

Local Preference Minorities and the Internet: Why e-Retailer Demand is
Greater in Areas Where Target Customers are in the Minority

Jeonghye Choi

Marketing Department

The Wharton School

*Proposal Prepared for the 2009 Russell Ackoff Doctoral Student Awards
for Research on Human Decision Processes and Risk Management*

February 27, 2009

Research Goals

I propose the concept of “local preference minorities” and demonstrate its critical role as a driver of online-offline sales substitution in local markets. I plan to show how the presence of preference minorities alters demand for popular and niche products, and to derive the implication of this phenomenon for sales aggregation over markets in the so-called Long Tail sales distribution. This proposed study builds on my previously published work on the spatial distribution of sales for Internet retailers (Choi, Hui, and Bell 2009).

Definition of *Preference Minorities*

Local stores face trading area and retail space constraints, so the products they offer tend to cater to the tastes of the local majority (Anderson 1979; Waldfogel 2007). Consumers whose preferences are dissimilar to the majority in trading area—*preference minorities*—are likely to be under-served or in a worse-case scenario, neglected by local retailers altogether. They have difficulty locating “popular” products and extreme hardship locating “niche” products.

Importance of *Preference Minorities* in Online Retailing

Farris, Olver, and De Kluyver (1989) and Reibstein and Farris (1995) note that shoppers looking for a niche brand might be forced to buy a popular brand, as it is the only brand stocked in local stores. This kind of sales substitution represents “compromised demand.” By analogy, preference minority shoppers in local markets are also subject to compromised demand effects, however they can now be alleviated via the Internet. For the firm, local markets with the same *absolute* number of target customers will be differentially attractive, since it is the *relative* standing of target customers in local markets that drives their online shopping propensities.

Research Hypotheses

General Online Sorting (H₁). Internet retailers are not subject to trading area and retail space constraints. Consumers who cannot find their first choices in local markets now do not need to compromise but can substitute from offline retailers to online retailers. Preference minorities in different regions, but facing the similar local constraints, can agglomerate virtually into the same online retailer to take advantage of essentially unlimited product assortment available online.

Sorting for Popular versus Niche Products (H₂). The online-offline substitution will be intensified when local consumers in the preference minority do not favor “popular” products. This is because if a local retailer decides to stock a product category of potential relevance to the preference minorities at all, he/she will most likely choose a “popular” product such as a leading national brand (Farris, Olver, and De Kluyver 1989).

The Long Tail and Sales Differences Across Local Markets. Together H₁ and H₂ generate a new insight into *where* sales of popular and niche products in the Long Tail come from. That is, the rank ordering of a specific product in the Long Tail has implications for the *proportional mix* of its sales across geographical markets. Popular products and niche products both have more online-offline substitution in high preference minority market. However, the breakdown of online sales for popular and niche products is different. Niche products with a lower overall sales rank (i.e., products in the “tail” of the Long Tail), draw a greater *proportion* of their total online demand from high preference minority market, than popular products do.

References

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