

MISQ Archivist

Consumer Pseudo-Showrooming and Omni-Channel Product Placement Strategies

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Abstract

Recent advances in information technologies (IT) have powered the merger of online and offline retail channels into one single platform. Modern consumers frequently switch between online and offline channels when they navigate through various stages of the decision journey, motivating multichannel sellers to develop omni-channel strategies that optimize their overall profit. This study examines consumers' cross-channel search behavior of "pseudo-showrooming," or the consumer behavior of inspecting one product at a seller's physical store before buying a related but different product at the same seller's online store, and investigates how such consumer behavior allows a multichannel seller to achieve better coordination between its online and offline arms through optimal product placement strategies.

We develop a stylized model in which a multichannel firm offers a product line consisting of two horizontally differentiated products. Consumers are uncertain about the true value of either product. A consumer's uncertainty regarding a particular product's value is fully resolved after inspecting that product in person, and can also be partially resolved after inspecting the other related product. By selling only one product through the dual channel and the other product through the online channel exclusively, the firm induces consumer pseudo-showrooming for the online exclusive product. Our analysis shows that this product placement strategy generates a greater profit than selling both products through the dual channel, if the fit probability of individual products and consumers' cost for returning a misfit product are both in the intermediate range. Moreover, we find that over a large parameter region, consumers also enjoy a greater total surplus under the firm's product placement strategy that induces consumer pseudo-showrooming. Furthermore, we find that the firm garners the most benefit from inducing consumer pseudo-showrooming by selling the higher-quality product or the higher-demand product through the online channel exclusively. Collectively, our study offers a compelling demand-side justification of the commonly witnessed practice among multichannel sellers to offer products online exclusively when offline selling is feasible.

Keywords: Pseudo-showrooming, fit uncertainty, product placement strategy, omni-channel strategy