"Showrooming" and the Competition between Store and Online Retailers

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Abstract:

Customers often evaluate products at brick-and-mortar stores to identify their "best fit" product but buy it at a competing online retailer. This free-riding behavior by customers is referred to as "showrooming." We analyze three strategies brick-and-mortar stores could use to counter the effect of showrooming: (a) price matching, (b) creating an exclusive assortment so customers benefit less from showrooming, or create unique barcodes to increase the cost of product-matching, and (c) charging customers a fee for showrooming. We show that Strategy (a) is effective in improving profits only when the fraction of customers who seek price matching is high enough. Our analysis suggests that Strategy (b) is effective, and having an exclusive assortment is superior to having unique barcodes when product has more digital attributes. This explains why Macy's finds the assortment differentiation effective and Costco uses unique barcodes to minimize showrooming. Strategy (c) can be implemented through an access fee, such as a parking charge, which is refunded only when store visitors purchase a product. We find that to maximize their profits, brick and mortar stores do not set a fee that is so high that it discourages everyone from showrooming.

Speaker's Profile:

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