

## ***SEMINAR***

# **"The Fixed Cost of Shopping on the Internet"**

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**Abstract:**

A consumer shopping in a traditional store faces unavoidable fixed shopping costs (e.g., travel and time costs); by shopping online she may avoid them almost entirely. The Internet thereby fundamentally alters the trade-off faced by shoppers when they consider how much to order and how often to shop. We develop an analytical model of the shopping process in this setting and find that relative to free shipping, fixed shipping fees lead a rational shopper to order more per visit and to return to the site less frequently. Moreover, contingent free shipping - where a shopper reaching a certain order value receives free shipping - can induce even larger orders. In addition, contingent free shipping thresholds can lead to higher overall consumption. Data collected from 1800diapers.com in which the free shipping threshold was raised from \$45 to \$50 are consistent with the prediction that raising the free shipping threshold increases the average order size. Implications for Internet retailers are discussed. **KEY WORDS:** Internet, Retailing, Shopper Behavior.