HARVARD | BUSINESS | SCHOOL

FACULTY & RESEARCH

Working Paper | HBS Working Paper Series | 2007

Why Do Intermediaries Divert Search?

by Andrei Hagiu and Bruno Jullien

Abstract

We analyze the incentives to divert search for an information intermediary who enables buyers (consumers) to search affiliated sellers (stores). We identify two original motives for diverting search (i.e. inducing consumers to search more than they would like): i) trading off higher total consumer traffic for higher revenues per consumer visit; ii) influencing stores' choices of strategic variables (e.g. pricing) once they have decided to affiliate. We characterize the conditions under which there would be no role for search diversion as a strategic instrument for the intermediary, thereby showing that it occurs even when the contracting space is significantly enriched. We then discuss several applications related to on-line and brick-and-mortar intermediaries.

Keywords: Demand and Consumers; Motivation and Incentives; Online Technology; Search Technology; Two-Sided Platforms; Distribution Channels; Business Strategy; Retail Industry;

Language: English Format: Print 36 pages Read Now

Citation:

Hagiu, Andrei, and Bruno Jullien. "Why Do Intermediaries Divert Search?" Harvard Business School Working Paper, No. 08-010, August 2007. (Revised February 2009, May 2010.)

Export Citation