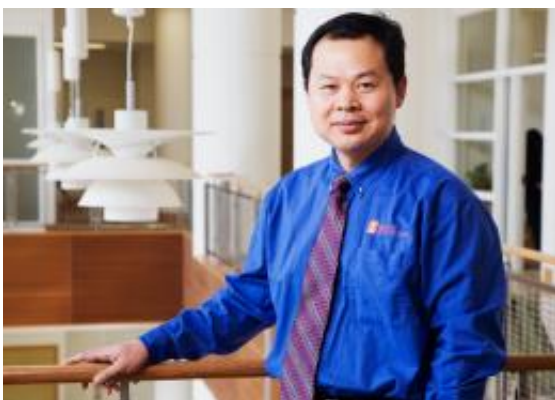


Online retail contributes to decline in product quality, study shows

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Yunchuan "Frank" Liu, a professor of business administration, says when manufacturers bypass retailers and sell directly consumers online, product quality can suffer. Credit: L. Brian Stauffer

(Phys.org) -- Consumers may revel in the convenience of online shopping, but the low prices on the Internet are often accompanied by even lower product quality, warns new research co-written by a University of Illinois business professor.

Yunchuan "Frank" Liu says when manufacturers bypass retailers and sell directly to consumers online, product quality can suffer.

"The research shows that there is a negative effect in that the quality of the product can go down," he said. "Although there are many positive

aspects to e-commerce, the issue of declining product quality is a very big negative, which could increase in significance in the future. This should be alarming to consumers and public policy makers who champion the convenience of online shopping.”

The study, which will appear in the journal *Management Science*, studies the effect of channel structures – that is, online versus offline channels – on the product quality of goods produced by manufacturers, said Liu, who co-wrote the study with Nicholas C. Petruzzi, a professor of business administration at Illinois, and Hongyan Shi, of Nanyang Technological University in Singapore.

Although shopping is more convenient than ever before, Liu says manufacturers have little incentive to produce high-quality goods when selling their wares online.

“In the traditional approach, manufacturers had to go through a ‘middleman’ to get their products to market,” Liu said. “If consumers purchase goods through a retailer, they have to physically drive to the shop, talk to a salesperson and compare it to the competition. Compared to an online transaction, where the consumer is pretty much relying on information supplied by the manufacturer, the purchase of a product at a bricks-and-mortar store is complicated.”

So how can retailers ensure that their products survive this complicated purchasing process? The answer is that the product quality has to be really good, Liu says.

“If you sell a lousy product, consumers will not be willing to drive to retailers,” he said. “That’s why your product quality has to be really, really good.”

For example, before the advent of the Internet, if you wanted to buy a

computer, you had to drive to an electronics store. With the Internet, “you can buy one directly from Dell, which is very convenient for consumers – they can shop from home, and the prices often are cheaper than at an electronics store,” Liu said.

But then there’s the issue of product quality.

“Dell computers have a reputation for being cheap but of low quality,” Liu said.

The study warns against the “Dell-ization” of other online goods.

“In the Internet age, many people believe the traditional way of doing retailing is too old-fashioned,” he said. “But in this case, the traditional retail channel still has a lot of value, because there’s a lot of incentive for manufacturers to produce high quality products when they know they will be displayed on a shop floor and tested by consumers before they’re purchased.”

According to Liu, out of the most highly successful traditional retailers, none sell directly to consumers, which, for consumers, turns out to be a bulwark against declining product quality.

“If you’re talking about clothing, prices are higher at the older department store chains but the product quality is usually very high,” he said. “However, if we look at the direct channel manufacturers – that is, the factory outlet stores, the direct-to-channel outlet manufacturers – the price is lower but the [product quality](#) is not high.”

According to Liu, there are two types of consumers: Those who care about quality over price, and vice versa.

“The latter type of consumer wins with the advent of e-commerce,

because they don't care about quality – they only like low price,” he said. “But the first group of consumers are hurt, because quality as a whole is dragged down by manufacturers who cater to the Internet.”

For consumers, the take-away from the research is simple: “If you want a high-quality product, buy from a physical store,” Liu said. “If you want the cheapest possible price, buy through the Internet.”

Although the reports of the demise of traditional retailers have been greatly exaggerated, Liu says they can survive and even thrive in the e-commerce age by playing up the quality angle to consumers.

“Since they're not going to win in a price war versus the Internet bricks-and-mortar stores not only need to stock high-quality products, they need to let [consumers](#) know that they can out-compete the Internet with the quality of their products.

”As the saying goes, you get what you pay for.”

Provided by University of Illinois at Urbana-Champaign

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