

**PROMOTIONAL EFFORT IN NEWSVENDOR SELLING WITH STRATEGIC CUSTOMERS**

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**ABSTRACT**

This paper presents a newsvendor model when customers have strategic behaviors. The newsvendor seller makes decisions on promotional effort and stocking quantity. We characterize the rational expectation equilibrium and find that the seller's effort level and profit are less than those in the standard newsvendor model without strategic customers. We show that the seller's profit can be improved by committing to stocking quantities or prices. We also examine the impact of parameters on the outcomes of different models.

Keywords: *Promotional Effort; Strategic Customers; Newsvendor; Commitment.*