

Competitive Information Disclosure and Consumer Search

Abstract: Buyers often search across multiple retailers or websites to learn which product best fits their needs. We study how sellers manage these search incentives through their disclosure policies (e.g. advertisements, product trials and reviews), and ask whether competition leads sellers to provide more information. We first show that if sellers can observe the beliefs of buyers (e.g. they can monitor buyers via their cookies), then in a broad range of environments, there is a unique equilibrium in which all sellers provide the “monopoly level” of information. However, if buyers are anonymous and the search cost is small, then there is an equilibrium in which all sellers provide full information about their products. Tracking software thus enables sellers to implicitly collude, providing a motivation for regulation.