Marketing

Online Shopping: What Companies Can Conclude Based on How Consumers Search

Key Takeaways

- Traditional theories of how consumers evaluate products online ignore how they are often led to websites through ads they encountered passively.
- Companies cannot infer preferences just by the order in which a consumer searches for their product. They must also consider how a consumer arrived on their site – actively or passively.
- Passive searches initiated by ads usually occur early in the search process, but they are less likely to lead to purchases.

Adapted from "Online Advertising as Passive Search," by Raluca M. Ursu of New York University Stern School of Business, Andrey Simonov of Columbia Business School, and Eunkyung An of New York University Stern School of Business.

The paper from Columbia Business School, "Online Advertising as Passive Search," explores how consumers search for products online. The study was co-authored by Raluca M. Ursu of New York University Stern School of Business, Andrey Simonov of Columbia Business School, and Eunkyung An of New York University Stern School of Business.

Research

As online commerce continues to grow, advertisers are spending a lot of money trying to influence customer choices. A company's success depends not only on understanding what consumers want but also on how shoppers search for what they want.

According to new research from Andrey Simonov, the Gary Winnick and Martin Granoff Associate Professor of Business at Columbia Business School, existing explanations of how consumers seek out products ignore a crucial distinction: whether consumers search for a product actively by themselves or discover it passively through an ad.

Traditional descriptions of consumer behavior depict an active search process. If a shopper is looking to buy a new T-shirt, they'll open their browser and explore – starting with the product they're most interested in. Under this framework, companies can interpret a lot about how a consumer sees their product based on where it appears in the search process. The earlier the customer seeks out an item, the more they like it and the more likely they are to buy it.

Simonov and his colleagues hypothesized that active search reflects only one way that consumers shop online. Search can also be more fluid and passive. A customer may stumble upon a pair of shoes in an email ad and click out of curiosity. They may scroll on social media and happen upon a cool-looking cardigan. If consumers sometimes click more randomly, then we may not be able to tell as much about their preferences from their search process as we think.

Research (continued)

The researchers evaluated the complete browsing histories of a group of 4,612 representative consumers in the Netherlands over a period of three and a half months, focusing on apparel purchases. Since the URL addresses of websites contain snippets that reveal how a consumer arrives on the page, Simonov could distinguish between organic and ad-initiated searches.

Overall, the data suggest two main trends: Many consumers searched for products passively, driven by ads rather than an active plan, but these searches were also lower quality.

01. Prevalence of passive search

A majority of website arrivals in the apparel category, 53 percent, were a result of a consumer passively clicking on an ad. These ad visits were more likely to occur early on in the search process and were almost always to a brand the consumer didn't know. Consumers often encountered ads when they checked email or social media rather than actively searching for products.

02. Lower quality of passive search

Consumers spent less time on sites they were led to via ads. They were also less likely to buy products they encountered. Though passive visits to websites represented a majority of visits, they led to only 29 percent of transactions. As opposed to active searches, a consumer who passively clicked on an ad early on didn't necessarily favor the product more than competitors they investigated later.

Simonov and his colleagues went on to incorporate these insights into a model that estimates consumer search costs and product tastes. Unlike standard search theories, their model reflects that consumers also encounter products passively via ads and captures the lower quality of these ad-initiated searches. The unified model of active and passive search fits the data well and allows firms to correctly measure consumer preferences and incorporate these estimates into their models of pricing and advertising.

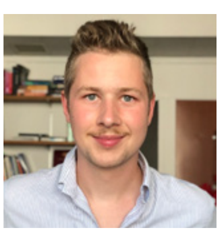
Conclusion

In an age of information overabundance, companies have plenty of data to parse as they seek to understand and shape consumer preferences. How to sort through that data and what to infer from it are multibillion-dollar questions – and Simonov's research implies that managers may be overestimating how intentional consumers are in their online searches.

Searches that begin with advertisements lead to more product visits than active searches. But these product visits are lower quality and less likely to lead to purchases. That means that, whereas we could once infer consumer preferences by where in the search process a product visit occurs, companies must also pay close attention to how a consumer arrived on their site.

Distinguishing between active and passive search helps companies better understand their brand's existing strength and, therefore, how to improve it.

Columbia Business School Faculty



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