Multiproduct Intermediaries*

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Abstract

This paper develops a new framework for studying multiproduct intermediaries. We show that a multiproduct intermediary is profitable even when it does not improve efficiency in selling products. In its optimal product selection, it stocks high-value products exclusively to attract consumers, then profits by selling non-exclusive products which are relatively cheap to buy from upstream suppliers. However, relative to the social optimum, the intermediary tends to be too big and stock too many products exclusively. We establish a link between product selection and product demand features such as size, shape and elasticity. As an application of the framework, we also study the impact of direct-to-consumer sales by upstream suppliers on the intermediary’s product range and profitability.

Keywords: intermediaries, multiproduct demand, search, product range, exclusive contracts, direct-to-consumer sales

JEL classification: D83, L42, L81

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