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Regular Price $299; Pre-order Price $199: Price Promotion for a Pre-ordered Product and the Moderating Role of Temporal Orientation

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Abstract

Retailers typically use the strategy of providing a discount to induce the sale of a new product at a pre-order stage. Despite the prevalence of this strategy, providing discounts might not be effective for all consumers. The present research shows that the positive effect of a discount depends on consumer temporal orientation. Results from four experimental studies reveal that a large discount positively affects present-oriented, but not future-oriented, consumers. The findings suggest that perceived financial risk and perceived product quality sequentially mediate the effect of discount size on value toward the deal and purchase intention. A third-party product quality rating boosts quality perceptions, which in turn reduces perceived financial risk and positively enhances value toward the deal along with purchase intention. Our findings demonstrate that when the brand itself acts as a reliable signal of quality, a discount has its intended effect for both present- and future-oriented consumers. Overall, the findings of this research suggest that a retailer can use quality cues along with a discount, especially for a new brand, to appeal to the broadest group, as it will attract both future- and present-oriented consumers.

Keywords: Pre-order; Discount size; Temporal orientation; Perceived financial risk; Perceived product quality; Purchase intentions

"*Regular Price: $299; Pre-order Price: $199. One Week to Go, Order Now!*"

Consider the above headline from a recent, retail advertisement. It features a discount, with the help of advertised reference pricing, in which the actual retail price is compared to a special pre-order price. With this type of promotion, retailers try to entice consumers to place an order with a price discount before the product is released. For instance, the ASUS Eee-book laptop was available at the discounted price of $139.99 two weeks prior to its release date, with an advertised regular price of $179.99 (Broida 2014). Pre-order price discounts range from as low as six percent (e.g., Google Nexus 10) to as high as 63% (e.g., Call of Duty: Modern Warfare 3) and cut across a broad range of product categories such as books, movie DVDs, video games, smartphones, and computer operating systems.

Retailers and manufacturers use pre-order price discounts to induce consumers to purchase a new product (Nair 2007). This assumption aligns with classical economics in that temporary price reductions, such as through pre-order discounts, should entice consumers to purchase the product (Leavitt 1954). Extant research, however, suggests that consumers' perceptions of discounts are contingent on other factors, such as beliefs and expectations (Chandran and Morwitz 2006; Shiv, Carmon, and Ariely 2005) which may make pre-order discounts differentially effective. Additionally, some prior research demonstrates that consumers' specific traits, such as price consciousness, can elicit varying consumer responses from price reductions (Lichtenstein, Burton, and Netemeyer 1997). Given the likely mixed responses to these price promotions, a clear understanding of the impact of pre-order discounts is both theoretically and practically valuable.

The essence of pre-ordering revolves around a temporal choice because consumers are enticed into an exchange before the product is available and ready for consumption. Therefore, in an effort to advance our understanding of pre-order price promotions, we postulate that consumers' temporal orientation is a driving factor in how they respond to elements of a pre-order price promotion. In particular, we examine the moderating role of consumer temporal orientation in the effect of discount size

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on value towards the deal and purchase intentions. Additionally, we investigate the psychological mechanisms of perceived product quality and perceived financial risk in the aforementioned relationships.

To investigate the role of a consumer specific trait in the value perception of discounts, we conduct four experimental studies that provide convergent evidence regarding the moderating role of consumer temporal orientation in quality perceptions, perceived financial risk, value perceptions as well as purchase intention. Thus, we provide a new understanding of the reach of introductory discount promotions. This research contributes to price promotion literature by showing that a high discount may not always have a positive effect on deal perceptions, which is contrary to classical economics. Our findings add to the price–quality and financial risk literature by identifying a new moderator, temporal orientation, which determines for what type of individual quality and risk inferences are more likely to be influenced by price.

Conceptual Framework and Hypotheses

Immediate gains are mostly driven by discount size, and extant pricing literature shows that a majority of consumers perceive price promotion as real economic savings and an incentive to try a new product (Chandon, Wansink, and Laurent 2000; Shiv, Carmon, and Ariely 2005). However, uncertain future outcomes are inherent with the pre-ordering of a new product since the product is unproven by the market, which can impact a consumer's risk perceptions. Therefore, in a pre-ordering context, consumers face a dilemma between anticipated immediate gains and possible future losses. Due to the temporal choices between immediate gains and possible future losses in product pre-ordering, consumers' temporal orientation becomes a relevant factor in the decision making process.

Literature on temporal orientation suggests that people differ in their behavioral goals and actions (Joireman et al. 2008; Kees, Burton, and Tangari 2010). Individual differences in temporal orientation toward the present versus the future has been shown to influence attitudes and choices (Joireman, Sprott, and Spangenberg 2005; Kees, Burton, and Tangari 2010). Those who are future-oriented, compared to present-oriented, tend to have a temporal bias towards future consequences of present actions (Zimbardo and Boyd 1999). Specifically, consumers who are more focused on the future tend to be more fiscally responsible and delay gratification when compared to present-oriented consumers (Joireman, Sprott, and Spangenberg 2005).

Applying these findings to the current situation suggests that present-oriented consumers should be more attracted to immediate financial gains provided by the pre-order price promotion, as it aligns well with their goal of instant gratification. In contrast, for future-oriented consumers, who tend to focus on future concerns, the transient benefit of immediate savings is counterbalanced by uncertain quality concerns that are inherent in pre-ordering a new product. Hence, product quality is likely to be the most important concern for future-oriented individuals because it directly relates to the longevity of a product and may affect future product related issues. As a result, discount size acts as a cue for both present- and future-oriented individuals, but for very different reasons. For present-oriented individuals, discount size signals immediate financial gains whereas future-oriented individuals will use discount size to form a quality perception.

Consumers tend to rely on price to form quality perceptions (Ding, Ross, and Rao 2010; Dodds, Monroe, and Grewal 1991; Kardes et al. 2004; Miyazaki, Grewal, and Goodstein 2005; Völckner and Hofmann 2007; Zeithaml 1988) and sometimes a discounted product has a negative effect on product quality perceptions (Chandran and Morwitz 2006; Shiv, Carmon, and Ariely 2005). Specifically, higher compared to lower discounts will induce lower quality perceptions. Therefore, we postulate that as future-, compared to present-, oriented consumers are more inclined to consider product quality, they will have a more negative perception about product quality in a large discount condition. Due to this, it is worth noting that mere discount will be unable to affect future-oriented consumers' financial risk perception, which has been defined as the economic costs that may be lost if a product does not perform to a certain expectation (Grewal, Gottlieb, and Marmorstein 1994; Sweeney, Soutar, and Johnson 1999). In contrast, for present-oriented consumers, who tend to have a temporal bias toward instant gains, discounts will not be able to induce any negative quality perceptions as they are more likely to use price discount as a cue for providing immediate financial gain. As a result, discount size in a pre-order promotion will have differential effects on overall perceptions of financial risk, value perceptions and purchase intention for future-, compared to present-, oriented consumers.

Thus, we posit that a consumer's temporal orientation will moderate the role of discount size in a pre-order context, such that present-oriented consumers are likely to perceive less financial risk, more value toward the deal, and demonstrate higher purchase intention with discounted products at the pre-order stage relative to future-oriented consumers. On the other hand, future-oriented consumers will have a more negative perception about product quality in a large versus small discount condition at the pre-order stage relative to present-oriented individuals. More formally, we present:

H1. In the presence of a large discount compared to a small discount, present-oriented consumers will report (a) lower perceived financial risk, (b) higher value towards the deal, and (c) higher purchase intentions, whereas future-oriented consumers will report (d) lower perceived product quality.

Mediating Roles of Perceived Financial Risk and Perceived Product Quality

Past literature suggests that perceived product quality acts as an antecedent to financial risk perceptions (Sweeney, Soutar, and Johnson 1999). More specifically, perceived product quality is negatively related to financial risk perceptions. For future-oriented consumers, a large discount will lead to lower perceived product quality because discounted or low price offers elicit negative quality perceptions (Dodds, Monroe, and Grewal 1991; Shiv, Carmon, and Ariely 2005). This, in turn, will lead