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### A tale of two stores

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# A TALE OF TWO STORES

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*Customised and personalised online shopping brings benefits to consumers and profits to retailers*

Despite the lack of a human touch, the online shopping experience can be considered as a personalised one – you create a shopper’s account by filling in your contact and credit card details, browse for the items you intend to buy, save them in a shopping cart, proceed to check out by confirming your purchase and receive your shopping in the US from within hours of your purchase, the next day or the week.

If you decide to leave the shopping site without making a purchase despite having items saved in your shopping cart, the online retailer may send you a reminder via email, encouraging you to complete the shopping. On other days, you may receive email notifications of sales, promotions and items that complement those you have selected or browsed on its site previously.

“Online retailers can see all the actions of the consumers when they shop on their websites. These retailers know how consumers search for products, the items that they are they considering to buy and track their behaviour all the way to the purchase,” says **Kevin R. Williams**, Assistant Professor of Economics, Yale School of Management. He presented a paper he co-authored entitled *Product Variety, Across Market Demand Heterogeneity, And The Value Of Online Retail* in Singapore Management University recently.

“Such information is great for online retailers, enabling them to figure out demand. Based on what consumers do on the shopping website, online retailers can tailor the emails consumers receive and this is great for their business.”

Online retailers typically have lower storage costs and do not require costly retail space. Additionally, they are able to serve a much larger geographic market than a traditional brick and mortar store. As a result, online retailers are able to stock tens or hundreds of thousands more products, each with longer holding periods.

“If you look at the sales distribution across products of an online retailer, it turns out that it has many products and thousands of them have very little sales. But if you add up all of these small sale items, it’s a big number, suggesting that there is a lot of value to this,” says Williams.

“Some consumers may demand varieties that differ from what is popular in their local markets. As a result, they wouldn’t be able to find their preferred product locally, but could online.

“Since online retailers carry so many products, they are, in a sense, able to cater to the demand of consumers with niche or less popular tastes.”

Online retailers are therefore able to cater to demand even with different preferences by people living in the same building.

“Online retailers need not worry about where the demand will be coming from as they are going to capture it. While the most popular products usually correspond to the ones that are most profitable, for online retailers, additional profits come when they sell a bunch of products in different locations, even if the items may not be popular in any one location,” says Williams.

## THE ‘LONG TAIL’ OF ONLINE RETAIL

Drawing from Anderson C’s article entitled ‘The Long Tail’ published in *Wired Magazine* in 2004, the paper describes the ‘long tail’ of retail as “a shift in the distribution of revenue toward niche, or tail, products. The prevailing view is that the long tail pattern has emerged because niche products better satisfy the tastes of consumers.

"That is, the tail is driven by consumers that switch from purchasing hit products available at their local brick-and-mortar retailers, to purchasing niche products only available online. Thus, the fact that niche products generate increasingly significant revenues has been interpreted as evidence of large welfare gains from variety.

Williams explains further: “The long tail of online retail has a component that's driven entirely from aggregation of demand across local markets. When we look at geographically disaggregated data, people in different areas in the US really want different products. A particular pair of shoes may be very popular in Los Angeles and a particular pair of boots may be in demand in New York but they are not generally fast moving products and generate few sales online. If you add these up across different areas in the country, you get the long tail that people have been talking about for years.”

For brick and mortar retailers, their knowledge of the local consumer and the community enables them to stock products that will sell well. At the stores, consumers can see and touch the items and make informed and immediate purchases. These retailers are normally successful in selling staples and perishable goods like fresh produce and food, as well as popular items in the books and apparel categories for example.

So what is next for online retail?

“Going forward, I see online retailers working on providing better suggestions that reduce consumer search cost. This will help reduce choice overload, that many consumers experience when searching through so many products,” concludes Williams.

In addition, online retailers such as Amazon have started to open stores on university campuses in the US, such as in Purdue University, where students can buy university-related merchandise online and collect their purchases in the store on campus, which enhances their shopping experience.