Purchase-limits: Marketing Tools for Shortages

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Abstract

Pandemics, natural disasters (e.g., hurricanes, droughts, and fires), strikes, piracy, civil unrest, and other events create sudden shortages by disrupting supply or spiking demand. Many stores respond with purchase-limits that restrict per transaction quantities. We consider purchase-limits in scenarios varying in store size, shortage severity, and competitive intensity. We find for moderate shortages, large stores impose purchase-limits to save inventory and increase future store traffic, but small stores do not. For severe shortages, small stores impose limits to prevent stock-outs and induce future store traffic. However, large stores do not benefit from limits. Purchase-limits can also increase consumer surplus in moderate shortages but not in severe shortages because purchase-limits cause stores to reduce prices in moderate shortages but raise prices in severe shortages. Last, competition can cause stores to impose purchase-limits only in moderate shortages.

Keywords: *shortages; purchase-limits; strategic-pricing*

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