AN ECONOMIC MODEL OF CONSUMER DECISIONS ON ONLINE PURCHASING

How to help business and marketing students understand the benefits and costs of online purchasing and economics-based decision making factors faced by shoppers in deciding whether or not to make online purchases.

The learning and teaching questions

Why do certain consumers choose to purchase online instead of offline?

How can the decision-making process that consumers use when evaluating whether to buy online be represented diagrammatically?

What are the pros and cons considered by customers in deciding whether or not to buy online?

Model of the Balance of Considerations Influencing Consumer Problem Solving in the Online Purchase Decision

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rich information</td>
<td>Risk of post-transaction dissonance due to:</td>
</tr>
<tr>
<td>- Library / pictorial / audio</td>
<td>- experience risks (lack of experiential learning)</td>
</tr>
<tr>
<td>Low search costs</td>
<td>- non-availability risks (lack of sensory perception)</td>
</tr>
<tr>
<td>- time saving</td>
<td>- financial risks (financial loss)</td>
</tr>
<tr>
<td>- transport cost saving</td>
<td>In favour of online purchase</td>
</tr>
</tbody>
</table>

Information benefit:
the availability of sufficiently rich information about the product and price.

Low search costs:
time benefits, ie. the much lower search costs in terms of time expended for acquiring a given amount of information;
transport benefit, ie. the savings in transportation costs from not having to travel to physical shops to gain product-price information, and for making the purchase.

Price benefit:
the monetary savings from being able to make a cheaper purchase.

What students understand from the theoretical model

The model identifies the benefits and costs that are implicitly considered by consumers in choosing between online and offline purchasing. The benefits are rich information at very low marginal search costs compared to offline shopping, combined with a price difference in favour of the online product.

Generally, the possible costs are associated with lagged delivery and the relatively greater risks of post-transaction dissonance from online purchasing compared to the offline alternative. Such risks are shown to be attributable to a lack of online experience, a lack of sensory perception and financial risks.

Consumer choice in favour of the online option will depend on its efficacy and efficiency for consumer needs-fulfilment relative to the offline alternative.

Such needs-fulfilment will be realised depending on a balance of considerations, with consumer decisions in favour of the online purchasing option requiring a consumer perception that net subjective benefits of online purchasing outweighs the net subjective benefits of the relevant offline alternative.