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Selling Luxury Fashion Online with Social Influences

Considerations: Demand Changes and Supply Chain Coordination

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Abstract

In the luxury fashion retailing industry, consumers can be categorized into the groups of fashion leader and fashion follower. These two groups influence one another and create social influences in the market. In this paper, we construct an analytical model to examine the effects of demand changes on a luxury fashion supply chain with social influences. We consider the case when the supply chain consists of one supplier and one online retailer providing differentiated services to different groups of consumers. We identify the optimal prices and differentiated online services. To maximize the channel profit, we find that adjusting the retail price alone is enough when a demand change is small, whereas adjusting both the retail price and online retail services are necessary when a demand change is sufficiently big. Furthermore, we investigate the impacts of social influences on online retail services and find that when the impacts of social influences are increasing, the supply chain is more likely to provide better services to the fashion leader group than the fashion follower group. Last but not least, we derive the respective conditions to achieve channel coordination by using three commonly seen policies in the fashion industry, namely the all-unit quantity discount policy, the capacitated linear pricing policy, and the profit sharing policy. A comparison among these policies is made and managerial insights are generated.

Keywords: *demand changes, luxury fashion retail supply chain, social influences, online retail*

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