Search platforms: Showrooming and price coherence

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ABSTRACT

We provide a model in which consumers can search for firms directly or through a platform. Search reveals information on a firm's match value and price. The platform lowers search costs but charges firms for the transactions it facilitates. In equilibrium, we show firms end up setting higher prices on the platform and consumers buy through the platform. Higher prices on the platform give rise to the possibility of showrooming, in which consumers search on the platform but then switch and buy directly to take advantage of lower direct prices. In settings like this, search platforms like Amazon's marketplace and Booking.com have imposed price coherence restraints on firms, requiring that their direct prices are no lower than their prices on the platform, arguing this is needed to prevent showrooming. We use our model to evaluate the implications of showrooming and such price coherence restraints.