

## **Why Online Buyers Don't Shop Around**

by Kyle B. Murray

In the early days of e-commerce pundits predicted that the ease with which an on-line shopper can travel from one internet retailer to the next would reduce consumer loyalty and force retailers to compete on price, pushing profit margins to the floor. In contrast to these predictions, recent research suggests that online consumers are engaging in only limited search and comparison shopping. In fact, the majority of online shoppers make their purchases at the first site that they visit. Even for easily comparable items like books and CDs, internet consumers are not shopping around. A team of researchers led by Eric Johnson at Columbia University has found that the average number of on-line stores searched before a CD is purchased is 1.1, and that 70% of CD and book shoppers are loyal to a single site. One explanation for such high levels of loyalty may be that prices on the internet are all very similar, so comparison shopping is not worthwhile. However, research by Eric Brynjolfsson at MIT and Michael Smith at Carnegie Mellon University found that on-line consumers tend to make purchases from higher priced vendors even for homogeneous products such as CDs and books. In other words, by shopping around buyers could pay less for the products they are buying on the web.

Why are online shoppers exhibiting such high levels of loyalty and failing to search for alternative vendors? The evidence suggests that the explanation for this type of loyal behaviour lies in a fundamental type of learning - learning by doing. Over time and through experience we acquire the skills we need to survive and thrive in the world. While novel tasks often require a concerted effort, over time, and with practice, many behaviors that were initially very demanding become routine. As a result, the demands of the task are diminished and resources can be allocated elsewhere. Learning to drive is a good example of this phenomenon. While initially operating an automobile can be quite demanding, with practice many of the required skills become automatic. Similarly, using a computer to type a letter or to shop for a new CD can be intimidating to a novice user; yet, experienced users find the operation of a word processor or the navigation of an online store to be a relatively simple task. The ability to learn from experience is a fundamental aspect of human existence.

However, when behaviour is automatic and the environment changes, the difficulty of the task and the potential for error can increase dramatically. Driving on the right-hand side of the road, for example, becomes routine very quickly when one learns to drive in Canada. As a result, Canadians renting a car in England, where they must drive on the left-hand side of the road, find the task of driving more difficult and tend to avoid it when possible. In this way, learning by doing can result in the development of preferences for behaviour to which acquired skills can be applied. Another example can be found in the realm of online shopping. Once a consumer has learned to buy a CD at one online store, it is easier to continue shopping for CDs at that store than it is to learn to use another store.

Economists have studied the acquisition of consumption related knowledge and skill as a type of human capital. They argue that developing skills specific to one brand (product or service) results in a preference for that brand relative to other competing brands, even when the consumer is aware that some of the other brands are equally useful and can be acquired at a lower price. Furthermore, the development of such user skills reduces the consumer's incentive to switch brands or to search for alternative brands even in environments where the cost of search is zero.

The World Wide Web is a conducive environment for this type of automated consumption because a great deal of online activity lends itself to automatic behaviour. For example, retrieving stock quotes, scanning news headlines, researching product information or checking bids at an online auction can all quickly become routine. In fact, the ability to quickly complete such tasks is one of the primary advantages of the internet. A large portion of internet users can be described as Simplifiers - i.e. users whose primary goal is to simplify their lives and save themselves time. A study by the consulting firm McKinsey & Company found that simplifiers account for 29% of internet consumers and over 50% of all online transactions.

In addition, it appears that the number one predictor of buying behaviour online is the amount of discretionary time internet users have. A survey conducted by researchers at the Wharton School (University of Pennsylvania) surveyed 10,180 internet users on a number of issues related to web-based activity. With regards to internet shopping they concluded "that Web consumers shop online or use online services to save time . . . convenience rather than cost savings, may be a key benefit offered by successful online stores." This fact has not been lost on the leading dot com companies. The battle between Barnes and Noble and Amazon over Amazon's one-click technology is an excellent example of the importance being placed on the ability to simplify consumers' lives in a proprietary manner.

Since the early days of e-commerce, an argument has been made for the importance of developing a user base at the expense of short-term profitability. One of the primary advantages of building a large user base is that once a buyer has committed to using a particular brand they become predisposed to that particular brand and are much less likely to search for alternatives or switch to competitors. The importance of developing an installed base of users is evident in the fundamental role played by the growth over profit approach in the early business models of many of the web's leading companies from Yahoo to iVillage and from Amazon to WebMD. Amazon was particularly focused on growth in their formative years. As the story goes, shirts were distributed at the company picnic that read "Get Big Fast" on the front and "Eat Another Hot Dog" on the back.

There are three key conclusions that arise out of this research. First, with practice skills are acquired that reduce the time and effort required to complete a task - whether that task is driving or buying a book online. Second, economic models of human capital indicate that this reduction in task-completion time has an economic value such that as practice with a particular website increases the cost of using that interface decreases. Third, as the cost of use decreases the user's

preference for the incumbent interface increases, relative to competing interfaces. As a result, organizations that have developed a customer base accustomed to using their brand have a competitive advantage. Buyers are not as willing to switch to competing products as previously believed, even when the competitors may be less expensive and the cost of finding those competing products is low.

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