

**INNOVATORS
(NOT NECESSARILY FIRST MOVERS)
WILL WIN THE WEB!**

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I have read a number of articles lately where the Internet pundits and gurus have been shouting for businesses to “Get in now! Or else!!” The claim is that Web-based businesses will grab hold of both the experienced surfer and the throngs of neophytes that join the action daily. Once safely in the fold, the argument goes, people will relax and become contented with the business relationships they develop and remain steadfast loyal consumers, who provide tremendous profits for years into the future. My reaction can be summarized in a short two-letter acronym, B.S. The power of the Internet user to easily explore new and different offerings puts long-term relationships between businesses and their customers on very tenuous grounds.

For years economists have told us that the amount of information a consumer gathers will increase until the marginal cost of obtaining more information exceeds the marginally benefit provided by the sought after information. Put more plainly, we will only search for more information about products until the cost of the added search is greater than the likely increase in value. For example, if we find a CD player we want at Bob's Electronics we will only check out Cindy's House of Audio if we think we will save more going to Cindy's than the cost of the time and gas needed to get over there. If our time is worth \$15/hour and a gallon of gas costs \$1.00/gallon we would not undertake the hour-long round trip that uses two gallons of gas unless we could expect to save more than \$17.

Consumer researchers have shown this to be the reason that, even for important durable goods, purchasers tend to only shop a very small number (often one) of retail outlets. And if you are buying a relatively

inexpensive item, it is rare that any additional search will take place. With the Internet however, all bets are off because the costs of searching for information is falling fast and may someday approach insignificance. Consumers will then be able to choose the product with the best combination of price and other characteristics and features from a set which includes all the available alternatives. Especially with undifferentiated products, (like the latest REM CD which will sound exactly the same no matter where it was purchased), low search costs produce an ability to assess and compare a large number of offerings. Search agents are already available which will undertake the comparison of prices from a list of Internet retailers. If price is the only characteristics of importance, the Internet user can search a wide array of sources and find the supplier who is willing to cut the best deal. And even where factors other than price provide the basis for choice, findings outlets that meet an individual's criteria will be only a few clicks or keystrokes away.

While the Internet changes Marketing dramatically, most principles still apply. Where good profits exists discounters will enter the market with lower cost goods. Current firms will have to lower prices or increase the service offerings to maintain business. The speed with which consumers can comparison shop assures that incumbent business, even E-Commerce business, will have to be prepared to drop prices or innovate no matter how long they have been a presence on the Net.

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