

DIW Applied Micro Seminar

Showrooming and resale price maintenance

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Abstract:

A leading pro-competitive justification for resale price maintenance is the prevention of free-riding on point-of-sale services (Telser, 1960). The potential for such free-riding is particularly pronounced for products sold through both brick-and-mortar and online outlets, because consumers may obtain retail services at costly brick-and-mortar stores prior to buying the product online at a lower price (“showrooming”). A widely held view is that resale price maintenance can solve the free-riding problem by preventing no-service (online) retailers from setting lower prices than full-service (brick-and-mortar) retailers, thereby making showrooming unattractive for consumers. In this paper, we argue that price floors on online retailers are often a second best way of incentivizing brick-and-mortar retailers to provide sales services. Instead, when small price differences suffice to induce some showrooming, the supplier prefers to allow online retailers to set lower prices than brick-and-mortar retailers, while imposing a price floor on the latter to induce optimal service provision. A retail price floor is needed although, contrary to traditional free-riding theories, service provision by the brick-and-mortar retailer may impose a negative externality on the online retailer in our model.