The Impact of Assortment on Store Choice, Price Search, and Retail Prices: Theory and Evidence from the Online Book Industry

By

Dr Xubing Zhang

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All interested are welcome
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ABSTRACT

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This research examines the impact of (the depth of) assortment on store choice, price search and retail prices, both theoretically and empirically. The author argues that when consumers do not know the actual availability of products of their interest in the stores, they likely use assortment as cue. Consequently, they tend to go to stores with large assortments for a higher (perceived) availability, and once having entered such a store, they unlikely search for lower prices at other stores, which allows the store to charge premium prices, even when the products are widely available. The author further argues that this effect of assortment can be different for different products or categories. Analysis of data from the online book industry in 2004 shows that booksellers with large selection charged higher prices, even after controlling for store fixed effects, and that the price premium was higher for unpopular obscure titles, even when they were widely available. The different effects of assortment on prices are well explained by the proposed theory, but not by alternative explanations.

Key Words: assortment, product availability, store choice, price search, variety