MARKETING COLLOQUIA
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INFORMATIVE ADVERTISING WITH DISCRETIONARY SEARCH

ABSTRACT: We examine a market for a search good in which consumers are uncertain about the firm's product quality, but may search to gather information before buying. We show that credible information can be conveyed to consumers even when the firm faces a market with little or no preference heterogeneity. Rather, differences in willingness-to-pay arise from the endogenous search decisions by consumers. A fundamental assumption is that search is not required for purchase and consumers may bypass it altogether. In this case search induces a dispersion in preferences that is detrimental for the firm's ability to capture value. This provides an incentive for the firm not to overstate its quality.

When quality is common knowledge (but product fit is uncertain before search), increases in quality lead to a higher market price, but firm profits and consumer surplus are non-monotonic because of changes in the search regime. In particular if quality is high enough for search to be worthwhile the firm faces downward pressure in prices and consumers become better off. These effects reverse at higher levels of product quality.

Surprisingly, when product quality is unknown but credible information is available consumers become worse off with the probability of facing a high type firm, because this firm prefers to target high value consumers and not serve those who do not find that the product fits their needs.

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