



Deal is on! Why people buy from daily deal websites



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ARTICLE INFO

Article history:

Received 4 April 2013

Received in revised form

11 July 2013

Accepted 17 July 2013

Available online 9 August 2013

Keywords:

Daily deal

Discount

Uniqueness

Conformity

ABSTRACT

We present two studies examining daily deal websites. In the first, we see whether revealing deal size influences choice, and consider the effect of desire for conformity/uniqueness. In the second, we determine the impact discounting levels have on quality perceptions and purchase likelihood, while considering the influence of brand familiarity and offer type. We find the bandwagon/snob effect can influence purchase likelihood. The results also suggest that heavy discounts have a negative impact on quality perceptions, and that brand familiarity and offer type may affect quality perceptions and purchase likelihood. Retailers seeking brand exposure should act cautiously regarding discount levels, and exclusive brands may not be suitable.

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1. Introduction

Expected to gross \$15bn by 2015, the daily deal space is on fire. But what happens when deal emails get old & spammy? How many spa treatments does a gal really need?—(Yehia, 2012)

A recent phenomenon in retail marketing has been the development of 'daily deal' websites offering products or services for sale for a limited time, usually only a day, and at heavily discounted rates. The format often involves an advertisement located on high volume daily-visited sites like e-newspapers and social media sites, enabling daily exposure of new offers to potential shoppers and allowing the shopper to click through to the purchase site. A key distinction of 'daily deal' sites from similar sites like online vouchers and online auctions is the deal size (Byers et al., 2011)—the number of items available or sold—being displayed.

The use of deal size information is similar to the underlying motivation of having 'top seller' lists. Where an expert opinion is unavailable, shoppers sometimes use a proxy for expertise and rely upon peer choice to guide them in their own choice (Parsons and Thompson, 2009). We expect this is likely to be mediated however by the concept of bandwagon/snob effects (Becker, 1991; Corneo and Jeanne, 1997; Leibenstein, 1950)—those who wish to conform (bandwagoners) and those who do not wish to conform (snobs). Therefore, when examining the influence of revealing deal

size on daily deal choice, we also consider the type of shopper in terms of desire to conform. The aim of the first study is to see whether being told how many people have already purchased an item influences a shopper's choice, in conjunction with their desire for conformity/uniqueness.

Another feature of daily deals is that they tend to involve heavy discounting, far beyond typical in-store discounting. Common daily deal discounts are in the 30–50% range or more, which is beyond the generally accepted effective range of 10–30% (e.g. Gupta and Cooper, 1992; Harlam et al., 1995; Marshall and Leng, 2002). With such deep discounting, quality perceptions can be affected, which may in turn affect purchase likelihood. Marketers seeking to gain market awareness for their product or service also use daily deals. However, if deep discounting creates a poor quality perception, then this may not be a good vehicle for such marketing. Finally, with respect to discounting, daily deals tend to offer both services and products, but consideration of these in other contexts suggests that discounting may have different effects for a service compared to a product. The aim of the second study is to determine the impact discounting levels have on quality perceptions and purchase likelihood. In the second study, we also consider the influence of brand familiarity and whether the offer is a product or service.

2. Theoretical background

2.1. Literature

Unsurprisingly, given the relative newness of the phenomenon, there is little empirical study of daily deal websites. Those studies

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that exist tend to look at either the differences (or similarities) between daily deal websites and other platforms like voucher and auction sites, or pricing/incentive mechanisms used (Edelman et al., 2010). While voucher sites offer similar discounts to daily deals, the latter offer products directly to the shopper, are only available for 24 h, and are often limited to a single purchase.

The other distinction noted with daily deal sites is that they reveal how many of the item for sale have been purchased at the time of viewing—the amount sold version of deal size (Byers et al., 2011). This is comparable, but not the same, as two other mechanisms used in marketing where an expert opinion is not available. The first is the ‘top seller’ list (Parsons and Thompson, 2009), such as a bookstore providing the Top 10 fiction list for that week, which has been shown to moderately increase sales for the average book (Sorensen, 2007). Online, an app sold through Apple’s App Store gains the ability to charge a \$4.50 premium if it is ranked in the Top 100, compared to an unranked app (Carare, 2012). The ‘number purchased’ on the daily deal site could presumably attract a similar acceptance effect, if shoppers were seeking reassurance that the product was a good buy. The second mechanism is the urgency of action required by being told “only X left, buy now”. This limited availability has been found to promote purchase decisions through intensifying the desire to acquire a product (Aggarwal and Vaidyanathan, 2003; Byun and Sternquist, 2012; Ong, 1999) through the use of such semantic cues (Byun and Sternquist, 2012; Jung and Kellaris, 2004). While the daily deal site does not normally reveal how many are left, one of the underlying principles of this approach is the same concept of saying that “others have bought this, you should too”. The urgency implied in the daily deal site is not that the stock will run out, but that the time will expire.

To help understand the potential effects of revealing deal size, snob and bandwagon effects (Leibenstein, 1950) may shed some light on how consumers react to the deal size information available on daily deal websites. Snobs, who have a high need for uniqueness, and bandwagoners, who wish to conform, tend to have a similar underlying motivation (Dubois and Duquesne, 1993; Husic and Cacic, 2009)—just at opposite ends of the scale. For example, as a means of enhancing self-concept, people may purchase to conform to a social group (bandwagoners), or to isolate themselves (snobs). A good which appeals to a snob is often sold in small quantities so as to maintain reputational value, with mass production for bandwagon goods (Corneo and Jeanne, 1997). Brewer (1991) refers to these effects as optimal distinctiveness theory, where two types of social needs are found; the need for conformity and the need for uniqueness.

While a defining feature of daily deal websites is the deal size information, another key point is the discount level. Daily deal offers have deep discounts for the product or service being offered. Shoppers look at discounts in two ways – the minimum threshold for it to be of interest, and the threshold beyond which it becomes suspicious. The general suggestion seems to be that a discount of between 10% and 20% is necessary to capture awareness and potentially change purchase intention (Gupta and Cooper, 1992; Harlam et al., 1995; Marshall and Leng, 2002). Discounts of 35–50% are viewed as positively associated with increased purchase intention (Marshall and Leng, 2002; Mobley et al., 1988). Discounts beyond this, tending towards 70% or even 80%, not only lose this positive association but can actually be viewed with suspicion. Shoppers will look for an explanation to justify the cause of such an offer, like the possibility that there is something wrong with the product or service (Campbell and Diamond, 1990; Moore and Olshavsky, 1989).

2.2. Hypothesis development

The combined effects of a daily deal website revealing deal size, in conjunction with individual preferences for conformity/

uniqueness, suggests that demand for a product is likely to increase as the result of previous purchases (Leibenstein, 1950) for those with a need for conformity, and decrease for those who need to be unique (Snyder and Fromkin, 1980). In the music sector, for example, it has been found that higher vote counts appear to stimulate music download (Salganik et al., 2006), with a similar finding for online books (Huang and Chen, 2006). We also know that in the hospitality sector the popular and well-known restaurants are in higher demand (Becker, 1991), and in a very similar approach to daily deals, when view counts are made available to potential viewers of online videos they influence the decision to view (Fu and Sim, 2011). This all seems to be because of the bandwagon heuristic (Chaiken, 1987). When studying this heuristic in the online shopping context, the metric of purchase count seems to reflect the social endorsement of the product (Sundar et al., 2008). There is even an argument that online shoppers appear to trust this metric more than their firsthand knowledge of the product (Metzger et al., 2010). The snob effect, on the other hand, brings about an avoidance of similarity (Kastanakis and Balabanis, 2012), making shoppers value a product less when more consumers own it (Amaldoss and Jain, 2005) – signalling a decrease in value to snobs. Given this discussion, the first hypothesis (which will be explored in Study 1) proposes that:

H1. A product that few people have purchased will be more appealing to those with a need for uniqueness (snobs), while a product that many people have purchased will be more appealing to those with a need for conformity (bandwagoners).

Past studies have shown that discount level can have an effect on quality perceptions, with larger price discounts associated with lower quality perceptions (Drozdzenko and Jensen, 2005; Moore and Olshavsky, 1989). Mixed in with this is whether the offer is for a product or a service. Quality perceptions of services have been found to be more affected by deep discounts when the service is already perceived as a low-end service than when it is a high-end service (Hu et al., 2006). With products, as discussed previously, there is an increasing purchase intention as discounts increase without a loss of quality perception, but then a threshold is reached where purchase intention decreases. However, it has been suggested that for very small or very large discounts shoppers attribute superior quality to non-discounted products (Madan and Suri, 2001). Added to this is the familiarity a shopper has with the brand. Deep discounts affect both familiar and unfamiliar brands, but people can be willing to take more of a risk for known brands, leading to more favourable responses by shoppers for national brands under price discount than private or generic brands (Krishna et al., 2002; Moore and Olshavsky, 1989), perhaps because of brand confidence (Laroche et al., 1996). Our contention is that daily deal offers that are heavily discounted will attract less purchase intention, and that heavily discounted goods will have lower quality perceptions. However, this is likely to be modified by brand familiarity, and whether the good is a product or a service. Given this discussion, three hypotheses which focus on the main effects of each variable of interest are proposed, and will be explored in Study 2. They are:

H2. Discount level will have a significant effect on (a) quality perceptions, and (b) purchase likelihood.

H3. Offer type (product or service) will have a significant effect on (a) quality perceptions, and (b) purchase likelihood.

H4. Brand familiarity (known or unknown) will have a significant effect on (a) quality perceptions, and (b) purchase likelihood.

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