New study shows it pays to shop around online

November 24 2008

Holiday shopping season has arrived, and tough financial times mean that more people will probably be shopping around for the best price. But a new study co-authored by North Carolina State University's Dr. Jonathan D. Bohlmann shows that shoppers who compare prices at multiple online retailers will not only find the best value, but will also likely contribute to driving down prices for that product at other retailers.

Bohlmann, an associate professor of marketing at NC State, explains that there are basically two types of shoppers: "switchers" and "loyals." Switchers compare prices from multiple online retailers, while loyals are committed to a particular store and don't bother with comparison-shopping. Bohlmann explains that the higher the number of switchers relative to the number of loyals – or the so-called switcher/loyal ratio – the higher the pressure a retailer faces to discount products in order to remain competitive.

However, it's not quite that simple. An online retailer doesn't only look at its own switcher/loyal ratio; it has to consider the ratios of its competitors. Bohlmann explains that a retailer with a high switcher/loyal ratio may keep prices high if its competitors have an even higher ratio. These ratios, and the size of the retailers, are all considerations that are taken into account when stores set their prices.

Retailers can have a variety of responses to increased pressure from switchers to discount their prices. For example, the study shows that some smaller retailers may try to focus on the loyal market – and higher prices – by avoiding price comparison Web sites and other tools used by switchers who shop around. Meanwhile, mid-sized retailers may take yet another approach, choosing to compete only against larger rivals – essentially trying to beat the big retailers' prices while still charging more than some smaller stores.

But all of this comparison-shopping could be bad news for those shoppers who are loyal customers of large retailers. The study's findings suggest that if there are a lot of switchers widely comparing prices, big stores should limit themselves to a few small discounts – since other companies are likely to offer more aggressive price incentives.

Reference: "Segmented Switchers and Retailer Pricing Strategies", Dr. Jonathan D. Bohlmann, North Carolina State University; Dr. Cenk Kocas, Sabanci University, Published: May 2008, *Journal of Marketing*

Source: North Carolina State University