



Management Science

Publication details, including instructions for authors and subscription information:
<http://pubsonline.informs.org>

Management Insights

Michael F. Gorman

To cite this article:

Michael F. Gorman (2014) Management Insights. Management Science 60(10):iv-vi. <https://doi.org/10.1287/mnsc.2014.2061>

Full terms and conditions of use: <https://pubsonline.informs.org/Publications/Librarians-Portal/PubsOnLine-Terms-and-Conditions>

This article may be used only for the purposes of research, teaching, and/or private study. Commercial use or systematic downloading (by robots or other automatic processes) is prohibited without explicit Publisher approval, unless otherwise noted. For more information, contact permissions@informs.org.

The Publisher does not warrant or guarantee the article's accuracy, completeness, merchantability, fitness for a particular purpose, or non-infringement. Descriptions of, or references to, products or publications, or inclusion of an advertisement in this article, neither constitutes nor implies a guarantee, endorsement, or support of claims made of that product, publication, or service.

Copyright © 2014, INFORMS

Please scroll down for article—it is on subsequent pages



With 12,500 members from nearly 90 countries, INFORMS is the largest international association of operations research (O.R.) and analytics professionals and students. INFORMS provides unique networking and learning opportunities for individual professionals, and organizations of all types and sizes, to better understand and use O.R. and analytics tools and methods to transform strategic visions and achieve better outcomes. For more information on INFORMS, its publications, membership, or meetings visit <http://www.informs.org>

Management Insights

Michael F. Gorman

School of Business Administration, University of Dayton, Dayton, Ohio 45469,
michael.gorman@udayton.edu

Counterfeiters: Foes or Friends? How Counterfeits Affect Sales by Product Quality Tier (p. 2381)

[Yi Qian](#)

Are counterfeit products bad for the authentic products that they copy? A key concern about counterfeits and weak intellectual property protection is that they may hamper innovation by displacing legitimate sales. The author estimates the impacts of counterfeiting on the sales and consumer purchase intent related to branded products of various quality levels in Chinese shoe companies. The effects of counterfeit entry on sales of authentic products are estimated in three quality tiers. It turns out that counterfeits have both advertising effects for a brand and substitution effects for authentic products. Interestingly, the advertising effect dominates the substitution effect for high-end authentic product sales, and the substitution effect outweighs the advertising effect for low-end product sales. The positive effect of counterfeits is most pronounced for high-fashion products (such as women's high-leg boots and dress shoes), shoes tailored to young customers, and high-end products of brands not yet well known at the time of counterfeiter entry. The insight for management: Counterfeit products are not all bad; their presence does substitute for the authentic product sales, but it also acts as advertisement, creating a complementary effect.

A Demand Estimation Procedure for Retail Assortment Optimization with Results from Implementations (p. 2401)

[Marshall Fisher, Ramnath Vaidyanathan](#)

How should a retailer decide which products to carry at each store to maximize profits? Due to regional preferences, assortments can vary by store, within reason. The authors view a SKU as a set of attribute levels and also model possible substitutions when a customer's first choice is not in the assortment. They estimate the demand for attribute levels and substitution probabilities and, from this, the demand for any potential SKU, including those not currently carried by the retailer. They offer strategies for choosing SKUs to be carried in an assortment, and they apply this

approach to optimize assortments for three real examples: snack cakes, tires, and automotive appearance chemicals. A portion of their recommendations for tires and appearance chemicals were implemented and produced sales increases of 5.8% and 3.6%, respectively, which are significant improvements relative to typical retailer annual comparable store revenue increases. The authors also forecast sales shares of 1, 11, and 25 new SKUs for the snack cake, tire, and automotive appearance chemical applications, respectively, with mean absolute percentage errors (MAPEs) of 16.2%, 19.1%, and 28.7%, which compares favorably to the 30.7% MAPE for chain sales of two new SKUs reported in other research. The insight for management: New techniques help improve retail in-store assortments, resulting in increased sales.

Does Inventory Productivity Predict Future Stock Returns? A Retailing Industry Perspective (p. 2416)

[Yasin Alan, George P. Gao, Vishal Gaur](#)

Does inventory productivity predict future stock returns? The authors find that inventory productivity strongly predicts future stock returns among a sample of publicly listed U.S. retailers during the period from 1985 to 2010. A zero-cost portfolio investment strategy, which consists of buying from the two highest and selling from the two lowest quintiles formed on inventory turnover, earns more than 1% average monthly abnormal return. The insight for management: Inventory productivity can be used as a leading indicator of future stock performance.

Trust, Trustworthiness, and Information Sharing in Supply Chains Bridging China and the United States (p. 2435)

[Özalp Özer, Yanchong Zheng, Yufei Ren](#)

How do trust and trustworthiness differ between a collectivist society, e.g., China, and an individualistic one, e.g., the United States? The authors investigate how supply chain members' countries of origin—China versus the United States—affect trust, trustworthiness, and strategic information sharing behavior in

a cross-country supply chain. The authors note that the upstream supplier may solicit demand forecast information from the retailer to plan production, but the retailer has an incentive to manipulate her forecast to ensure abundant supply. The levels of trust and trustworthiness in the supply chain and the supplier's capability to determine the optimal production quantity affect the efficacy of forecast sharing and the resulting profits. The authors observe that, when there is no prospect for long-term interactions, the Chinese participants consistently exhibit lower spontaneous trust and trustworthiness than their U.S. counterparts. They also show that Chinese individuals exhibit higher spontaneous trust toward U.S. partners than Chinese ones, primarily because they perceive that individuals from the United States are more trusting and trustworthy in general. This positive perception toward U.S. people is indeed consistent with the U.S. participants' behavior in forecast sharing. In addition, the authors note that a Chinese supply chain enjoys a larger efficiency gain from repeated interactions than a U.S. one does, as the prospect of building a long-term relationship successfully sustains trust and trustworthiness by Chinese partners. The insight for management: Companies can reinforce the positive perception of westerners held by the Chinese population and commit to long-term relationships to encourage trust by Chinese partners.

**Subsidizing the Distribution Channel:
Donor Funding to Improve the Availability of
Malaria Drugs** (p. 2461)

[Terry A. Taylor, Wenqiang Xiao](#)

What is the best subsidy structure to maximize distribution of important drugs: purchases or sales? In countries that bear the heaviest burden of malaria, most patients seek medicine for the disease in the private sector. Because the availability and affordability of recommended malaria drugs provided by the private-sector distribution channel are poor, donors (e.g., the Global Fund) are devoting substantial resources to fund subsidies that encourage the channel to improve access to these drugs. The insight for management: The donor should subsidize only purchases and should not subsidize sales.

Turnover: Liquidity or Uncertainty? (p. 2478)

[Alexander Barinov](#)

Do liquidity or liquidity risk explain why higher turnover predicts lower future returns? The author shows that turnover is unrelated to several alternative measures of liquidity risk and in most cases is negatively, not positively, related to liquidity. Consequently, neither liquidity nor liquidity risk explains why higher turnover predicts lower future returns. It turns out that the negative relation between turnover and future returns is stronger for firms with option-like equity,

and this regularity is also explained by the aggregate volatility risk factor. The insight for management: The aggregate volatility risk factor explains why higher turnover predicts lower future returns.

Marriage and Managers' Attitudes to Risk (p. 2496)
[Nikolai Roussanov, Pavel Savor](#)

How does marital status reflect and affect individual preferences? The authors explore the impact of marriage on corporate chief executive officers (CEOs) and find that firms run by single CEOs exhibit higher stock return volatility, pursue more aggressive investment policies, and do not respond to changes in idiosyncratic risk. These effects are weaker for older CEOs. The insight for management: Single CEOs are less risk averse.

**Information Aggregation and Allocative Efficiency
in Smooth Markets** (p. 2509)

[Krishnamurthy Iyer, Ramesh Johari,
Ciamac C. Moallemi](#)

What features of a market encourage traders to ultimately reveal their private information through trades? Recent years have seen extensive investigation of the information aggregation properties of markets. However, relatively little is known about conditions under which a market will aggregate the private information of rational risk-averse traders who optimize their portfolios over time. The authors consider a market model involving finitely many informed risk-averse traders interacting with a market maker. The main result identifies a basic asymptotic smoothness condition on prices in the market that ensures that information is aggregated as long as portfolios converge. Asymptotic smoothness is fairly mild: It requires that, eventually, infinitesimal purchases or sales should see the same per-unit price. Notably, the authors demonstrate that, under some mild conditions, algorithmic markets based on cost functions (or, equivalently, markets based on market scoring rules) aggregate the information of traders. The insight for management: Information is aggregated as portfolios converge in smooth markets.

**Sequential Search and Learning from Rank Feedback:
Theory and Experimental Evidence** (p. 2525)

[Asa B. Palley, Mirko Kremer](#)

How does information affect search in markets? The authors study the effect of limited information in a sequential search setting where a single selection is to be made from a set of random potential options. They consider both a full-information problem, where the decision maker observes the exact value of each option as she searches, and a partial-information problem, in which the decision maker learns only the rank of the current option relative to the options that have already been observed. The authors find that subjects in partial-information conditions are prone to stop

prematurely during early stages of the search process and to suboptimally continue the search during late stages. They propose a simple model that succinctly captures the interplay of two symmetric choice and judgment biases that have asymmetric (but opposing) effects on the length of search. The insight for management: Search behaviors may deviate from traditional theoretical predictions with irrationally short and long search times.

Electronic Medical Records and Physician Productivity: Evidence from Panel Data Analysis (p. 2543)
Hemant K. Bhargava, Abhay Nath Mishra

What is the impact of an electronic medical record (EMR) system on the productivity of physicians? Physicians influence a vast majority of treatment decisions and are central to the care delivery process; thus, it is important to understand how EMRs may impact the nature of their work. The authors evaluate a unique panel data set comprising 87 physicians specializing in internal medicine, pediatrics, and family practice, located in 12 primary care clinics of an academic health-care system in the western United States that contains 3,186 physician-month productivity observations collected over 39 months. They find that productivity drops sharply immediately after technology implementation and recovers partly over the next few months. The ultimate, longer-term impact depends on physician specialty. The net impact of the EMR system is more benign on internal medicine physicians than on pediatricians and family practitioners. The insight for management: On one hand, present-day EMR systems do not produce the kind of productivity gain that could lead to substantial savings in healthcare; at the same time, EMRs do not cause a major productivity loss on a sustained basis, as many physicians fear.

The Fresh Start Effect: Temporal Landmarks Motivate Aspirational Behavior (p. 2563)
Hengchen Dai, Katherine L. Milkman, Jason Riis

How much is a “fresh start” worth? The popularity of New Year’s resolutions suggests that people are more likely to tackle their goals immediately after salient temporal landmarks. This phenomenon has the potential to help people overcome important willpower problems that often limit goal attainment. The authors provide evidence of a “fresh start effect.” They show that Google searches for the term “diet,” gym visits, and commitments to pursue goals all increase after temporal landmarks (e.g., the outset of a new week,

month, year, or semester; a birthday; a holiday). The authors propose that these landmarks demarcate the passage of time, creating many new mental accounting periods each year, which relegate past imperfections to a previous period, induce people to take a big-picture view of their lives, and thus motivate aspirational behaviors. The insight for management: Timing is everything; understanding customers’ mental calendars can have value.

Constrained Assortment Optimization for the Nested Logit Model (p. 2583)
Guillermo Gallego, Huseyin Topaloglu

What assortment of products maximizes expected revenues for a retailer? The authors consider cardinality and space constraints on the offered assortment, which limit the number of products and the total space consumption of the products offered by product type. They show that the optimal assortment under cardinality constraints can be obtained relatively efficiently, but the assortment optimization problem under space constraints is extremely difficult. The insight for management: In constrained assortment optimization pricing problems, managers can more efficiently choose the assortment of products offered to customers, as well as their prices in ways to improve sales and profits.

Conflicting Social Codes and Organizations: Hygiene and Authenticity in Consumer Evaluations of Restaurants (p. 2602)
David W. Lehman, Balázs Kovács, Glenn R. Carroll

Would you eat at a restaurant that has good reviews but has hanging ducks in the window? The hanging duck tradition is rich in Chinese heritage and thus is more authentic, but it is a violation of U.S. health codes and is (by that standard) not hygienic. Individuals may act based on rationality or on other beliefs and norms. The authors explore this problem through empirical analyses of 442,086 online consumer reviews and 52,740 governmental health inspections conducted from 2004 to 2011 of restaurants and diners. The authors argue that consumers potentially apply either of two social codes when forming value judgments about restaurants: (1) an apparently rational science-based code of hygiene involving compliance with local health regulations or (2) a context-activated code of authenticity involving conformity to cultural norms. The insight for management: Clean is good, but the food is more important; violations of the hygiene code recede in importance when the authenticity code is activated.