

# Management Science

## Completed Review

### Reviewer 1: Viswanathan, Madhu

Reviewer Affiliation Indian School of Business

Manuscript ID: MS-MKG-2025-05434

Manuscript Type: Marketing

Keywords: Marketing : Industrial marketing, Dynamic programming, Applications, Real Option\*, Structural Estimation\*

Date Submitted: *anonymized*

Manuscript Title: The Option Value of Contract Duration: Evidence from the U.S. Timber Market

Date Assigned: 19-Dec-2025

Date Review Returned: 23-Jan-2026

**req** Please provide a short summary of what you see as the key argument in the paper.

The paper argues that contract duration affects bidders' willingness to pay in timber auctions by embedding a real option over the timing of harvest. Longer durations increase continuation values, which in turn raise bids and seller revenue. These effects are heterogeneous across buyer types, with buyers that have greater intertemporal flexibility benefiting more from extended duration. Using a structural model that links post-auction cutting decisions to bidding behavior, the authors quantify these effects and use counterfactual simulations to assess the revenue implications of changing contract duration.

**req** Research question and contribution: Is the question clear? Is it important (why/why not)? What contribution does answering the question represent? Is it significant or incremental?

The research question is how does contract duration affect bidding behavior and seller revenue in auctions when buyers face a real option over post-award actions?

The question is relevant and well motivated, particularly in procurement and resource-allocation settings. However, the contribution of answering this question is incremental. The core mechanism; longer horizons increase option value; is well established in the real-options literature, and the heterogeneous effects follow naturally once buyer types differ in their ability to exercise that option. The paper's main contribution lies in carefully quantifying this intuition in the timber context and showing how duration can reweight the importance of different buyer types in price formation. While this is the strongest aspect of the paper, it remains narrow in scope (narrow intensive margin) and does not introduce a new economic force or a generalizable principle that travels beyond the institutional setting.

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relaxed.

**req** Potential impact: Do the results have relevant managerial or policy implications that are potentially important (not necessarily directly, but possibly through a translation), or does the method itself represent a significant innovation? What are the implications? Are they novel and/or significant?

The results have some policy relevance in procurement and natural resource contexts, particularly in illustrating how contract duration can differentially benefit certain buyer types and affect inframarginal competition. The composition effects in the counterfactuals are the most interesting aspect and could inform thinking about auction design in similar settings.

However, the broader managerial implications are limited. Entry is shown to be largely orthogonal to duration, which constrains duration's usefulness as a strategic design lever. Moreover, the discussion extending the results to business-to-consumer contexts is not well supported by the model or data. The method itself does not represent a significant methodological innovation, as it relies on established tools without offering a generalizable identification or estimation insight.

**req** Writing: Is the paper written at a level of clarity, articulation, logic, and exposition that is appropriate for a major journal?

The paper is clearly written, logically structured, and well organized. The institutional context is described effectively, and the exposition of the model and results is generally clear and accessible for a technical audience. Overall, the writing quality is appropriate for a major journal.

**req** Do you have any other important comments about the paper?

The main areas for improvement relate to framing and interpretation rather than execution. The paper would benefit from a more cautious positioning of its contribution, clearer acknowledgment of the limitations imposed by its modeling assumptions, and a tighter focus on contexts where the mechanism is most relevant. In particular, claims about competition and design implications should be tempered to reflect that heterogeneity and competitive effects are largely imposed by assumption and operate through inframarginal reweighting rather than strategic entry or belief heterogeneity

## Recommendation

### Comments

#### Confidential Comments to the Associate Editor

I really liked reading the paper and appreciated the clean and clever application of a structural model. My biggest concern is that at the end, the papers contribution is not very high as the findings are incremental in the context of contracts and real-options literature. I have provided my comments in detail in the attachment.

#### **req** Comments to the Author

Please give the authors some positive feedback if possible ("what you liked"). Then please tell them succinctly what the key issues are that you think should be addressed for the paper to be publishable (please focus on the important ones).

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