Study finds only one type of consumer dictates price

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It's commonly assumed that the supply-and-demand economics of the consumer marketplace dictates price. If you are one of few retailers that sells a product consumers want, you can charge more. If supplies of that product are more scarce, prices will likely be higher. On the flip side, if supplies are plentiful for a product that is in less demand, prices for that product are likely to be lower.

But researchers have found it's not always that simple. Thanks to the internet and e-commerce, more consumers have taken advantage of going to a physical store to inspect items before purchase, leaving that store, and then purchasing the product at a lower price elsewhere. This is called "showrooming."

This has led to several assumptions in the retail industry, from the thought that showrooming will put brick-and-mortar retailers out of business, to the notion that the showrooming trend has driven prices down across the board. A new study has found these may both be false.

The study, titled "Search, Showrooming, and Retailer Variety" and published in *Marketing Science*, is authored by Heski Bar-Isaac of the University of Toronto and Center for Economic and Policy Research in London, and Sandro Shelegia of the Center for Economic and Policy Research in London, Pompeu Fabra University and the Barcelona School of Economics.

"Showroomers do their research in advance," says Bar-Isaac. "They know what they want, they already know what that retailer may charge, and they go to stores with more limited or shallow selections in search of a better price."

"Through our research and our models, we contrast three varieties of retailers, relevant when consumers are initially uncertain as to which is the best fit," says Bar-Isaac. "The first is a retailer that offers more choice through a deeper selection. The second is the retailer that offers less choice, or a more shallow selection. Alternatively, an online channel may provide little opportunity to assess fit, even if there is a deep selection."

The researchers found that the first type of retailers, those with deeper selections, tend to hold to higher prices because they know that once a consumer enters the store, they will likely find the best fit and make a purchase.

This means that the one consumer most likely to actually influence price is the not-so-choosy consumer who starts off by visiting a shallow store and expects that they will make a purchase once they get there, as long as they can find a sufficient fit. If they don't find an acceptable fit, they will move on.

"This group of consumers is the only one in the economy that compares prices," adds Bar-Isaac. "The size of this group is large enough that it plays a key role in price determination."

The study authors conducted extensive literature research and analyzed a range of models to draw their conclusions.

"Still, most consumers are not as likely to search more than one store to look for the perfect match and a lower price," says Bar-Isaac. "This helps ensure that stores we have dubbed 'shallow' are more likely to sell a higher volume of a given product at a more competitive price, while stores we've dubbed 'deep' are more likely to sell their products at a higher price, oftentimes to more selective consumers."

More information: Heski Bar-Isaac et al, Search, Showrooming, and Retailer Variety, *Marketing Science* (2022). DOI: 10.1287/mksc.2022.1376

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