



The role of the Internet on free-riding: An exploratory study of the wallpaper industry

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ABSTRACT

This study discusses the role of the Internet on possible free-riding activities for product categories where retail services are a critical part of the completed consumer purchase transaction. The study investigates free-riding in terms of consumer pre-purchase activities during the information search stage (how they process shopping information) and actual purchase decisions with a literature review. The study's empirical findings indicate that full-service retailers' beliefs about online consumers' choice of purchase outlet are predominantly influenced by online retailer prices rather than availability of a variety of products (place) on the Internet. This, in turn, indicates the possibility of strong free-riding opportunities in the sample wallpaper market. The study, in this context, proposes strategies and policies to eliminate many of the destructive effects of the opportunities for free-riding provided by the Internet for long-lasting channel and market effectiveness and efficiency.

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1. Introduction

Retail services such as the availability of “trained consumer service personnel”, “clear product-specific information”, “product installation support”, “retail showrooms”, “manufacturer advertisement support”, and in some situations even “product availability” can become a determining factor in the consumer decision-making process (Carlton and Chevalier, 2001; Fiala and Westrich, 2007; Elzinga and Mills, 2008). Such retail services can be considered a fundamental part of the completed consumer purchase transaction and the cost of these services is naturally included in retail prices, but not the net manufacturer prices² (Carlton and Chevalier, 2001; Labaton, 2007). The retailers who provide these retail services are generally termed “full-service retailers” (Singley and Williams, 1995) in contrast with what we will call “limited” or “no-service retailers.”

However, some consumers may take advantage of the aforementioned retail services offered by a full-service retail store during the pre-purchase decision stage, and then purchase the preferred item where it is discounted—aka “free-riding” (Cady, 1982; Fabricant, 1990; Singley and Williams, 1995; Carlton and Chevalier, 2001; Fiala and Westrich, 2007; Shin, 2007; Elzinga and

Mills, 2008). Such arbitrary behaviors are uncompensated by full-service retailers (Cady, 1982; Singley and Williams, 1995) and may cause failure of the distribution channel as also indicated as follows:

Because the low prices, non-service retailer can free-ride on the information provided by the high price, high service retailers, the incentive to provide services will decline. Eventually the distribution system will fail because not enough service will be provided to attract customers (and indirectly) support non-service retailers (Fabricant, 1990: p. 105).

In today's markets, consumers use online and offline multi-channel options with different capacities during their “shopping” and “buying” processes (Jindal et al., 2007; Konus et al., 2008) in the pre-purchase, purchase and post-purchase stages (Frambach et al., 2007; Shin, 2007). Some consumers use the Internet as an information source, but make purchases offline (Rangaswamy and Van Bruggen, 2005; Verhoef et al., 2007) or vice versa (Van Baal and Dach, 2005). A recent research study indicated that over 20% of consumers are free-riders on the Internet (Van Baal and Dach, 2005). This indicates the increasing role of the Internet on free-riding behaviors. Also, free-riding activities might be more intensive in product categories where non-digital product attributes (such as taste or feel) play a crucial role in consumer decision processes (Lal and Sarvary, 1999). This, in turn, indicates the potential for rising rates of free-riding for service-providing retailers. Thus, the risk of free-riding increases for retailers where “retail service” becomes a fundamental element of the product in

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² Some marketing allowances may reward retailers who perform these functions.

a market (Fiala and Westrich, 2007; Elzinga and Mills, 2008), especially when there is high price sensitivity in the digital markets.

Although free-riding on the Internet was previously investigated in terms of “product availability and pricing” (Carlton and Chevalier, 2001) and “consumer retention rates” (Van Baal and Dach, 2005) in different product categories, to our knowledge there is no published study investigating online free-riding activities from the perspective of full-service retailers in terms of differences in consumers’ pre-purchase and actual purchase decisions. There is also no other study that investigates possible free-riding activities from full-service retailers’ point of view and consumer complaints. As a result, there is a need to discuss the possible role of the Internet on free-riding activities for full-service retailer operations in industries where product services are a fundamental part of the completed consumer purchase transaction. Therefore, this study is a first step in the direction of filling this missing link in the literature.

Our discussion proceeds as follows. First, consumers’ pre-purchase and purchase decision making processes are discussed within the context of available free-riding literature, and the study’s hypotheses are developed. Investigating these hypotheses is completed using a survey of retailers and a content analysis of consumer complaints about online retailers. Wallpaper full-service retailers are surveyed and interviewed to understand the role the Internet plays on free-riding activities within the industry. Consumer complaints about discount online wallpaper retailers during the post-purchase stage are also analyzed to determine whether theories provided by managers about why consumers were buying online were supported by consumer complaints. Finally, the findings are summarized along with possible managerial implications. The latter include practices and policies that have been proposed to eliminate the destructive effects of Internet free-riding in the markets. The study’s limitations are also addressed.

2. Free-riding and the Internet

In general, service-providing retailers incur opportunity costs when store and sales personnel lose sales from a possible buyer while assisting a free-riding customer (Singley and Williams, 1995; Van Baal and Dach, 2005). This lowers retail sales, service personnel earnings, owner/salesperson morale (Singley and Williams, 1995), and, eventually, reduces the average service level in full-service retail stores (Tang and Xing, 2001). Such negative free-riding effects lower profit, and thus manufacturer demand, when omitted services are critical to the completion of a transaction. In an effort to reduce and control such negative effects, manufacturers might prefer not to make their products available on the Internet or limit the distribution of their products to online retailers (Carlton and Chevalier, 2001). Or, alternatively, retailers and manufacturers might prefer to limit necessary retail services in order to compete with online free-riders. All of these aforementioned scenarios might dangerously damage consumer satisfaction as well as manufacturer’s and full-service retailer’s market share in markets where product services are an essential part of the product offering. In these cases, free-riding activities might have destructive effects in industries where retail services are important to the long-term viability of the product.

The conceptualization of the free-riding phenomenon is crucial to reach better and fair functioning markets especially with the recent developments on the Internet. Recently, Shin (2007: p. 499) discussed the problems created by consumers’ online

free-riding behaviors as follows:

Customers increasingly purchase products from online retailers, which limits their ability to judge the quality of the products they buy. The prevalence of online shopping has made uncertainty about product quality a significant customer concern. Online shoppers therefore might use offline stores to resolve their quality uncertainty by physically touching and inspecting the product. In such environments, the free-riding problem becomes a substantive issue for traditional bricks-and-mortar store.

Shin (2007: p. 498) discusses free-riding in terms of the changes in consumers’ pre-purchase and actual stages on the Internet as follows:

Free-riding occurs when all the presale activities needed to sell a product can be conducted separately from the actual sale of the product.

In light of the aforementioned discussions, free-riding can be defined if consumers take advantages of full-service retailers’ in-store consumer services at the pre-purchase stage, but purchase the chosen item from discounting online retailers at the actual purchase stage. Thus, it is necessary to understand how and in which capacity consumers are utilizing the Internet for pre-purchase activities, and how they process shopping information in the information search stage and actual purchase stage during a simple consumer purchase decision process in online markets.

2.1. Pre-purchase consumer decisions role

During the pre-purchase stage, consumers generally look for information about product quality, features and services (Product), possible price options (Price), and availability of the product in different types of stores to get the product easily (Place), thus maximizing the chance of reaching a better value.

Although the availability of product information on the Internet is plentiful, some consumers might become intimidated by the wide variety of options (Huffman and Kahn, 1998), and may need assistance in using this information to select the right product to fit their needs. Although some consumers may develop their own information filtering processes with the support of online sources and communities (Kucuk and Krishnamurthy, 2007), consumer ability to judge product quality can be limited especially for first time buyers in product categories. Consumers may choose to visit full-service offline stores for assistance to reduce product quality uncertainty (Shin, 2007). This, in turn, might increase consumer free-riding behaviors stimulated by consumer psychological costs such as information overload on the Internet. Such free-riding and search costs can also vary in different product categories on the Internet. For example, if the product has more digital attributes (a consumer can listen to CD samples on the Internet before purchasing the CD), the consumer can do his or her online shopping without visiting full-service stores. However, if the product has more non-digital attributes, the consumer must visit the full-service retail store to test taste, color, and fit or to physically inspect the quality of the product (Lal and Sarvary, 1999). This increases the possible risk of free-riding for full-service retailers. Although this free-riding activity might work the other way around (using online information to shop and then buying from bricks and mortar discounter), this study’s focus will be on the first scenario. Thus, a research question can be developed as follows:

R₁: Is online product information a major determinant in consumer purchase decisions in online buying?

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