Advance Selling's Signaling Effects in Duopoly with Different Entry Points

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Abstract

This research focuses on firm's advance selling strategy's role as a credible signal of launch timing. Advance selling refers to general practice in which sellers allow buyers to purchase at a time preceding consumption. We structured a model with two firms, one launching in period 1 and another launching in period 2.
The past literature had focused on advance selling strategy's profitability in both monopolies and duopoly situation compared to on-the-spot sales and on ways to maximize its profitability by adjusting related variables such as information control or capacity rationing. However, literature on advance selling's usage in duopoly with different entry points has not existed prior.
The most important feature of our model is that it proves that in duopoly competition with different entry points, advance selling can be effective in reducing losses. To decrease its loss from late entry, later-entry firm should try enticing 'opportunistic shoppers' who are purchasing the early-entry firm's product because of uncertainty in its launch.
There are two key findings of this paper. Firstly, advance selling decreases opportunistic shoppers when relative preference's effect on total utility is large enough. Secondly, the later-entry firm can impose higher prices in both period 1 and 2 from advance selling if the value of the product is large enough.
Therefore, we concluded that advance selling can be most profitable in markets with low future discount rate, and in markets where new launch timing is unpredictable.

Keywords: advance selling, later-entry firm, launch timing, opportunistic shoppers, relative preference