Chapter IV

Objectives of Search and Combination of Information Channels in Electronic Consumer Markets: An Explorative Study

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Abstract

Internet-based commerce is expected to radically affect many consumer markets. Present knowledge of the forthcoming transformations is based largely on the principle of value maximization; in standard economic theories of search, consumers are assumed to be both able and motivated to rationally weigh the costs and benefits they expect to ensue from search. High search costs are offered to explain why consumers evidently do not fully inform themselves about the available options. Electronic media are expected to lower search costs and, thus, radically enhance consumer search. However, little empirical evidence exists in support of these assumptions. The combination of information sources consumers prefer to use is largely unexplored in relation to electronic information sources. Likewise, our knowledge of the objectives related to the procurement decision that leads consumers to adopt electronic sources for product
information is still lacking. In this chapter, we examine the determinants of using Internet-based information sources, particularly the World Wide Web.

**Introduction**

The existing literature on consumer search in electronic markets focuses on the hypothesized increase in accuracy and the extent of product comparison leading to enhanced market functioning. Alba et al. (1997) propose that interactive home shopping (IHS) environments provide consumers with easy access to a radically greater number of alternatives and, thus, may help them to make better procurement decisions. Bakos (1991, 1997, 1998) argues that electronic consumer markets will facilitate product comparison to the extent that the ensuing price competition will render electronic markets more efficient than their conventional counterparts. Whinston et al. (1997) propose that simultaneous, rather than sequential, search strategies may enable buyers to execute more efficient product information searches on the Internet.

Accuracy of consumer decisions has been central in previous academic efforts that focused on product information search. Thus, the benefits of electronic markets have been largely defined in a decision space of at least two dimensions: price and product attributes. Tools such as comparison matrices (Haubl & Trifts, 2000) and software agents (Vulkan, 1999) are being developed to assist buyers in product comparison. Despite these developments, there has been little empirical evidence in support of the hypothesized positive effects of electronic markets. Brynjolfsson and Smith (2000) find substantial price dispersion in electronic markets for books and CDs. Clemons et al. (1999) observe a similar pattern in the electronic markets for US domestic flight seats. Lee (1998) detects higher prices for second-hand cars in electronic markets than in conventional markets. Examination of DealPilot (later EvenBetter and DealTime), a software comparison tool (Brynjolfsson & Smith, 1999), indicates that even price-conscious buyers factor other attributes beside price into their buying decisions. Furthermore, Brynjolfsson and Smith (2000) propose that the service component (e.g., logistics) is inherent in electronic retailing and may enable sellers to differentiate even commodity products.

In conclusion, it could be argued that, to date, electronic markets have had little observable impact on the efficiency of consumer decisions. However, consumer decision making involves more than just solving procurement and consumption problems. Bettman et al. (1998) propose that construction of consumer decisions may, in fact, constitute more of the search process than decision making. They
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