What’s in Your Cart?

E-commerce offers infinite variety and rock-bottom pricing. But sometimes it offers much less than you bargained for.
These days, you can buy low-cost goods online directly from manufacturers, skipping the middleman entirely. But this new brand of retailing hasn’t changed one of the fundamental truths of economics, according to a new research paper from the College of Business. “You still get what you pay for,” sums up Nicholas C. Petruzzi, associate professor of business administration and co-author of the new study. In other words, if the price is cheap, you may get a cheaply made product, he says.

Petruzzi collaborated with Frank Liu, associate professor of business administration, and Hongyan Shi, a former graduate student now at the Nanyang Technological University in Singapore. The paper, scheduled to appear in Management Science, casts new light on the evolution of retailing in the digital age.

“This research points out some of the negatives about e-commerce,” says Liu. “The consumer can get low prices, but the manufacturer may have less incentive to provide quality.”

He cites Dell, a direct marketer of computers, as an example of the trend. “Dell’s business model was not possible before the Internet, when the manufacturer had to sell through retailers and could actually see what they were buying. But then came the Internet. The manufacturer could say, ‘I don’t have to sell through the retailer. I can offer a low price. Plus, I don’t have to work as hard to provide quality.’”

But if low price and convenience are the consumers’ primary objectives, then they may be completely satisfied with this business model. Liu cites his own experience. “When I was a student, I was really happy buying cheap Dell computers. I didn’t have the money to buy an expensive computer, and quality wasn’t my first concern. But that changed over time for Liu, as it does for many consumers. For some, it’s a matter of more financial resources, for others, it’s a choice that for certain purchases, whether that’s technology products or designer jeans, quality matters more than price.

And when that’s the case, consumers do have an option—the bricks-and-mortar store. The price may be higher, says Liu, but so may be the quality. That’s because not only can you see the product for yourself, but the retailers who stock it in their stores have also vetted that merchandise. You pay a price for having the middlemen, not only because they provide a place where you can try on or try out the products but because they have expectations that manufacturers must meet for products to be carried in their stores.

**THE RIPPLE EFFECTS OF LOW PRICE**

Still, many want the low price, with two factors driving this trend. One is the desire to have more stuff. Some consumers would rather have two pairs of cheap jeans for their money than one more costly but higher quality pair, says Petruzzi.

The other factor is the economy. Unemployment and underemployment impact consumers’ purchasing decisions. “Consumers who have lost their jobs don’t have the money,” says Liu. “We have more and more consumers who are price sensitive and cannot afford high-quality goods.” In turn, manufacturers are adapting to serve this market. Says Liu, “We may see more manufacturers tapping into this market by providing low price and low quality.”

Ironically, the desire for low price may be costing the United States even more jobs. “It’s possible that some firms are moving manufacturing out of the United States to get cheap production costs so they can offer lower prices,” says Liu. “China and Mexico don’t have the technology to produce high-quality goods. But they do have the capacity to provide low-quality products. As manufacturers are catering to the lowest common denominator, it’s possible more and more production will go to foreign countries. These two things may seem unrelated, but based on our research, they are.”

New research from the non-partisan Economic Policy Institute shows huge job losses to China after 2001—a period that roughly parallels the surge in e-commerce. In a new paper, EPI economist Robert Scott concluded that 24 million U.S. jobs were lost from 2001 to 2008 as a result of rising trade with China. Every U.S. state suffered China-related job losses. California lost the most—576,000 jobs, Illinois, Texas, Florida, and New York each lost more than 100,000 jobs.

Even consumers who haven’t lost their jobs have been hurt by the low-price trend because it’s harder to find quality goods, says Liu. “The manufacturers are catering to the lowest common denominator,” which he says is a strategy that consumers should be aware of in their purchasing decisions.

“If I think scholars need to tell this story to consumers so they can see the potential problems of the Internet. The price is easy to see on the Internet. The quality is not. The brand name may be the same as it was ten years ago, but the quality may not be the same. Most people celebrate the Internet. They think it’s a good thing. But we also have to think about the potential drawbacks. The quality problem is one.”

Doug McInnis

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