

Advance Selling's Effects in Duopoly with Different Entry Points

Yeowoon Jeon

Ewha Womans University

Abstract

This research focuses on firm's advance selling strategy's role as a credible sign 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 monopoly 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 minimizing losses. To minimize its loss from late entry, later-entry firm should try reducing '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 in situations with different entry points is profitable when relative preference's effect on total utility is large enough to compensate with direct consumption's effect. Secondly, the later-entry firm can impose higher prices by advance selling if the product's value is large enough.

Therefore, we concluded that company's strategy of notifying launch timing through advance selling can be most profitable in markets in which new launch timing is relatively unpredictable, and with low future discount rate.

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