

Nature of Exchange Offers and Antecedents of Exchange Offer Proneness

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Abstract

An Exchange Offer is a sales promotion tool common in durables that has several different kinds of formats. This study attempts at mapping and defining the different formats of Exchange Offers (EO). The purpose of this study is to also develop a construct for Exchange Offer Proneness. Intrinsic factors such as consumer characteristics, brand orientation and demographic characteristics and Extrinsic factors such as product category characteristics, situational factors and social factors are suggested antecedents of Exchange Offer Proneness.

Keywords:- Exchange Offers, Sales Promotion, Durable goods, Replacement purchase.

Introduction

An Exchange Offer is a sales promotion tool common in durables. It is an invitation by the firm or retailer to exchange a used good as part payment for the new one. . Although there are several different kinds of formats of Exchange Offers in practice, they are yet to be clearly defined and mapped to their objectives. A clear understanding of different formats of Exchange Offers and scenarios under which they can be floated in practice is essential to its success. According to a recent CRISIL study, the durables market in India is growing at a robust 25% in the rural and semi urban markets and at about 12% in the urban markets. Even as most rural customers are first time buyers of durables in categories like air conditioners and washing machines, urban buyers of consumer durables around the globe are replacement customers. While replacing a consumer durable product, the customer not only seeks the best buy but also looks for value in the old used product. Being a repeat customer, the buyer must dispose off the existing product while buying a new one (Bayus, 1991). With shorter product lifecycles and a need to keep up with newer technology, consumers are tempted to upgrade, while the used good remains functional and in good condition. In such a situation, the customer is torn between the lure of the new offering in the market and the guilt of retiring a still functional product (Heath and Fennema, 1996). The exchange offer mitigates this pain by directly addressing this issue, offering a value for the used product (Okada, 2001).

The exchange offer often states the price the used good is likely to fetch while you surrender it, in exchange of the new one. If not explicitly mentioned in the offer, the advertisement may implicitly indicate the price it will fetch, by way of a price reduction on the new purchase. Thus an exchange offer is an answer to such hesitation and is a ready solution to a win-win situation. The customers are happy to get value for their used products while being able to acquire the latest in technology and trend. Prevalent in the Indian markets for decades now, it has been observed in varied categories, from bed linen to watches and from kitchenware to furniture. It is popular in other markets too, considering that 50% of car purchases in the US involve an exchange (Busse and Silva-Risso 2010).

Exchange Offer Proneness is an affinity towards EOs. It explains the customers' pull towards an EO. Although the construct for deal proneness exists and explains the deal prone customer, an EO is a unique 'deal'. It captures in its construct not only the innate need for a price discount but also an answer to loss aversion. Loss aversion is the pain associated with retiring a still functional product while buying a new one (Kahneman and Tversky, 2012). Deal proneness, therefore cannot be considered as a general construct but must address domain specificity of the deal (Lichtenstein et. al., 1995). Thus, this paper seeks to assimilate the antecedents of EO proneness, as an explanation of the triggers that make an EO attractive to the customer.

Types of Exchange Offers

Exchange Offers (EOs) can be offered by the firm/brand or the retailer. This gives rise to various possibilities. The objective of the firm in proposing an EO will be to induce purchase of a particular brand or model or even to pull back old models of the firm, whereas the retailers' interest will lie in increasing store performance. Based on several in-depth interviews with brand managers and store managers, four formats of EOs have been identified. These interviews reveal four general formats of EOs based on whether the brand owner or retailer offered the EO. It also reflects the objective behind the EO. The following section considers these possibilities in the construction of an EO to indicate the various types of EOs present in the market. Figure 1 is an Buy/Exchange Objective Matrix.

	Exchange one Brand	Exchange any Brand
Buy any Brand	One For Any (OFA)	Any For Any (AFA)
Buy one Brand	One For One (OFO)	Any For One (AFO)

Figure 1: Buy/Exchange Objective Matrix

One-for-one: The One-for-one (OFO) offer asks customers to bring back a particular brand in exchange for a new and upgraded model of the same brand. It is observed in automobile companies where the customer receives benefits of the offer on bringing back the same brand of car. For instance, take the example of Hyundai which offered its customers special discounts and loyalty bonus for

exchanging any Hyundai car for another brand new Hyundai model. Another OFO offer came in July 2013 from Blackberry, the mobile phone company, which allowed customers to bring back old Blackberry devices to buy the new Blackberry Z10 in exchange.

Any for one: The Any-for-one (AFO) offer allows customers to bring back any brand in exchange for one particular brand. Logically, this sort of an offer is usually made by the firm in order to increase the sale of their brand. Apple (the company known to have long waiting orders for their new launches in mobile phone devices), also had to resort to exchange offers in India to break into the smart phone segment. In 2013, Apple offered its customers of iPhone 5c and iPhone 4S, a minimum of Rs.13000 in exchange of any smart phone in working condition. A list of brands and models were released in order to facilitate this offer. Another example is that of Titan Industries. Titan's AFO offer christened as the "20% Exchange Offer" has been so popular in the category of wrist watches, that it has been an annual feature for over a decade now.

Any-for-any: The Any-for-any (AFA) offer as the name suggest urges customers to bring back any brand in exchange for any other brand. The AFA is common amongst retailers, who are concerned with increasing the sales revenues of the store over the sales of any particular brand. A popular AFA with an overwhelming response came from the retail giant Big Bazaar. In an extension of the AFA offer, Big Bazaar offered customers store credit in exchange for any old item including old clothes and newspapers. Customer could then exchange these store credits while making purchases at the store. Other categories prone to AFA offers are white goods like refrigerators and washing machines and electronic goods like televisions and mobile phones.

One-for-any: The One-for-any (OFA) offer is a strategy at pulling back products from the market. This could be done to avoid cannibalization of a new launch, or to pull back products that do not comply with environmental or societal norms. Take the example of 'cash for clunkers'. In the US, the Car Allowance Rebate Systems (CARS) popularly known as 'cash for clunkers' incentivized consumers to exchange their less fuel- efficient vehicles for more fuel-efficient ones. Apart from reducing the number of cars that were not fuel efficient adding to the carbon footprints of the US, CARS also helped stimulate spending in the US markets caught in recession.

Table 1 : shows the different kinds of offers and its relevance to the manufacturers and retailers.

EO Types	OFA	AFA	OFO	AFO
Firm/Brand Owner	✘	✘	✔	✔
Retailer	✔	✔	✔	✔

Conceptual Framework

Exchange Offer Proneness is a construct that seeks clarity. The construct of deal proneness although defined and conceptualized does not lend itself to all kinds of deals. The heterogeneity of deal proneness has been evident when studied in the light of the time and effort spent by the customer for

different kinds of deals (Kwon and Kwon, 2013). Lichtenstein et. al. (1995), studied the manner in which deal proneness is conceptualized. They found out that deal proneness cannot be conceptualized as a general construct. Rather, it must be treated as a domain specific construct and must allow for inclusions based on the uniqueness of different kinds of deals. Exchange offer is one such deal that required attention due to its uniqueness. Firstly, it involves two transactions, buying of the new product and the selling of the old used product. Secondly, it acquires value based on the affect attached to the old product and lastly it is relevant in situations where consumers are bound by the inability to retain old product while they replace them.

The factors leading to EO proneness, can be classified as being intrinsic or extrinsic to customers. Figure 2 presents the antecedents of Exchange Offer Proneness

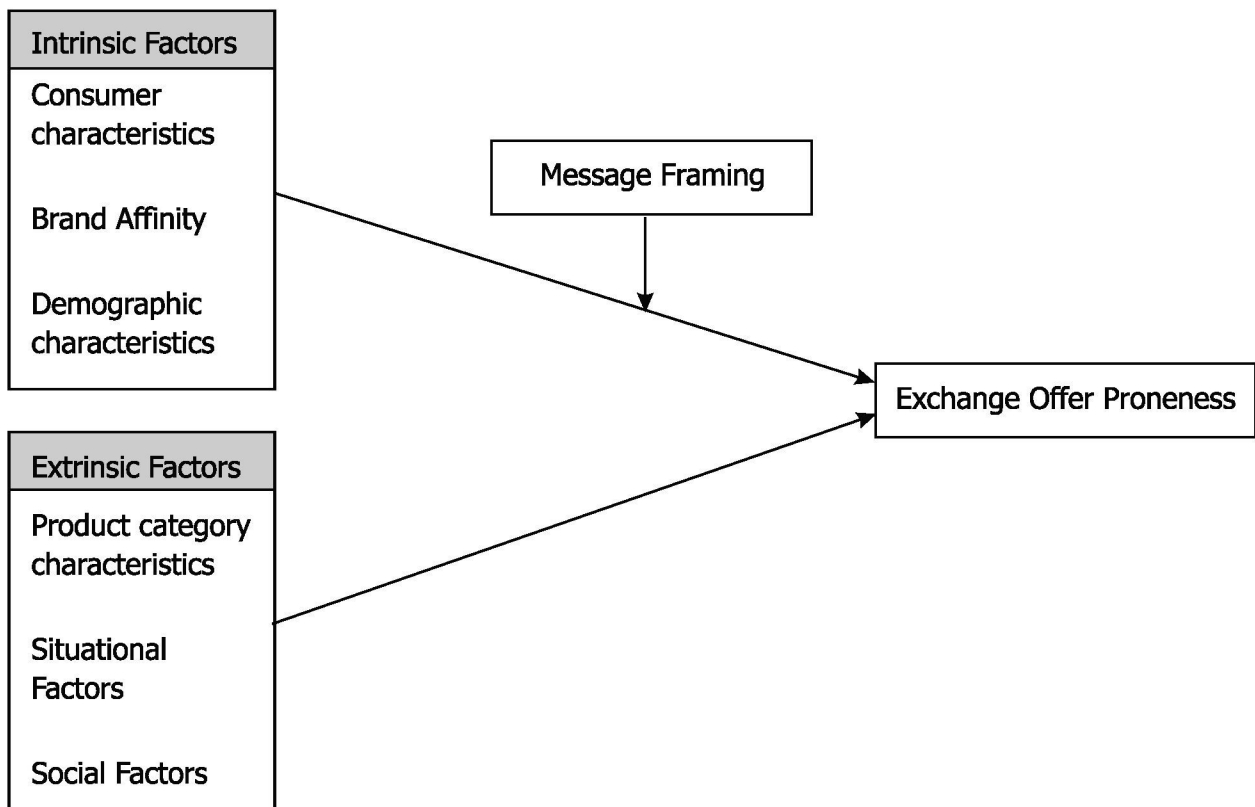


Figure 2: Antecedents of Exchange Offer Proneness.

Intrinsic Factors

Intrinsic factors are those which are innate in consumers like loss aversion, trade-off aversion, attachment to the used product, innovativeness, shopping enjoyment, brand affinity, gender, age and product class involvement. While consumer traits like loss aversion, trade-off aversion and attachment to the used product, anchor on the used product, other characteristics like innovativeness, shopping enjoyment and brand affinity explain the need for a new product.

Consumer Characteristics

Consumer characteristics influence consumers' affinity to a promotion. Although consumers may be attributed to a number of different characteristics which may be beyond the scope of the current construct, some characteristics are likely explanations for EO proneness. These consumer characteristics of loss aversion, trade-off aversion, attachment to the used product, innovativeness and shopping enjoyment are described in the following section.

Loss Aversion

Loss aversion is the tendency of consumers to strongly prefer avoiding losses to acquiring gains. Kahneman and Tversky(1979)were the first to propose this theory and demonstrate loss aversion amongst consumers in risky situations. Thaler (1983) extended loss aversion to riskless decisions, suggesting that losing a good was valued much more than gaining it. He explained the endowment effect which is defined as a discrepancy between buying and selling prices through the concept of loss aversion. Sellers valued their goods twice as high as the buyers' willingness-to- pay (WTP) price. Loss aversion has also been an explanation for a reluctance to upgrade durable items (Okada, 2001).

Trade-off aversion

Trade-off aversion has been studied using cognitive methods (Hedgcock and Rao, 2009). It explains how consumers confronted with equally attractive/unattractive offers experience trade-off aversion. In the case of an exchange offer, when a consumer is faced with a dilemma of either being underpaid on the used product and getting the new product at a lesser rate or getting overpaid on the used product and paying more for the new product, there is a possibility of trade-off aversion.

Attachment to the used product

Attachment to the used product is an affect related trait that is an extension of the endowment effect (Thaler 1983). Endowment effect is the effect of ownership on the value consumers' place on the good. Consumers tend to value a good more, simply because they own them. Endowment effect suggests that consumers' willingness to pay and willingness to accept a price vary significantly depending on whether they are buyers or sellers. This difference can also be explained through their attachment to the product at hand.

Innovativeness

Consumer innovativeness measures consumers' enthusiasm and willingness to accept new products. It is an important variable in studying the urban consumers' acceptance of high-tech products (Schiffman et al., 2010). This segment of consumers also tends towards being early adopters of new products. While launching a new product, marketers gauge the size of the segment of innovators in order to estimate demand.

Shopping enjoyment

Shopping enjoyment can be defined as the degree to which performing an activity is perceived as providing pleasure and joy of its own right, aside from performance consequences (Venkateshet al., 2000). A shopping exercise can result in instrumental rewards (e.g. lower price) and/or experiential rewards (enjoyment/fun) (Babin et al., 1994). When shopping enjoyment is an inherent trait in a consumer, the need to purchase is compelling.

Brand Affinity

Brand affinity refers to consumers' inclination towards a product and is indicative of the chance that a consumer will prefer one brand over the others in a free choice situation(Bloxham 1998).An affinity towards a certain brand will affect the consumer's choice of its EO promotion. For instance, if an EO is offered by two rival brands, the customers' choice of purchase will tend towards the brand which draws her affinity. Therefore, it is an important variable of measurement while determining EO Proneness.

Demographic Characteristics

Demographic characteristics like age and gender are also determinants of Exchange Offer Proneness. While the younger generation with better earning capacity and lifestyles prefer to upgrade sooner, people who are older with few sources of income are cautious to upgrade/repurchase. The older age group will therefore display an affinity

towards EOs more than the younger generations. Gender differences innate in people also will lend itself to EOs.

Extrinsic Factors

Extrinsic factors are those factors which are external to the customer. Product category characteristics, situational factors and social factors form the set of extrinsic factors that explain EO proneness.

Product Category Characteristics

Product category characteristics have been known to influence consumer's choice preferences. For instance, electronic goods, due to its product category characteristics, have a seconds market that consumers may consider, rather than take up an EO. In the light of this insight, the literature has been detailed into certain product or product category characteristics. Quelch (2010) have classified durable products into 'high ticket' and 'low ticket' items. In the case of an EO, category characteristic like the level of technology (high/low), the functionality of the product (utilitarian/experiential) and the hassle in maintaining the used product while buying a new one, influence the decision to exchange. For example, a washing machine is a functional product with high hassle cost in a low technology space, whereas a camera can be classified as an experiential product that is high on technology and easy to maintain. The effect of these factors on an EO deal is therefore significant. In experiments conducted by Okada (2006), she has studied the effect of the product category on willingness to exchange. Products can also be classified as high involvement products and low involvement products, although most durables fall in the high involvement category. Other significant differences in product category in the context of an EO include the existence of secondary markets, the rate of new product introductions, growth rate of the category and the perceived lifetime of the product.

Situation Factors

Situational factors like scarcity of real money in times of recession or inflation, small sized houses housing nuclear families and lack of secondary markets for used goods make consumers EO prone. Consider the popularity of EOs in categories other than automobiles in the US, since the economic slowdown. Customers are reluctant to buy new products and an EO that pays partly for the new purchase, makes it an attractive deal. The rise in an organized secondary market in durables in India, is also evidence for the value seeking customer. Companies like GreenDust, YNew and Gobol.in all sell second hand products. Thus finding a market for used products has been recognized as a real need and is being catered to by marketers in innovative ways. The rise of such services may therefore affect the attractiveness of an EO, making it easier and easier for customers to dispose old products while buying new ones.

Social Factors

The rise in the number of nuclear families, the need to dispose used products in an environment friendly manner and the need to contribute to social causes are all social factors that make consumers EO prone. An EO provides customer with a means to provide to the society by taking back used products that are still functional and refurbishing it for rural or other markets. Some companies like Bombay Dyeing proclaimed in their EO to give the exchanged bed sheets(got during the promotion) to the needy in the society. The environment conscious customer also approves of an EO, especially in the category of mobile phones and other durables with hazardous materials, as they are assured of their proper disposal/recycle.

Message Characteristics

Messages characteristics like anchoring, ordering and framing are significant in the context of an EO. While in general, consumers prefer an EO over a straight sale for durable-like goods, the exchange offer itself becomes more attractive when it aligns with the customers purchase goals. Positive message framing of 'approach' and negative message framing of 'avoidance' lay down the foundation for message framing (Wedell, 1997). Further Shiv, Britton and Payne (2004), suggest that message framing makes deeper impact when we consider consumer

characteristics. The way a message is framed could be the reason for why a consumer chooses an EO. Most studies in the area of pricing of an EO have considered various price presentations of economically similar values. For example, expressing the price discount on the new product as the value of the old is one such message framing technique. The deal amount could also be expressed as a percentage of the purchase price as against expressing it in rupee terms. The EO could also be framed to bundle the transactions of 'buy' and 'sell' in an EO and stating a final price for the new product (Okada, 2001; Park and Mowen, 2007) or could be framed separately stating the price of the new purchase and the price of the used product (Zhu et al., 2008), thus leading to different consumer outcomes. Message framing (Quelch and Jocz, 2010), considering consumers empathy to a social cause is also found to significantly influence their willingness to accept an EO.

These varying methods of framing a message moderate the relationship between the intrinsic and extrinsic factors and EO proneness.

Conclusion

EO proneness is a unique construct in comparison to the construct on deal proneness. It is triggered by several attributes and factors valid only in an EO transaction. This has been amply enumerated in the model explaining EO Proneness. The cost of promotions and an innate need for customers to make informed choices has transferred the pressure of the success of a deal to the manager. Managers considering floating an EO must consider the triggers that make an EO effective and use them to their advantage in order to succeed in the market. Thus, this study is important to managers of consumer durables considering an EO. This study also provides a framework to academicians, and renders itself to empirical tests. By advancing the knowledge base on the EO prone customer, it provides an explanation for consumers' behavior in the wake of an EO.

While this work is the first in enumerating the different types of EO and also in developing EO exclusively as a separate construct, limitations to this study must be acknowledged. This study uses transcripts collected from in-depth interviews with managers, however, a combination of in-depth interviews and a content analysis of the advertisements offering EOs would have led to a more robust understanding of EOs. In-depth interviews are subject to inherent biases than a more objective and systematic process like content analysis. Also, an empirical study validating the model would have substantiated its precision. Further, a study of different product categories would also help contrast and compare the effectiveness of the model for the different product categories in durable goods that lends itself to an EO.

Future studies in this area must collect empirical data using different samples and contrasting product categories – hedonic/utilitarian, hi-tech/low tech etc. The role of category characteristics, other than those mentioned here may also be tested for validity.

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