product availability on company's sales strategies to dispose of inventories, and we characterize conditions under which companies prefer one strategy over the other.The work on inter-temporal sales started with the seminal cases conjecture (Coase 1972) whichpostulates that, given an infinite number of selling opportunities over time, a monopolist willeventually decrease a product's price to its marginal cost, and all consumers will anticipate thisdecrease and delay their purchases. Numerous subsequent papers modeled scenarios in whichthe Coase conjecture may not hold (Stokey 1979, Besanko and Winston 1990, DeGraba 1995). The under uncertain demand, if product availability islimited, consumers might not have an incentive to wait for a lower price because of the threat ofunavailability. We build on this tradeoff between price and availability in the context of opaquesales when consumers form rational expectations about future availability.Our paper contributes to the small but growing literature in Operations Management that modelsstrategic consumer behavior. Recent papers in this stream that explicitly incorporate productavailability considerations and demand uncertainty into sales models include Cachonand Swinney (2008), Lai et al. (2008), Su (2007), Su and Zhang (2008) and Yin et al. (2009). Forinstance, Cachon and Swinney (2008) demonstrate that the value of quick response strategies ishigher in the presence of consumers who strategically wait for sales. However, none of aforementionedpapers consider competition and opacity in product attributes. For a rich compilation ofrecent work in operations management which incorporates strategic consumer behavior the readeris referred to Netessine and Tang (2009).

To our knowledge, only a few very recent papers explicitly consider opaque selling mechanisms. Jiang (2007) considers opaque selling for two rights owned by the same monopolist companies but scheduled at times throughout the day. Fay (2008) considers a model of competition with deterministic demand and shows that the opaque channel increases the degree of price rivalry and reduces industry have very loyal customers. Shapiro and Shi (2008) model competing companies selling opaque products through a passive intermediary which posts prices dictated by companies while hiding the identity of the products there are two segments of consumers with strengths of brand preference. They that opaque sales competition for customers with low brand preferences, and enables to commit to high prices for customers with high brand preference so that the total increase.

Objectives:

Selling through companies direct channels when selling only through their direct channels and demand is deterministic, that each charges the same price in the two periods. Intuitively, if the companies were to try and charge a higher price in the period and a lower price in the second period, the consumers, being strategic and having full information about demand, would wait to buy products until the prices were lowered. In case of the uncertain demand, we will see that this result changes.We provide the detailed analysis in the appendix in Section A1.1 and only provide the main insights here.

Selling:

As we described in the introduction, consumer often sell products/ services through opaque intermediaries very close to the terminal time, i.e., after consumers have bought in the transparent channel but the still have some inventory of products left over. In this case,

we assume that the declare that they might sell through an opaque channel late in the selling horizon (e.g., airlines selling opaque tickets through firms will engage in opaque selling only if there are products that are left unsold through their own direct channels. More formally, the game proceeds in the following manner.

Comparison of strategies under deterministic demand:
In both high and low-demand scenarios, the opaque channel acts as a cleanup mechanism to dispose of unsold products by selling them to consumers who would otherwise not have purchased at all. Hence if opaque selling is used when the market is not fully covered by the transparent channels.

Research Methodology: Selling through companies' direct channels
In the first period companiesa prices its products at p1A and companies B prices its productsB andboth declare that there might be last-minute sales. All consumers form expectations about the number of consumers purchasing in each period (andtherefore the corresponding future availability), and strategically make or postpone their purchase. At the end of period 1 and before period 2 begins, demand uncertainty is fully resolved. Thelevel of demand is determined as H or L, and is observed by both the companies and the consumers. In our basic model, we assume that consumers derive the same utility forming with a regardless of whether they buy in the direct channel or the channel. However, sometimes force opaque sellers to selling\ damaged goods. For instance, might disallow re-booking or charge high cancelation fees for opaque goods. One way to make this consideration consistent with our model is to impose that damaging" the goods valuations that consumers obtain on opaque purchases. In our model, this can be admitted by discounting the valuation in the opaque channel is a factor that accounts for the possible disutility from the reduced edibility in the opaque channel. As a consequence of reduced valuation, We note that, in the symmetric model, this change the prices only on the opaque selling channel, whereas the prices remain as a result, the revenues for the intermediary are reduced in the opaque channel, and more consumers purchase directly from the period.

Discussion & Conclusion :
Due to uncertain demand and (short-term) inedible capacity in travel industries often end up with one of the two extremes a shortfall of capacity due to high demand, or leftover unused (and expensive) capacity due to low demand. To deal with the mismatch between demand and supply have implemented a variety of strategies, and two of the most prominent strategies are direct last-minute sales at reduced prices and sales through an opaque intermediary. However, consumers are becoming more and more strategies they have learned to anticipate this last-minute distress selling and might decide to postpone their purchase in expectation of future lower prices. The risk the consumers face while making this decision is of not being able to obtain a product if demand turns out to be high.

Conclusion:
This strategic interaction between competing and consumers, and shed light on the following question: when should consumer last-minute sales directly to consumers versus through an opaque intermediary? That the answer depends on at least three factors: (1) the valuations that consumers have for the service, (2) the strength of brand preference that consumers have for competing (alternatively, the extent of service competing) and (3) the probability that demand in the market exceeds capacity. If consumer valuation for product is high and/or the strength of brand preference of the consumers in the market is low, prefer direct last-minute sales over opaque sales. Furthermore, as the probability of high demand increases, start to prefer opaque sales over direct last-minute sales.