The Overlooked Benefit of Consumer Showrooming for a Physical Retailer

by

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Abstract: One common view about consumers’ ability to do showrooming is that it hurts a physical retailer’s profit because it drives demand from the physical retailer to other e-retailers. Our study shows that such a view holds true when the supplier does not respond to consumers’ ability to do showrooming by updating the wholesale price for the physical retailer. If she does, she may either reduce or raise the wholesale price, of which the latter choice may exploit the physical retailer’s deterrence of showrooming. Interestingly, although consumer showrooming itself drives demand away from the physical retailer, it prevents the supplier from charging a higher wholesale price to drive demand away from the physical retailer when the supplier becomes more cost-efficient in salvaging returned products. Such supply-side benefit of consumer showrooming for the physical retailer – the salvage-loss-blocking effect – might eventually lead the physical retailer to be better off with consumer showrooming. Our study also identifies an adverse supply-side effect of consumer showrooming – the offline-improvement-exploitation effect – which hinders the physical retailer’s strategic incentive to reduce consumers’ offline shopping cost. It indicates that the supplier will capture all the benefit of reducing consumers’ offline shopping cost once the cost drops below a threshold. We show that the physical retailer can regain his benefit from reducing consumers’ offline shopping cost by replacing the wholesale contract with the agency contract – an example of mitigating the adverse effect of consumer showrooming by altering the supply chain contract.

Bio: Lin Hao is an Acting Assistant Professor in the Department of Information Systems and Operations Management at the University of Washington. He received his Ph.D. in Business Administration with a concentration in Information Systems from the Michael G. Foster School of Business at the University of Washington in 2012. His research portfolio currently focuses on the platform economy and online retail. He is also interested in broad issues concerning revenue models in emerging IT markets (e.g., digital gaming). His work has been published in top academic journals such as Information Systems Research, MIS Quarterly, and Production and Operations Management. Prior to joining the University of Washington, he has taught business analytics courses including Business Intelligence, Data Mining Tools and Techniques 1, and Predictive Analytics in the Mendoza College of Business at the University of Notre Dame. He received the James Dincolo Outstanding Teaching Award from the University of Notre Dame in 2014.