



Explore-Then-Commit (ETC, Algorithm 4) and the retailer runs Follow-The-Leader (FTL, Algorithm 3), we show that the supplier’s time-averaged expected utility converges to that of the SE at rate  $T^{-1/3}$  and, the retailer’s time-averaged expected utility converges to that at the SE, and the player’s strategy profile  $(w_t, q_t)$  converges to  $(w^*, q^*)$  with probability 1. Finally, in Section 4, we run some experiments on synthetic data to gain additional insights. Our experiments reveal how our algorithms can sometimes outperform the SE, and the role that discretization plays in the system’s dynamics.

Our analyses of convergence of the learning dynamics combine ideas from online learning and bandits (e.g., ETC and FTL) with tools from zeroth-order optimization (e.g., the Piyavskii–Shubert algorithm).

## 1.2 Related Work

The newsvendor problem, also known as the newsboy problem, goes back to Edgeworth [10]. The formalization used in this work is due to Arrow et al. [2]; we refer the reader to the handbook [8] for a survey of the many variants of Arrow’s model.

A game-theoretic formulation of the newsvendor problem with competing retailers is proposed by Parlar [17]—see also [13, 14, 16]. Wang and Gerchak [22] use a Stackelberg game to model a situation where an assembler has to buy components from different suppliers. Lariviere and Porteus [12] study a model where a supplier and a retailer interact through a price-only contract, and compare its efficiency with the efficiency of an integrated system. Adida and DeMiguel [1] consider a competitive inventory model with several suppliers and several retailers, and prove equilibrium uniqueness under some symmetry conditions. We refer the reader to Cachon and Netessine [6] for a survey of the literature on game-theoretic models in supply chain analysis and to Silbermayr [21] for a more recent and specific survey on newsvendor games.

The problem of learning equilibria is investigated by Balcan et al. [4] for Stackelberg security games. They prove bounds on the leader’s regret when the follower has a type that changes over time in a known and finite class. Their results hold both in the full information setting (where the leader can observe the type of the follower) and in the bandit setting (where the follower’s type is not observed). Sessa et al. [19] study general repeated games between a leader with a finite number of actions and an follower with a finite number of types which may adversarially change over time. They prove bounds on the leader’s regret in the full information setting when the utility of each follower (which is determined by its type) is only known to satisfy certain regularity assumptions. Bai et al. [3] show that in the bandit setting with finitely many actions for leader and follower, there exist expected utility functions such that any leader’s algorithm suffers non-vanishing regret with probability at least  $1/3$ . They also show leader algorithms that converge to SE up to a certain suboptimality gap. Deng et al. [9] prove some interesting non-constructive results. Let  $V$  be the utility of the leader in a SE. Under some mild assumptions, they show that for any  $\varepsilon > 0$  the leader can always obtain a utility of at least  $(V - \varepsilon)T - o(T)$  in  $T$  rounds, against any no-regret algorithm of the follower (note that the convergence rate is not explicit in their results). Mansour et al. [15] extend these results to Bayesian games.

Note that our results take advantage of the specific structure of the utility functions to obtain good rates for the leader’s regret in a bandit setting. Note also that, unlike previous works, the follower’s best response in our setting is not determined by a type, but rather learned from observed data. This allows us to prove that the follower’s regret vanishes too. As a consequence, we are also able to prove convergence to SE of the players’ strategy profile.

## 2 STAGE GAME AND UNIQUE SE

In this section, we present and analyze the (one-shot) stage version of our newsvendor game and characterize the uniqueness of its SE (formally defined below). We also provide some insights on the learning results proven in the following sections.

*The stage game.* An instance of the stage game is characterized by a known distribution  $\mathcal{D}$  on  $[0, \infty)^3$  that governs the (possibly correlated) *production cost*  $C$  of the supplier, the *retail price*  $P$  dictated by the market, and the *demand*  $D$ . We make the following assumption on  $\mathcal{D}$ .

**ASSUMPTION 1.** *The distribution  $\mathcal{D}$  of  $(C, P, D) \in [0, \infty)^3$  satisfies the following:*

- (1)  $\mathbb{E}[C]$ ,  $\mathbb{E}[P]$ ,  $\mathbb{E}[D]$ , and  $\mathbb{E}[PD]$  are all finite.
- (2)  $\mathbb{E}[C] < \mathbb{E}[P]$ .
- (3) *The conditional distribution of  $D$  given  $(C, P)$  admits a density (w.r.t. the Lebesgue measure) such that  $f(d | c, p) > 0$ , for all  $(c, p, d) \in [0, \infty)^3$ .*

Item 1 guarantees that the expected utilities of the supplier and the retailer (see below for a definition) are well-defined and finite for any action profile. Item 2 is an economic assumption stating that, on average, the supplier’s cost is lower than the retail price, thus eliminating trivial scenarios. Item 3 is a mild technical condition that simplifies the presentation of the proof of Theorem 2.1.

We denote the conditional cumulative distribution function and survival function of the demand, given the supplier’s cost and retail price, for all  $c, p, d \geq 0$ , by

$$F(d | c, p) := \int_0^d f(x | c, p) dx \quad \text{and} \quad \bar{F}(d | c, p) := 1 - F(d | c, p).$$

In this section, we assume that the structure of the model (namely,  $\mathcal{D}$  in Assumption 1) is common knowledge to both players. The game proceeds as follows. First, the supplier (S) selects a wholesale price  $w \in [0, \infty)$  and reveals it to the retailer. Then, the retailer (R) selects a quantity  $q \in [0, \infty)$ . Their expected *utilities* are respectively defined, for any  $(w, q) \in [0, \infty)^2$ , by<sup>1</sup>

$$u_S(w, q) := qw - q\mathbb{E}[C] \quad \text{and} \quad u_R(w, q) := \mathbb{E}[\min\{q, D\}P] - qw.$$

where the expectations are with respect to  $(C, P, D) \sim \mathcal{D}$ .

Finally, the Stackelberg Equilibria (SE) of this game are defined as strategy pairs  $(w^*, q^*) \in [0, \infty)^2$  such that

$$w^* \in \operatorname{argmax}_{w \in [0, \infty)} u_S(w, \operatorname{BR}(w)) \quad \text{and} \quad q^* = \operatorname{BR}(w^*),$$

where  $\operatorname{BR}$  is a best-response of the retailer, i.e., for all  $w \in [0, \infty)$ ,  $\operatorname{BR}(w) \in \operatorname{argmax}_{q \in [0, \infty)} u_R(w, q)$ .<sup>2</sup>

<sup>1</sup>All that matters regarding  $C$  is its expectation: we can strengthen all statements where we assume knowledge of the distribution of  $C$  by only assuming that of  $\mathbb{E}[C]$ .

<sup>2</sup>At this stage we allow arbitrary tie-breaking rules to determine the two  $\operatorname{argmax}$ ’s, but we preemptively note that in all of our results the maximizers will be unique.

*Uniqueness of the SE.* We can now state our characterization of the uniqueness of the SE in the stage game.

**THEOREM 2.1.** *Under Assumption 1, let  $g(w) := h^{-1}(w)$  be the inverse of*

$$h(x) := \mathbb{E}[P\bar{F}(x | C, P)]. \quad (1)$$

*Then the following conditions are equivalent:*

- (1) *The stage game in Section 2 admits a unique SE  $(w^*, g(w^*))$ .*
- (2)  *$\{w^*\} \equiv \operatorname{argmax}_{w \in A} g(w)(w - \mathbb{E}[C])$ , where*

$$A := \left\{ w \in (\mathbb{E}[C], \mathbb{E}[P]) : -\frac{g'(w)}{g(w)} = \frac{1}{w - \mathbb{E}[C]} \right\}.$$

As an example, the SE is unique when  $D$  has a Weibull distribution with nondecreasing failure rate and  $(C, P)$  is deterministic (for more, see the extended version of this work [7]).

To prove the theorem, we begin with a simple but key lemma, whose proof can be found in the extended version [7].

**LEMMA 2.2.** *Under Assumption 1, the function  $h$  in Equation (1) is differentiable on  $x \in (0, \infty)$  and has a strictly negative derivative, hence it is invertible and its inverse  $h^{-1}(w)$  is differentiable and strictly decreasing on  $w \in (0, \mathbb{E}[P])$ .*

We are now ready to prove Theorem 2.1.

**PROOF OF THEOREM 2.1.** We prove the theorem by backward induction. First, we show that under Assumption 1, the retailer has a unique best response. Then, we show that given that the retailer best-responds, the supplier has a unique optimal move  $w^*$  if and only if the condition of the theorem holds.

**Retailer's move.** Fix an arbitrary wholesale price  $w \geq 0$ . For any  $q \geq 0$ , the retailer's utility  $u_R(w, q)$  is

$$\mathbb{E} \left[ P \left( \int_0^q x f(x | C, P) dx + q(1 - F(q | C, P)) \right) \right] - qw.$$

To maximize it, we compute its derivative, which is justified by Assumption 1 combined with the Leibniz integral rule. For any  $q > 0$ , we obtain

$$\frac{\partial}{\partial q} u_R(w, q) = \mathbb{E}[P\bar{F}(q | C, P)] - w, \quad (2)$$

which is non-negative if and only if  $\mathbb{E}[P\bar{F}(q | C, P)] \geq w$ . By the arbitrariness of  $w$  and Lemma 2.2, we can conclude that, for any choice of the wholesale price  $w > 0$ , there exists a unique maximizer  $q_w^* = \operatorname{BR}(w)$  of  $q \mapsto u_R(w, q)$  where

$$\operatorname{BR}(w) := \begin{cases} g(w) & \text{if } w < \mathbb{E}[P], \\ 0 & \text{if } w \geq \mathbb{E}[P]. \end{cases} \quad (3)$$

**Supplier's move.** Given the retailer's best response  $q_w^* = \operatorname{BR}(w)$ , the supplier's utility is, for any  $w > 0$ ,

$$u_S(w, q_w^*) = q_w^*(w - \mathbb{E}[C]). \quad (4)$$

Since  $q_w^* = 0$  for all  $w \geq \mathbb{E}[P]$  and  $w - \mathbb{E}[C] \leq 0$  for all  $w \leq \mathbb{E}[C]$ , to maximize the supplier's expected utility, we can restrict our search to  $w \in (\mathbb{E}[C], \mathbb{E}[P])$ , where  $u_S(w, q_w^*) = g(w)(w - \mathbb{E}[C])$  is strictly positive and differentiable. To find the maximum, then,

we can study the sign of the derivative of the supplier's expected utility, obtaining, for all  $w \in (\mathbb{E}[C], \mathbb{E}[P])$ ,

$$\frac{\partial}{\partial w} u_S(w, q_w^*) = g'(w)(w - \mathbb{E}[C]) + g(w). \quad (5)$$

Thus,  $A$  (in the statement of the theorem) is the set of all stationary points of  $u_S(w, q_w^*)$  and the condition that  $\operatorname{argmax}_{w \in A} g(w) \cdot (w - \mathbb{E}[C])$  is a singleton is exactly stating that there exists a unique maximizer of  $g(w)(w - \mathbb{E}[C]) = u_S(w, q_w^*)$ , which coincides with the existence of a unique SE.  $\square$

In general, the payoffs under SE may be unique under weaker conditions than the ones for the uniqueness of the SE, but such weaker conditions do not appear to be simply stated in our case.

We also note that efficiency of the Stackelberg equilibrium can be measured using the price of anarchy. Some preliminary results on this topic can be found in the extended version [7].

### 3 LEARNING THE SE

A limitation of Theorem 2.1 is that, even when a stage game has a unique SE, in order to compute it, both players need to know the underlying distribution  $\mathcal{D}$ . In this section, we show how to circumvent this issue and achieve convergence to the unique SE without relying on the knowledge of  $\mathcal{D}$ . We do this by reconstructing the salient features of  $\mathcal{D}$  through a learning technique in a repeated game. An instance of the repeated game is characterized by a distribution  $\mathcal{D}$  on<sup>3</sup>  $[0, 1]^3$ , that governs the (possibly correlated) production cost, retail price, and demand.

We study the following online protocol. At each round  $t = 1, 2, \dots$ :

- (1) Nature draws  $(C_t, P_t, D_t)$  i.i.d. according to  $\mathcal{D}$ .
- (2) The supplier (S) selects a wholesale price  $W_t \in [0, 1]$  and reveals it to the retailer (R).
- (3) The production cost  $C_t$  is revealed to S.
- (4) R buys a quantity  $Q_t \in [0, 1]$ , paying  $Q_t W_t$  to S.
- (5) The retail price  $P_t$  and the demand  $D_t$  are revealed to R.
- (6) The market buys a quantity  $\min\{Q_t, D_t\}$ , paying the corresponding  $\min\{Q_t, D_t\}P_t$  to R.

The individual goals of the supplier and the retailer are to maximize, for any time horizon  $T$ , their individual long-term expected utilities in reference to a SE  $(w^*, q^*)$ ; more precisely:

$$\mathbb{E}[\sigma(w^*, q^*, C_1)] - \frac{1}{T} \sum_{t=1}^T \mathbb{E}[\sigma(W_t; Q_t, C_t)],$$

$$\mathbb{E}[\rho(q^*; w^*, P_1, D_1)] - \frac{1}{T} \sum_{t=1}^T \mathbb{E}[\rho(Q_t; W_t, P_t, D_t) | W_t],$$

where we define  $\sigma(w; q, c) := qw - qc$  for  $(w, q, c) \in [0, 1]^3$  and  $\rho(q; w, p, d) := \min\{q, d\}p - qw$  for  $(q, w, p, d) \in [0, 1]^4$ . The conditional expected utility of the retailer is to be maximized with high probability with respect to  $(W_t)_{t \in \mathbb{N}}$ . The asymmetry in the objectives of the supplier (S) and retailer (R) is due to the fact that  $W_t$  is revealed to R before R makes a decision at time  $t$ , while S has to act before observing  $Q_t$ .

<sup>3</sup>In contrast to Section 2, we assume here that  $\mathcal{D}$  is bounded (without loss of generality, by 1). This assumption is for simplifying the presentation; all the following results can be extended to the unbounded case simply by assuming subgaussianity.

### 3.1 Convergence to SE With Partial Information (ETC vs BR)

In Section 2, we showed that the stage game admits a unique SE under the assumptions in Theorem 2.1, and one can obtain the SE if  $\mathcal{D}$  is known by both the supplier (S) and the retailer (R). We now show that a repeated interaction between S and R who act rationally and selfishly can lead to a convergence to the SE, even assuming that S and R have only partial information on  $\mathcal{D}$ . In Section 3.2, we will show that the same result can be obtained even when S and R have essentially no information on  $\mathcal{D}$  at a cost of a slower convergence rate. We make the following assumption.

**ASSUMPTION 2.** *The distribution  $\mathcal{D}$  of  $(C, P, D) \in [0, 1]^3$  satisfies the following:*

- (1)  $\mathbb{E}[C] < \mathbb{E}[P]$ .
- (2)  $D$  and  $C$  are conditionally independent, given  $P$ .
- (3) The conditional distribution of  $D$  given  $P$  admits a density (with respect to the Lebesgue measure) such that  $f(d | p) > L$ , for some  $L > 0$  and all  $(p, d) \in [0, 1]^2$ .
- (4) Condition 2 of Theorem 2.1 holds (i.e., the SE is unique).

Condition 1 states that, on average, the supplier's cost is lower than the retail price, eliminating trivial scenarios. Condition 2 states that the demand  $D$  may depend on the supplier's cost  $C$  only via the retail price  $P$ . Condition 3 is a mild technical condition guaranteeing that the learning problem is at least Lipschitz (see below). Essentially, Assumption 2 implies that our base assumption (Assumption 1) is satisfied and guarantees that Theorem 2.1 can be applied, so that the learning problem is tractable.

We now assume partial knowledge of the supplier and the retailer, where S has more information on the production cost, while R has more information about the direct interaction with the market.

**ASSUMPTION 3.** *The supplier has access to the marginal distribution of  $C$ , but not to that of  $(P, D)$ ; the retailer has access to the marginal of  $(P, D)$ , but not to that of  $C$ .*

The retailer's strategy is to best-respond to any wholesale price. Note that  $q_w^* = \text{BR}(w)$  can be computed exactly via Equation (3) thanks to Assumptions 2 and 3.

Under these assumptions on the setting, and given that the retailer best-responds, the supplier can compute their expected cost  $\mathbb{E}[C]$  and is left with solving a zeroth-order Lipschitz optimization problem (i.e., maximizing Equation (4)) without the knowledge of the Lipschitz constant of its objective. This can be done with a simple Explore-Then-Commit algorithm (Algorithm 1), which we assume to be the supplier's strategy.<sup>4</sup>

**THEOREM 3.1.** *Under Assumptions 2 and 3, for any horizon  $T$ , if the supplier runs Algorithm 1 with input  $T$  and the retailer best-responds, then*

$$\mathbb{E}[\sigma(w^*; q^*, C)] - \frac{1}{T} \sum_{t=1}^T \mathbb{E}[\sigma(w_t; q_t, C_t)] \leq \left( \frac{1 - \mathbb{E}[C]}{\mathbb{E}[P]L} + 2 \right) T^{-1/2}, \quad (6)$$

where  $(w^*, q^*)$  is the unique SE of the stage game. Also, for all sufficiently large  $T$ :

<sup>4</sup>We denote by  $\lfloor x \rfloor$  the floor of  $x$ , i.e., the largest integer  $n \leq x$ .

**input:** Time horizon  $T$   
**for**  $t = 1, \dots, \lfloor T^{1/2} \rfloor$  **do**  
    Select the wholesale price  $w_t := t / (\lfloor T^{1/2} \rfloor + 1)$   
    Observe the quantity  $q_t$   
**end**  
**for**  $t = \lfloor T^{1/2} \rfloor + 1, \dots, T$  **do**  
    Select a wholesale price  $w_t = w_{s^*}$ , where  
     $s^* \in \operatorname{argmax}_{s=1, \dots, \lfloor T^{1/2} \rfloor} q_s(w_s - \mathbb{E}[C])$   
    Observe the quantity  $q_t$   
**end**

**Algorithm 1:** Explore-Then-Commit

$$(1) \mathbb{E}[\rho(q^*; w^*, P, D)] - \frac{1}{T} \sum_{t=1}^T \mathbb{E}[\rho(q_t; w_t, P_t, D_t)] \leq (L^{-1} + 2)T^{-1/2}.$$

$$(2) \|(w^*, q^*) - (w_T, q_T)\|_1 \leq ((\mathbb{E}[P]L)^{-1} + 1)T^{-1/2}.$$

Item 2 shows *last-iterate* convergence to the unique SE (in contrast to the weaker *time-average* convergence that is typically obtained in regret minimization). Equation (6) and Item 1 give performance guarantees for both the supplier and the retailer, showing that not only their utilities converge to that of the SE, but that both their cumulative utilities match (up to lower-order terms) those that would be gathered by consistently selecting the SE  $(w^*, q^*)$  at all time steps with full knowledge of  $\mathcal{D}$ . Crucially, while for the supplier it is possible to obtain finite-time regret guarantees, for the retailer these only hold asymptotically. Finally, given that in this setting the supplier's actions  $w_t$  are deterministic, we omitted from Item 1 the redundant conditioning on  $w_t$  and both Item 1 and Item 2 hold deterministically.

**PROOF.** By Theorem 2.1, under Assumption 2, the best-response function BR defined in (3) maps each wholesale price  $w$  into its unique best-response  $q_w^* = \text{BR}(w)$ , which the retailer (R) can compute by Assumption 3. Since R is best-responding, the utility of the supplier (S), for any  $w > 0$ , is  $q_w^*(w - \mathbb{E}[C])$ . Note that, under Assumption 2, the unique SE is  $(w^*, q_{w^*}^*)$ , where  $w^*$  is the unique maximizer of  $q_w^*(w - \mathbb{E}[C])$ , which S cannot compute directly because Assumption 3 is not sufficient for S to determine  $q_w^*$ . However, S can calculate  $\mathbb{E}[C]$  with the knowledge of the marginal distribution of  $C$ . Hence, S gets a noise-free evaluation  $q_{w_t}^*(w_t - \mathbb{E}[C])$  at each round  $t$ , after selecting the wholesale price  $w_t$  for the round.

Now, note that S's objective  $w \mapsto q_w^*(w - \mathbb{E}[C])$  is Lipschitz. Indeed, recalling (4), (5), and Assumption 2 (for more details, see the extended version [7]), we get that, for any  $w \in (0, 1)$ ,

$$\left| \frac{\partial}{\partial w} q_w^*(w - \mathbb{E}[C]) \right| \leq \frac{1}{\mathbb{E}[P]L} \cdot (1 - \mathbb{E}[C]) + 1.$$

Since for any time horizon  $T$ , S selects the best point in a grid of step-size at most  $T^{-1/2}$ , we have that

$$\lim_{T \rightarrow \infty} |w_T - w^*| \leq \lim_{T \rightarrow \infty} T^{-1/2} = 0. \quad (7)$$

Then, using again (5) and Assumption 2 (for more details, see the extended version [7]), we get that R's best-response function BR is  $1/(\mathbb{E}[P]L)$ -Lipschitz. Recalling (2), we also have that for any fixed wholesale price  $w$ , R's instantaneous utility at time  $t$ ,  $q \mapsto$

$\mathbb{E}[\rho(q; w, P_t, D_t)]$  is 1-Lipschitz. Hence

$$\lim_{T \rightarrow \infty} |q_T - q_{w^*}^*| \leq \lim_{T \rightarrow \infty} T^{-1/2}/(\mathbb{E}[P]L) = 0. \quad (8)$$

Putting (8) and (7) together, gives Item 2. Equation (6) is an immediate consequence of the  $((1 - \mathbb{E}[C])/(\mathbb{E}[P]L) + 1)$ -Lipschitzness of S's objective  $w \mapsto q_{w^*}^*(w - \mathbb{E}[C])$ . Item 1 is an immediate consequence of the  $(L^{-1} + 1)$ -Lipschitzness of R's utility  $w \mapsto \mathbb{E}[\rho(q_{w^*}^*; w, P_t, D_t)]$ , which follows directly from the chain rule.  $\square$

The previous result yields sublinear regret guarantees for S even when S is oblivious to the expected retail price  $\mathbb{E}[P]$  and the lower bound  $L$  on the conditional density of the demand. Since the Lipschitz constant of S's objective is a deterministic function of  $\mathbb{E}[C]$ ,  $L$ , and  $\mathbb{E}[P]$ , the reader might wonder if improved regret guarantees could be achieved if these quantities were known to S. We show now that this is indeed the case.

We refine Assumption 3 as follows.

**ASSUMPTION 4.** *The supplier has access to the  $\mathbb{E}[C]$ ,  $L$ , and  $\mathbb{E}[P]$ ; the retailer has access to the marginal distribution of  $(P, D)$ .*

Under Assumptions 2 and 4, and given that R best-responds to any wholesale price  $w$ , the supplier S can compute their expected cost and solve their zeroth-order Lipschitz optimization problem with the knowledge of (an upper bound of) the Lipschitz constant of its objective. This can be done with the Piyavskii–Shubert algorithm (Algorithm 2). We now assume that this is S's strategy.

**input:** Time horizon  $T$ , Lipschitz constant  $M > 0$   
**initialization:** Let  $w_1 := 1$   
**for**  $t = 1, \dots, T$  **do**  
    Select the wholesale price  $w_t$   
    Observe the quantity  $q_t$   
    Update the proxy function  
     $\hat{\rho}_t(\cdot) := \min_{s \in [t]} \{q_s(\cdot) - \mathbb{E}[C]\} + M|w_s - (\cdot)|$   
    Let  $w_{t+1} \in \operatorname{argmax}_{w \in [0,1]} \hat{\rho}_t(w)$   
**end**

**Algorithm 2:** Piyavskii–Shubert

The Piyavskii–Shubert algorithm has been known for half a century [18, 20] but only recently proven to enjoys outstanding theoretical guarantees for its query complexity, regret, and robustness [5, 11]. In particular, the following theorem follows directly by specializing [5, Theorem 3.5] and [11, Theorem 1] to our setting.

**THEOREM 3.2** ([5, 11]). *Under Assumptions 2 and 4, for any horizon  $T$ , if the supplier runs Algorithm 2 with inputs  $T$  and  $M := (1 - \mathbb{E}[C])/(\mathbb{E}[P]L) + 1$ , and the retailer best-responds, then the function  $w \mapsto q_{w^*}^*(w - \mathbb{E}[C])$  is  $M$ -Lipschitz and, for all  $t \in [T]$ ,*

$$\max_{w \in [0,1]} \{q_{w^*}^*(w - \mathbb{E}[C])\} - q_{w_t}^*(w_t - \mathbb{E}[C]) \leq 9M \frac{\log_2(Mt)}{t}$$

$$\max_{w \in [0,1]} \{q_{w^*}^*(w - \mathbb{E}[C])\} - \frac{1}{T} \sum_{t=1}^T q_{w_t}^*(w_t - \mathbb{E}[C]) \leq 2M \frac{\ln(4T)}{T}$$

Theorem 3.2 allows us to prove the following result.

**THEOREM 3.3.** *Under Assumptions 2 and 4, for any horizon  $T$ , if the supplier runs Algorithm 2 with inputs  $T$  and  $M := (1 - \mathbb{E}[C])/(\mathbb{E}[P]L) + 1$ , and the retailer best-responds, then:*

$$\mathbb{E}[\sigma(w^*; q^*, C)] - \frac{1}{T} \sum_{t=1}^T \mathbb{E}[\sigma(w_t; q_t, C_t)] \leq 2M \frac{\ln(4T)}{T} \quad (9)$$

where  $(w^*, q^*)$  is the unique SE of the stage game. Moreover,

$$(1) \lim_{T \rightarrow \infty} \left( \mathbb{E}[\rho(q^*; w^*, P, D)] - \frac{1}{T} \sum_{t=1}^T \mathbb{E}[\rho(q_t; w_t, P_t, D_t)] \right) = 0$$

$$(2) \lim_{T \rightarrow \infty} \|(w^*, q^*) - (w_T, q_T)\|_1 = 0$$

**PROOF.** Proceeding as in the proof of Theorem 3.1 and applying Theorem 3.2, we get that the retailer's instantaneous utility at time  $t$ ,  $q \mapsto \mathbb{E}[\rho(q; w, P_t, D_t)]$  is 1-Lipschitz for any fixed wholesale price  $w$ , and the supplier's instantaneous utility at time  $t$ ,  $w \mapsto q_{w^*}^*(w - \mathbb{E}[C_t])$  is  $M$ -Lipschitz, where  $q_{w^*}^*$  is defined as in (3), for all  $w \in [0, 1]$ . As above, under Assumption 2, the unique SE is precisely  $(w^*, q_{w^*}^*)$ , where  $w^*$  is the unique maximizer of  $q_{w^*}^*(w - \mathbb{E}[C])$ . Applying again Theorem 3.2, we obtain immediately the result.  $\square$

## 3.2 Convergence to SE With No Information (ETC vs FTL)

If the retailer R had access to the distribution  $\mathcal{D}$ , or at least to the marginal distribution of  $(P, D)$ , R could best-respond to the supplier's move  $w_t$  at each time  $t$ , as described in Sections 2 and 3.1. Since, in this section, none of these is available to R, we assume that R acts according to the next-best available strategy, i.e., best-responding to an empirical distribution that can be maintained by gathering samples. In the literature, this strategy is known as Follow-the-Leader (FTL) and is detailed in Algorithm 3. For  $t = 1$ ,

**input:** Time horizon  $T \geq 12$   
**initialization:** Let  
 $Q := \{1/(\lceil T^{1/3} \rceil + 1), \dots, \lceil T^{1/3} \rceil / (\lceil T^{1/3} \rceil + 1)\}$   
Observe the wholesale price  $W_1$   
Draw a quantity  $Q_1$  from  $Q$  uniformly at random  
Observe the demand  $D_1$  and the retail price  $P_1$   
**for**  $t = 2, 3, \dots$  **do**  
    Observe the wholesale price  $W_t$   
    Select a quantity  
     $Q_t \in \operatorname{argmax}_{q \in Q} \left( \frac{1}{t-1} \sum_{s=1}^{t-1} \min\{q, D_s\} P_s - q W_t \right)$   
    Observe the demand  $D_t$  and the retail price  $P_t$   
**end**

**Algorithm 3:** Follow-the-Leader (FTL)

R picks a quantity at random and observes the demand  $D_1$ . During each time step  $t \geq 2$ , define, for all  $w, q \in [0, 1]$ , the auxiliary function

$$\hat{\rho}_t(w, q) := \frac{1}{t-1} \sum_{s=1}^{t-1} \min\{q, D_s\} P_s - q w.$$

Note that this is not built to maximize the empirical average of the utility gained in last  $t - 1$  interactions, i.e., it differs from  $q \mapsto \frac{1}{t-1} \sum_{s=1}^{t-1} (\min\{q, D_s\} P_s - q W_s)$ . Indeed, the retailer is not interested

in maximizing their expected utilities at time steps  $t$  but rather, their more challenging expected utility given  $W_t$ . Equivalently stated, the retailer is not maximizing an expected revenue computed with respect to the empirical distribution of the sequence of random vectors  $(C_1, P_1, D_1, W_1), \dots, (C_{t-1}, P_{t-1}, D_{t-1}, W_{t-1})$  at time  $t$ , but rather, that of  $(C_1, P_1, D_1, W_t), \dots, (C_{t-1}, P_{t-1}, D_{t-1}, W_t)$  given  $W_t$ . This way,  $\widehat{\rho}_t(w, q)$  is an unbiased estimate of  $\mathbb{E}[\rho(q; w, P_t, D_t)]$  for all  $w, q \geq 0$  and  $t \geq 2$ , which in turn implies that  $\mathbb{E}[\widehat{\rho}_t(W_t, q) \mid W_t] = \mathbb{E}[u_S(q; W_t, P_t, D_t) \mid W_t]$  for all  $q \geq 0$  and  $t \geq 2$ . This corresponds precisely to the instantaneous objective of the retailer. Therefore, naturally, the choice of a discretized retailer at time  $t \geq 2$  is

$$\begin{aligned} Q_t &\in \operatorname{argmax}_{q \in Q} (\widehat{\rho}_t(W_t, q)) \\ &= \operatorname{argmax}_{q \in Q} \left( \frac{1}{t-1} \sum_{s=1}^{t-1} \min\{q, D_s\} P_s - q W_t \right). \end{aligned}$$

Similarly to the previous section, we assume here that the supplier adopts an Explore-Then-Commit strategy (Algorithm 4), with the caveat that, in this section, the expected production cost  $\mathbb{E}[C]$  is not available to S but has to be estimated.

**input:** Time horizon  $T \geq 12$

**for**  $t = 1, \dots, \lceil T^{1/3} + 1 \rceil$  **do**

**for**  $s = 1, \dots, \lceil T^{1/3} \rceil$  **do**

        Select the wholesale price

$W_{(t-1)\lceil T^{1/3} \rceil + s} := s / (\lceil T^{1/3} \rceil + 1)$

        Observe the quantity  $Q_{(t-1)\lceil T^{1/3} \rceil + s}$  and production

        cost  $C_{(t-1)\lceil T^{1/3} \rceil + s}$

**end**

**end**

Compute

$S^* \in \operatorname{argmax}_{s \in \{\lceil T^{1/3} \rceil + 1, \dots, \lceil T^{1/3} + 1 \rceil\}} Q_s(W_s -$

$\frac{1}{\lceil T^{1/3} \rceil} \sum_{j=1}^{\lceil T^{1/3} \rceil} C_j)$

**for**  $t = \lceil T^{1/3} + 1 \rceil \lceil T^{1/3} \rceil + 1, \dots, T$  **do**

    Select the wholesale price  $W_t := W_{S^*}$

    Observe the quantity  $Q_t$

**end**

**Algorithm 4:** Explore-Then-Commit (without knowledge of  $\mathbb{E}[C]$ )

**THEOREM 3.4.** Under Assumption 2, for any horizon  $T \geq 12$ , if the supplier runs Explore-Then-Commit (Algorithm 4) with input  $T$  and the retailer runs Follow-the-Leader (Algorithm 3) with input  $T$ , then:

$$\begin{aligned} \mathbb{E}[\sigma(w^*, q^*, C)] - \frac{1}{T} \sum_{t=1}^T \mathbb{E}[\sigma(W_t; Q_t, C_t)] \\ \leq \left( 16 + \frac{1 - \mathbb{E}[C]}{\mathbb{E}[P]L} + 7\sqrt{\ln T} \right) T^{-1/3}, \quad (10) \end{aligned}$$

where  $(w^*, q^*)$  is the unique SE of the stage game. Moreover:

$$(1) \lim_{T \rightarrow \infty} \left( \mathbb{E}[\rho(q^*; w^*, P, D)] - \frac{1}{T} \sum_{t=1}^T \mathbb{E}[\rho(Q_t; W_t, P_t, D_t \mid W_t)] \right) = 0 \text{ with probability 1.}$$

$$(2) \lim_{T \rightarrow \infty} \|(w^*, q^*) - (W_T, Q_T)\|_1 = 0 \text{ with probability 1.}$$

**PROOF.** Fix any time horizon  $T \geq 12$ . Proceeding as in the proof of Theorem 3.1 and applying Theorem 3.2, we get that the retailer's instantaneous utility at time  $t$ ,  $q \mapsto \mathbb{E}[\rho(q; w, P_t, D_t)]$  is 1-Lipschitz for any fixed wholesale price  $w$ , and the supplier's instantaneous utility at time  $t$ ,  $w \mapsto q_w^*(w - \mathbb{E}[C_t])$  is  $M$ -Lipschitz, where  $q_w^*$  is defined as in (3), for all  $w \in [0, 1]$ , and  $M := (1 - \mathbb{E}[C]) / (\mathbb{E}[P]L) + 1$ . As above, under Assumption 2, the unique SE is precisely  $(w^*, q_{w^*}^*)$ , where  $w^*$  is the unique maximizer of  $w \mapsto q_w^*(w - \mathbb{E}[C])$ . Now, fix an arbitrary  $\delta \in (0, 1/\lceil T^{1/3} + 1 \rceil)$ . Observing that for any  $t \geq 2$ , given  $W_t$ , the retailer's quantity  $Q_t$  is the argmax of an empirical average translated by a constant, applying Hoeffding's inequality  $\lceil T^{1/3} + 1 \rceil$  times and the fact that the retailer's discretization has step-size  $1/\lceil T^{1/3} + 1 \rceil$ , we obtain that

$$\left| Q_s - q_{s/(\lceil T^{1/3} + 1 \rceil)}^* \right| \leq \sqrt{\frac{\ln 2/\delta}{2\lceil T^{1/3} \rceil^2}} + \frac{1}{\lceil T^{1/3} + 1 \rceil} \quad (11)$$

for all  $s = \lceil T^{1/3} \rceil^2 + 1, \dots, \lceil T^{1/3} + 1 \rceil \lceil T^{1/3} \rceil$

$$\left| \frac{1}{\lceil T^{1/3} \rceil^2} \sum_{j=1}^{\lceil T^{1/3} \rceil^2} C_j - \mathbb{E}[C] \right| \leq \sqrt{\frac{\ln 2/\delta}{2\lceil T^{1/3} \rceil^2}} \quad (12)$$

hold simultaneously with probability at least  $1 - \lceil T^{1/3} + 1 \rceil \delta$ . Thus,

$$\begin{aligned} \left| Q_s \left( W_s - \frac{1}{\lceil T^{1/3} \rceil^2} \sum_{j=1}^{\lceil T^{1/3} \rceil^2} C_j \right) - q_{W_s}^*(W_s - \mathbb{E}[C]) \right| \\ \leq 2\sqrt{\frac{2 \ln 2/\delta}{\lceil T^{1/3} \rceil^2}} + \frac{3}{\lceil T^{1/3} + 1 \rceil} \end{aligned}$$

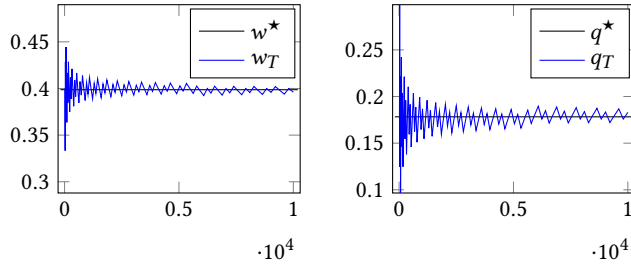
hold simultaneously for all  $s = \lceil T^{1/3} \rceil^2 + 1, \dots, \lceil T^{1/3} + 1 \rceil \lceil T^{1/3} \rceil$ , with probability at least  $1 - \lceil T^{1/3} + 1 \rceil \delta$ . Consequently, letting

$$\tilde{w} \in \operatorname{argmax}_{w \in \{1/\lceil T^{1/3} + 1 \rceil, \dots, \lceil T^{1/3} \rceil / \lceil T^{1/3} + 1 \rceil\}} q_w^*(w - \mathbb{E}[C])$$

and given that the supplier's discretization has a step size  $1/\lceil T^{1/3} + 1 \rceil$  and  $w \mapsto q_w^*(w - \mathbb{E}[C])$  is  $M$ -Lipschitz, the triangular inequality yields, for any  $t \geq \lceil T^{1/3} + 1 \rceil \lceil T^{1/3} \rceil + 1$ ,

$$\begin{aligned} \left| Q_t \left( W_t - \frac{1}{\lceil T^{1/3} \rceil^2} \sum_{j=1}^{\lceil T^{1/3} \rceil^2} C_j \right) - \mathbb{E}[\sigma(w^*, q^*, C)] \right| \\ \leq \left| Q_t \left( W_{S^*} - \frac{1}{\lceil T^{1/3} \rceil^2} \sum_{j=1}^{\lceil T^{1/3} \rceil^2} C_j \right) - q_{W_{S^*}}^*(W_{S^*} - \mathbb{E}[C]) \right| \\ + \left| q_{W_{S^*}}^*(W_{S^*} - \mathbb{E}[C]) - q_{\tilde{w}}^*(\tilde{w} - \mathbb{E}[C]) \right| \\ + \left| q_{\tilde{w}}^*(\tilde{w} - \mathbb{E}[C]) - \mathbb{E}[\sigma(w^*, q^*, C)] \right| \\ \leq 6\sqrt{\frac{2 \ln 2/\delta}{\lceil T^{1/3} \rceil^2}} + \frac{9 + M}{\lceil T^{1/3} + 1 \rceil} \end{aligned}$$

with probability at least  $1 - \lceil T^{1/3} + 1 \rceil \delta$ . Charging regret 1 to the supplier for the first  $\lceil T^{1/3} + 1 \rceil \lceil T^{1/3} \rceil$  rounds, then summing the



**Figure 1:** On the  $x$  axis, the time horizon  $T$ . On the  $y$  axis of the left (resp., right) pane, the wholesale price  $w_T$  (resp., the quantity  $q_T$ ) at time  $T$  when the suppliers runs Algorithm 1 and the retailer best-responds. The black horizontal line on the left (resp., right) pane represents the wholesale price  $w^*$  (resp., the quantity  $q^*$ ) at the SE.

previous bound over all remaining rounds and upper bounding  $T - \lceil T^{1/3} + 1 \rceil \lceil T^{1/3} \rceil$  with  $T$  yields

$$\begin{aligned} \mathbb{E}[\sigma(w^*; q^*; C)] &- \frac{1}{T} \sum_{t=1}^T \sigma(W_t; Q_t, C_t) \\ &\leq \frac{\lceil T^{1/3} + 1 \rceil \lceil T^{1/3} \rceil}{T} + 6\sqrt{\frac{2 \ln 2/\delta}{\lceil T^{1/3} \rceil^2}} + \frac{9 + M}{\lceil T^{1/3} + 1 \rceil} \\ &\leq (15 + M + 6\sqrt{2 \ln 2/\delta})T^{-1/3} \end{aligned}$$

with probability at least  $1 - \lceil T^{1/3} + 1 \rceil \delta$ . Thus, (10) follows directly by choosing, e.g.,  $\delta = 2T^{-2/3}$  and upper bounding  $12/\sqrt{3}$  with 7. The proof of Item 2 is a simple consequence of (11) and the fact that the retailer’s best-response function  $\text{BR}$  is Lipschitz. Finally, Item 1 follows directly by (11), (12), and Lipschitzness of the retailer’s utility  $w \mapsto \mathbb{E}[\rho(q_w^*; w, P_t, D_t)]$  as a function of the wholesale price (which is implied by the chain rule).  $\square$

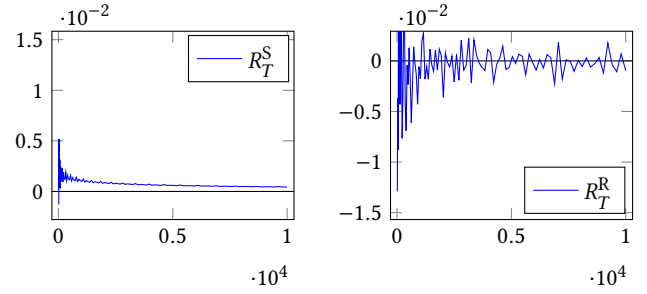
Again, the previous result shows *last-iterate* convergence of the supply chain to the unique SE (in contrast to the weaker *time-average* convergence that is typically obtained in regret minimization). In contrast to our previous results, this theorem holds under much weaker assumptions on the prior knowledge of the retailer and the supplier. Indeed, we do not assume anything other than the knowledge that the support of  $\mathcal{D}$  is included in  $[0, 1]^3$ .

## 4 EXPERIMENTS

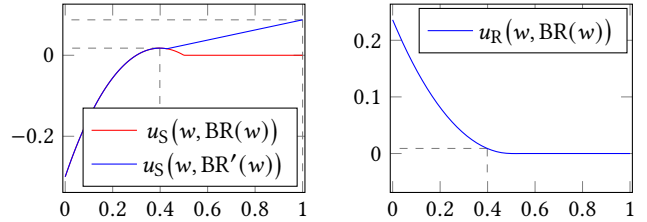
In this section, we describe experiments on synthetic data that provide further insights on the theoretical results of Section 3. In our experiments, we consider a constant cost  $C = 0.3$ , a retail price  $P$  uniform on  $[0, 1]$ , and for all  $p \in [0, 1]$ , we assume that the probability density function given  $P = p$  of the demand is  $f(x | p) = (1 - 2p)x + \frac{1}{2} + p$ .

### 4.1 ETC vs BR

In the first experiment, we study the supplier-retailer dynamics in the setting of Section 3.1, when the supplier runs Explore-Then-Commit (Algorithm 1) and the retailer best-responds (the resulting dynamics is deterministic).



**Figure 2:** On the  $x$  axis (black horizontal line), the time horizon  $T$ . On the  $y$  axis of the left (resp., right) pane, the difference  $R_T^S$  (resp.,  $R_T^R$ ) after  $T$  time steps between the cumulative utility at the SE and that obtained by the supplier (resp., retailer) when the supplier runs Algorithm 1 and the retailer best-responds.



**Figure 3:** On the  $x$  axis, the wholesale price  $w$ . Left pane: in red, the utility  $u_S(w, \text{BR}(w))$  of the supplier when the retailer best-responds, illustrating the objective of the supplier both in the noiseless setting of Section 4.1 and and the noisy one of Section 4.2, where the discretization of the retailer includes 0; in blue, the utility  $u_S(w, \text{BR}'(w))$  of the supplier when the best response  $\text{BR}'(w) = \max\{\text{BR}(w), q_{\min}\}$  of the retailer is constrained to be larger than  $q_{\min} > 0$ , illustrating the objective of the supplier in the noisy setting of Section 4.2, where the discretization of the retailer does not include 0. Right pane: the utility  $u_R(w, \text{BR}(w))$  of the retailer when best-responding to  $w$ .

In Figure 1 the wholesale price  $w_T$  and the corresponding quantity  $q_T$  can be seen converging to the SE  $(w^*, q^*)$ . The corresponding long-term differences in utilities with respect to the utilities at the SE appear in Figure 2. While the performance of the supplier is as expected, the fact that the retailer frequently outperforms the SE is somewhat surprising. This behavior can be explained by noting that the utility  $u_R(w, \text{BR}(w))$  of the retailer when the supplier selects  $w$  and the retailer best-responds with  $\text{BR}(w)$  is concave and decreasing (Figure 3, right pane). Hence, whenever the supplier undershoots with respect to  $w^*$ , the potential gain of the retailer is higher than their potential loss due to the supplier overshooting. By observing Figure 1, we see that that in many rounds the supplier commits to a wholesale price lower than  $w^*$ . Although for the supplier undershooting and overshooting is equivalent (see the symmetric form of the supplier’s objective in a neighborhood of its maximum in Figure 3, left pane, red plot), each  $w < w^*$  gives the retailer an opportunity to outperform the utility of the SE. Being

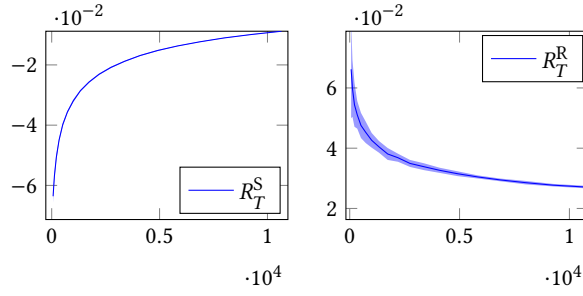


Figure 5: On the  $x$  axis, the time horizon  $T$ . On the  $y$  axis of the left (resp., right) pane, the difference  $R_T^S$  (resp.,  $R_T^R$ ) after  $T$  time steps between the cumulative utility at the SE and that obtained by the supplier (resp., retailer) when the supplier runs Algorithm 4 and the retailer runs Algorithm 3.

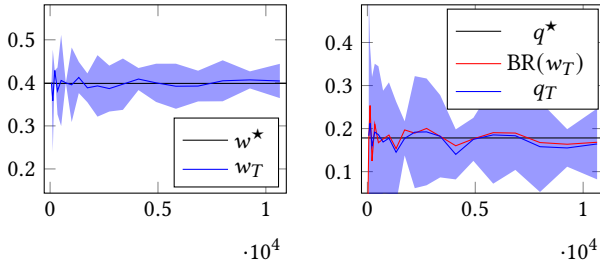


Figure 6: On the  $x$  axis, the time horizon  $T$ . On the  $y$  axis of the left (resp., right) pane, the wholesale price  $w_T$  (resp., the quantity  $q_T$ ) at time  $T$  when the suppliers runs Algorithm 4 and the retailer runs Algorithm 3 on a discretization  $0, 1/\lceil T^{1/3} - 1 \rceil, \dots, \lceil T^{1/3} \rceil/\lceil T^{1/3} - 1 \rceil, 1$ . The black horizontal line represents the wholesale price  $w^*$  (resp., the quantity  $q^*$ ) at the SE. In red, the plot of the sequence of exact best responses  $BR(w_T)$ .

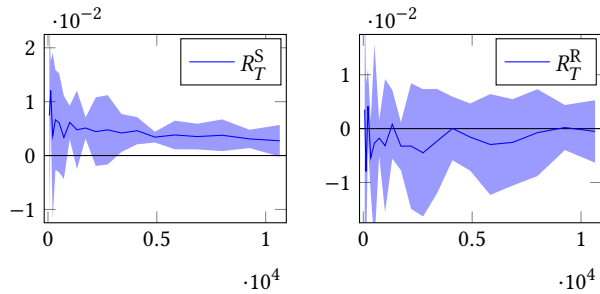


Figure 7: On the  $x$  axis (black horizontal line), the time horizon  $T$ . On the  $y$  axis of the left (resp., right) figure, the difference  $R_T^S$  (resp.,  $R_T^R$ ) after  $T$  time steps between the cumulative utility at the SE and that obtained by the supplier (resp., retailer) when the supplier runs Algorithm 4 and the retailer runs Algorithm 3 on a discretization  $0, 1/\lceil T^{1/3} - 1 \rceil, \dots, \lceil T^{1/3} \rceil/\lceil T^{1/3} - 1 \rceil, 1$ .

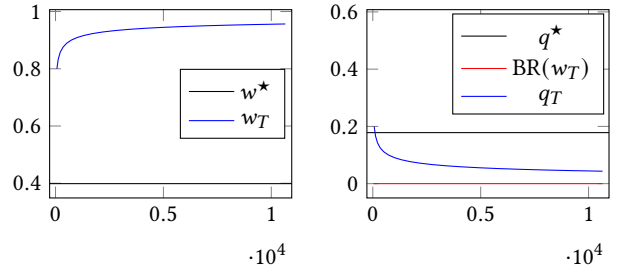


Figure 4: On the  $x$  axis, the time horizon  $T$ . On the  $y$  axis of the left (resp., right) figure, the wholesale price  $w_T$  (resp., the quantity  $q_T$ ) at time  $T$  when the suppliers runs Algorithm 4 and the retailer runs Algorithm 3. The black horizontal line represents the wholesale price  $w^*$  (resp., the quantity  $q^*$ ) at the SE. In red, the plot of the sequence of exact best responses  $BR(w_T)$ . It is always zero because the supplier correctly learns to always play  $w > 0.5$  and  $BR(w) = 0$  for all  $w > 0.5$ . Note that the retailer is indeed learning that they should play the smallest possibly quantity.

able to compute the best response exactly, the retailer can take advantage of this fact.

#### 4.2 ETC vs FTL

We now consider the setting of Section 3.2, where no player has any prior distributional information and all knowledge is learned by them running ETC (Algorithm 4) and FTL (Algorithm 3), respectively. As in this case the dynamics is stochastic, the plots are averages over 20 runs of each simulation.

*The role of the discretization.* Although not immediately apparent, the retailer’s choice on how to implement their discretization has significant consequences on the dynamics of the system. Consider first Algorithm 3, where quantities are discretized as  $i/\lceil T^{1/3} + 1 \rceil$ , for  $i = 1, \dots, \lceil T^{1/3} \rceil$ ,  $T$  being the time horizon. This effectively sets a hard positive lower bound to the best-response of the retailer. As Figure 3 (left pane, blue curve) shows, a consequence of this is that  $w^*$  is no longer the maximizer of the seller’s utility, unless  $T$  is sufficiently large. A direct computation using the parameters chosen for the experiments shows that  $T > 6 \cdot 10^4$  is needed to recover  $w^*$  as the solution to the supplier’s optimization problem. For smaller horizons, the supplier should learn that their optimal move is to post the highest possible  $w$ . Figure 4 shows that this is exactly what happens. Therefore, unlike the previous setting, here the supplier is always outperforming the SE (Figure 5).

This artifact in the dynamics due to the retailer’s discretization can be completely eliminated with a simple trick. Assume that the retailer discretizes the unit interval using  $i/\lceil T^{1/3} - 1 \rceil$ , for  $i = 0, \dots, \lceil T^{1/3} - 1 \rceil$ . Now the quantity  $q = 0$  is available to the retailer, therefore the behavior of Figure 3 (left pane, blue) is prevented, and the supplier has no longer any incentive of choosing prices far away from  $w^*$ . As Figure 6 shows, in this case the dynamics converges directly to  $(w^*, q^*)$  and the performance of the two agents change accordingly (Figure 7).



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