

DO CONSUMERS SHOP ENOUGH BEFORE PURCHASE?

Roger J. Best
University of Oregon

John F. Cady
Harvard University

George C. Hozier, Jr.
Washington State University

In many markets, branded products such as prescription drugs, eyeglasses, appliances, cookware, toys and other products are distributed extensively through a variety of types of retail outlets. Shopper search for such goods is made easier by the fact that a particular manufacturer's brand does not differ from one store to another among the stores that merchandise it. However, because the prices for a given brand of product can vary substantially from store to store, economists and marketing researchers have been intrigued and consumerists and public policy makers perplexed by the limited amount of prepurchase search that is exhibited by shoppers for these types of goods. This disinclination of shoppers to engage in greater prepurchase search raises an important question. Are shoppers behaving in their own best interest by visiting relatively few stores prior to purchase?

In this study we have used the technique of computer simulation to examine this question. An information processing heuristic was created such that a shopper would act in their best interest on any given shopping trip. This heuristic was then used to examine the cost efficient behavior of shoppers as the market environment was varied in terms of price distribution, advertising influence, and shopper utility for extended shopping.

Using this methodology we were able to make three observations about the question, do consumers shop enough before purchase? First, our results would infer that shoppers are efficient in their prepurchase search. Amounts of search observed in this study were in good agreement with empirical results. Extended search under normal market conditions would be dysfunctional in that the total cost of search would be disproportionately greater than the incremental price savings accrued from greater search.

A second observation relates to the effect created by regulated advertising. In this study we show that the average shopper benefits by a lower price paid and lower total cost of purchase when regulated advertising is replaced with free-market advertising.

And finally, a third observation has to do with the effect created by consumerist advertising. Though the spirit behind such advertising is in the best interest of shoppers, ignoring the price structure of the market and the shopper's utility for search can motivate a dysfunctional shopping effort in which a greater total cost of purchase is incurred by the average

shopper. In half of the market conditions examined, the average total cost of purchase was lowest under a free-market condition. However, when market prices were negatively skewed and/or shopper utility for search was high, then consumerist advertising served to lower prices paid and the total cost of purchase. Therefore, to summarize, this study infers that shoppers are cost efficient in their prepurchase search, regulation of price advertising increases prices paid and the total cost of search, and consumerist advertising is most beneficial in lowering the total cost of shopping when market prices are negatively skewed.