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## Strategic Consumer Behavior

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**ABSTRACT:** Rapid fashion architecture incorporates rapid reaction manufacturing capabilities with enhanced product design capabilities to both design "hot" products that capture the latest consumer trends and take advantage of minimal production lead times to align supply with unpredictable demand. We design such a system model and compare its performance with three alternative systems: systems that are fast-response only, systems that are enhanced-design-only and conventional systems. In particular, we focus on the "strategic" or forward-looking consumer buying behavior effects of each of the four schemes, i.e. the intentional delay in purchasing an item during an end-of-season clearance at the full price to buy it. Rapid Response mitigates strategic actions by a different mechanism: it decreases the probability of a clearance sale by better matching supply to demand. Most importantly, although the rapid response and improved design can be either supplements or substitutes, the complementary effect tends to dominate.

**KEYWORDS:** Strategic consumer behavior; Quick response; Fast fashion; Game theory.

### I. INTRODUCTION

The ideology of quick fashion retailing has been gradually adopted by companies in the fashion apparel industry, such as Zara, H&M, and Benetton. Generally speaking, at least two components are combined in a fast fashion system:

1. Short production and distribution lead times, enabling a close matching of supply with uncertain demand (which we refer to as quick response techniques);
2. Highly fashionable trendy product design (which we refer to as enhanced design techniques).

By a combination of localized development, advanced information systems that promote regular inventory tracking and replenishment, and expedited delivery methods, short lead times are allowed. Zara, mainly a European retailer, for example, manufactures most of its designs in expensive European and North African factories (rather than exporting to less expensive Asian facilities) and tracks inventory levels in stores on an ongoing basis to balance supply and demand effectively. By carefully watching customer and industry preferences for unforeseen fads and reducing design lead times[1], the second aspect (trendy product design) is made possible. For instance, Benetton employs a network of trend spotters and designers across Europe and Asia, and also pays close attention to Europe's seasonal fashion shows.

Fast response strategies have been reasonably well studied from an operational point of view, and are proven to yield significant benefit to businesses by better balancing supply and demand and by impacting customer buying behavior by minimizing the frequency and intensity of season-end clearance sales. However, far less attention has been given to the second aspect of fast fashion systems that produce trendy, highly fashionable items.

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Indeed, in view of the strong recent interest in reducing lead time, Meichtry explains how, due to the difficulties (both logistical and cultural) that can accompany dramatically redesigning the supply network, some businesses are trying to concentrate on designing and producing trendier goods without reducing their production lead times.

We are creating a structure in this paper that helps us to discuss the importance of such improved design strategies and, subsequently, to consider the effect of integrating both rapid response and improved design in a fast fashion system[2]. We postulate that improved design capabilities result in goods that are of greater value to customers and thus evoke a greater willingness to pay, all else being equal. As a result, by charging higher prices on "trendy" goods than on more conservative products, businesses can take advantage of this greater willingness to pay.

However, improved design capabilities are costly: there are usually fixed costs (large design workers, trend spotters, rapid prototyping capabilities, etc.), and higher variable costs may arise (e.g., because of more labor-intensive production processes or costly local labor)[3]. As with any operating strategy, therefore, businesses considering improved design must trade the advantages of the strategy (greater willingness of the customer to pay) with the costs.

The effect of improved design and rapid response on customer buying behaviour is a key problem we are addressing. Particularly in the fashion apparel industry, a well-documented and widespread issue is the tendency of customers to predict potential markdowns and purposely postpone buying until a sale occurs[4]. This conduct erodes the margins of retailers and can decrease profitability dramatically. As efficient tools for retailers to counteract such "strategic" consumer conduct, both improved design and fast response have frequently been cited. We show that such schemes eliminate customer incentives to wait for clearance sales in two main ways.

Fast response decreases the probability that inventory at the clearance price will remain to be sold. On the other hand, improved product design offers consumers a trendier product that they trust more, making them less willing to risk waiting for a sale if the item is likely to stand out. Thus, while the expected future utility of waiting for a price drop is decreased by rapid reaction, improved design enhances the immediate utility of purchasing the commodity at the full price. Both improved design and fast response allow the company to set a higher selling price by decreasing customer incentives to wait for the clearance sale, while also inducing buyers to pay the full price[5].

Since the two techniques are increasingly used in quick fashion systems in combination, a key question is how the two methods interact and affect the value of each other; in particular, we consider whether improved design and rapid response are replacements (i.e., the implementation of one method decreases the marginal value of the other) or complements. Whether rapid response and improved design are complements or substitutes has important consequences for the efficiency of fast fashion systems versus alternative systems, and it is also important to decide whether the efforts of companies to focus on implementing only one aspect of fast fashion are prudent: complementary strategies should be implemented simultaneously as discussed.

It may seem at first glance that the answer to the supplementary question is straightforward. Enhanced design results in greater customer demand and higher retail rates, so it becomes more important for the business with enhanced design to reduce lost revenue (because in each lost sale, the firm will lose out on a higher margin)[6]. This means that applying a fast response to an improved design framework will lead to greater incremental benefit than implementing a quick response alone, resulting in a complementary effect [7]. This finding takes place despite the fact that we have ignored a key aspect of how improved product design interacts with rapid response, as we alluded to earlier: that is, if development lead times are shorter, improved design may simply be more effective. If, for example, the lead period of

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production is six months, then no matter how much work the company puts into product design, design must always be finalized well in advance of the sales season, meaning that important innovations and changes in consumer tastes can be ignored

Our model demonstrates that this logic is valid and, in the absence of strategic customer behavior, typically results in rapid response and enhanced design complements. However, we also consider a substitution effect that occurs between rapid response and improved design as clients behave strategically. This influence is rooted in the fact that the two practices have a similar effect on consumer purchasing behavior separately: as discussed above, when customers exhibit strategic behavior, both rapid response and improved design will generate value for the organization by reducing consumer incentives to postpone a purchase[8] In what follows, we demonstrate that the behavioral influence of rapid response reduces the efficacy of the behavioral effect of enhanced design, meaning that behaviors can serve as substitutes along this axis.

As a result of this behavioral substitution effect, quick response and improved design can be either net complements or substitutes. In the following study, we deal with conditions that decide the direction of this relationship. We think that while substitution is possible, particularly if improved design on a marginal basis is costly, in the most reasonable circumstances, the two practices are complementary[9]. Therefore, in contrast to using the strategies in isolation, the company typically enjoys a super additive increase in profit when using both strategies in a fast fashion strategy. Furthermore, numerical studies show that the complementary impact is strongest when customers are highly strategic[10]. These results appear to show that while it may be tempting for companies to invest only in one aspect of quick fashion (either rapid response or enhanced design), if consumers are highly strategic, perhaps even less value, there is less advantage in doing so than in pursuing both strategies together.

## II.CONCLUSION

These artistic firms have gained an increasing amount of attention, both academically and functionally, with the success of fast fashion stores. In this paper, we present a modeling framework that helps us capture and isolate the key elements that characterize a quick fashion system: improved design efforts and rapid response capability. By using this approach, for four possible operating systems, we analyse traditional systems, rapid response systems, improved design systems, and quick fashion systems and identify the equilibrium inventory levels, prices, and purchasing behaviour of consumers in each case.

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