

Growing online sales could lower prices, but also trim choices

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Shoppers could see lower prices but less variety to choose from as more manufacturers sell directly to consumers through the Internet, according to new research led by a University of Illinois business professor.

Yunchuan "Frank" Liu says bypassing retailers eliminates the middleman's price markup, but also may curb manufacturers' incentive to provide long and varied product lines.

"We should cautiously celebrate the price benefits of buying through the Internet because there's a tradeoff that some consumers might not like," Liu said of the findings, which will appear in *Marketing Science*. "There's some good news - low price. But there's also some bad news - less choice."

Contrary to past research, the [game-theory](#) study found that the traditional system of selling through retailers encourages longer - rather than shorter - product lines, which could dry up as manufacturers turn to direct sales online.

In stores, longer product lines help manufacturers overcome inefficiencies of selling through middlemen that have profit motives of their own, according to the study, co-written by University of Minnesota marketing professor Tony Haitao Cui. More products equal more chances to lure buyers and thereby increase sales.

But developing and producing longer product lines is costly and the

incentive wanes when manufacturers sell directly, which could ultimately leave consumers with fewer styles, colors and other options to choose from, Liu said.

He cited the more limited cosmetic varieties provided by direct-seller Avon in contrast to Estee Lauder, which markets a vast line of in-store products that offer sometimes subtle differences to match buyers' individual tastes.

"Over the next few decades, we could see a revolutionary change in the retail marketplace, with less variety in certain product areas, from cosmetics to computer equipment to cars," Liu said. "So consumers may be less likely to find products that most fit their needs."

He says the current [economic climate](#) is fueling a growing trend toward direct sales through the Internet. Selling online is less costly for manufacturers and also attractive to buyers because e-commerce generally charges no sales tax.

"The status quo is encouraging direct sales, largely because of the tax consequences," Liu said. "But that policy has shortcomings because it could lead to less variety, so policy makers should at least consider the potential negative effects."

Shopping could change radically over the next few decades if the trend continues, he said. Manufacturers could shift to almost exclusive online sales, with retailers turning to store brands to plug the holes in product offerings.

But Liu says a universal product migration from stores to the Internet is unlikely. Groceries may always be best marketed in stores, as well as products that people want to touch or test before buying, such as clothing.

"As things stand, though, the percentage of direct sales will keep increasing," he said. "How much depends on the product category. It may be lower in clothes, but higher for cars or computer software. It's already high for products like books, CDs and tickets. If the trend continues, people may end up longing for the good old days, when they had more choices."

Source: University of Illinois at Urbana-Champaign

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