Chapter 19

# The Role of Warranty of Misinforming for New Product Adoption

## ABSTRACT

*The utilization of a product is intended to highlight all possible forms of using the product. This is a learning process which results in reaching the stage of efficient and effective use of the product. In some cases, the learning may expose unsuitability of the product with acquired properties to perform some later identified benefits. A warranty for misinformation allows a replacement of the product on no cost and to increase its usability. The chapter considers the warranty of misinforming as a learning tool.*

## INTRODUCTION

The previous chapter presented the use of "warranty of misinforming" as an analogue of the role of "option" played in finance and trade. This section extended the idea of using it to promote learning during the process of adoption of a new product.

The current development of worldwide markets can be characterized by an increasing complexity and multi-functionality of their goods. Smart phones replaced the old-fashioned mobile devices, which very recently replaced the traditional land phones. Selection, purchasing and utilization of a new device are no longer simple, routine tasks. The increased product complexity requires relevant customer expertise to make proper use of modern devices. Research on consumers' behavior in adopting a new product is well presented in the literature in the last more than 50 years. The

adoption process of new products has attracted the attention of researchers, and it has been studied from different perspectives. The following are just a few examples of research addressing adoption. Eng & Quaia (2009) review the findings about new performance in the literature and conceptualize a framework and its related propositions for improving new product adoption process. Manchanda P. et al (2008) identified that the two main influences leading to adoption at the individual consumer level are marketing communication and interpersonal communication. Bhagat, S. et al (2012) presented a problem formulation to study the impact of user's experience (or projected experience) with a product in the adoption process. Sethi S.P. et al. (2008) proposed a model for new-product adoption that incorporates price and advertising effects. An optimal control problem that uses the model as its dynamics is solved explicitly to obtain the optimal price and advertising effort over time. Parry, M.E. et al (2011) dealt with forecasting the adoption of innovative products. They examined the usefulness of a probabilistic neural network algorithm for forecasting new product adoption success and compared their approach with the standard forecasting methods. Devos, J. et al (2012) consider the problem of small- and medium-sized enterprises with their lack of IT proficiency and dependence on external IT expertise, and the role of information asymmetry in the acquisition of strategic IT.

This chapter explores the role of warranty covering misinforming risk in consumer's adoption of a new product. The increased complexity and multi-functionality of the products lead to an increased level of information asymmetry during the purchasing process, which may mislead customers in making their purchase decision. Often, the customer buys a product, which he/she doesn't need or pays for product features that are not needed and will never be used. On the other hand, new devices provide not only challenges, but also opportunities for extending the set of problems the customer may wish to solve with. Nowadays, every purchase of a new product requires deciding under uncertainty.

The risk of misinforming is caused by the information asymmetry in interpreting the message describing the product's properties and usability. It is based on the inability of the customers to acquire complete, accurate, and sufficient understanding regarding the features and constraints of a new product in the context of her or his personal problem domain.

Here, the role of warranty of misinforming is considered in an "ideal" case, when the consumer optimizes the purchase decision led by rational assessment of her/his needs, product's price and some supplementary costs. Also, in this "ideal" case, the product's quality is positively correlated with the product's price. Under these assumptions, the role of warranty during product adoption process is discussed by addressing the following questions:

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