Raising search costs to deter window shopping can increase profits and welfare

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I. Motivation

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<u>How?</u> search costs act as a **screening** device. If they are high:

i) Only consumers really **interested** in the good show up

ii) The firm can **focus its sales efforts on them**, increasing their demand (and utility)

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Many more (some subtle differences):

- Submitting forms (e.g. info for masters)
- Small doors and doorbells in luxury firms
- Fees for trying wedding dresses in Shanghai

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II. Toy Model

(…free adaptation)

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	π_i *(prob. int.)*	*P(type)*	*Ex-ante utility of entering*
Reals r	π_r	f	$\pi_r \sigma(p, \mu) - s$
Visitors v	$\pi_v < \pi_r$	$1 - f$	$\pi_v \sigma(p, \mu) - s$

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3. Demand and payoffs are realised.

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$\forall \mu, p \;\; \exists!\, s_1 < s_2$ thresholds such that:
$$\begin{cases} s < s_1, & \text{both types enter} \\ s_1 < s < s_2, & \text{only } r \text{ (reals) enter} \\ s_2 < s, & \text{nobody enters} \end{cases}$$

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(i) s **low enough** (s=0) and **both types enter.** Then p and μ chosen from:

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TRADE-OFF: number of sales and cost of sales assistantship

Analysis

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	(i) All consumers	(ii) Only reals	Difference (ii)-(i)
Consumer Surplus	$\mathbb{E}(\pi)\frac{\sqrt{\mu_{all}^*}}{8} - s$	$f\left(\pi_r\frac{\sqrt{\mu_r^*}}{8} - s\right)$	See left picture
Profits	$2^{-5}\left(\pi_r f + \pi_v(1-f) - 2^{-1}\right)\left(\pi_r f + \pi_v(1-f)\right)^2$	$2^{-5}\pi_r^2 f$	See right picture

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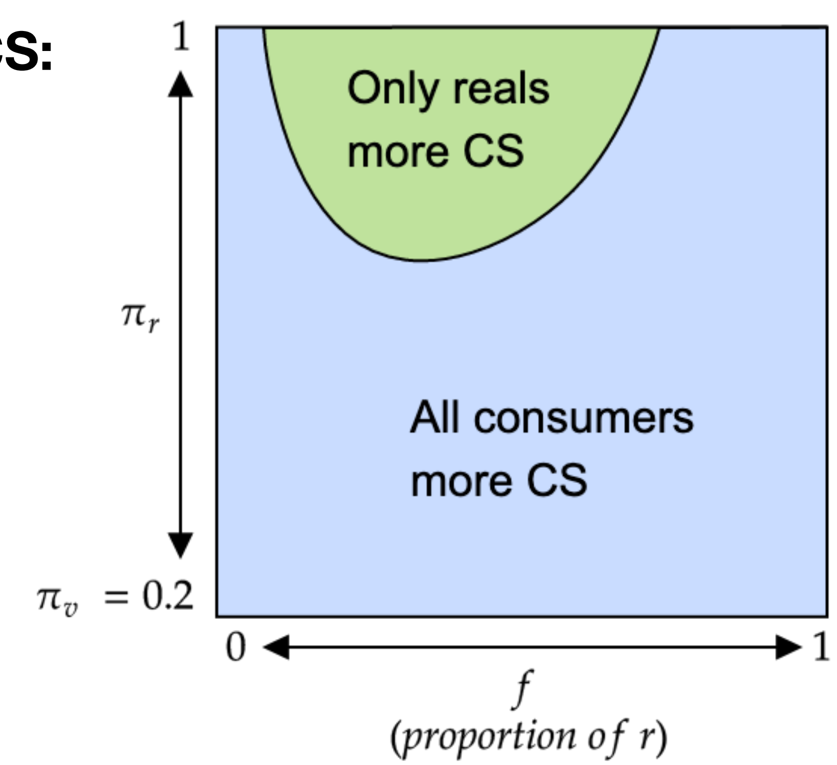
CS:



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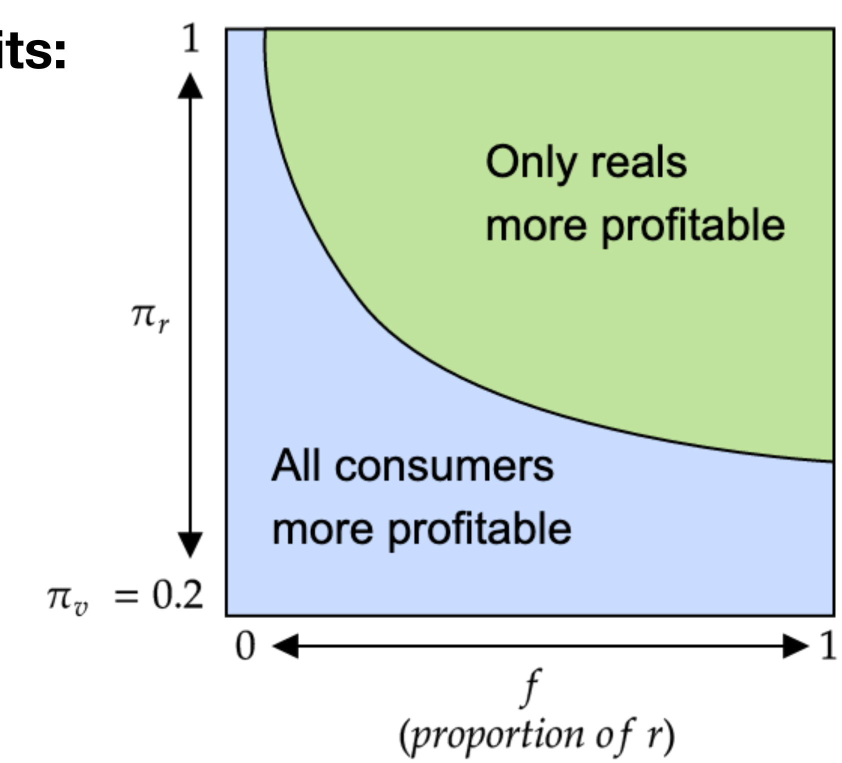

What have I omitted?

- Generality (focus on continuous types)
- Not-pure-waste fees ($s^* > 0$)
- Search cost menus (μ, s) -> better for the firm
- Oligopoly
- …

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2. Correlation between π and s ?

e.g. to capture budget constrains / fatigue / behavioral aspects…