

Selling Through Referrals

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ABSTRACT

A seller has an object for sale but has no direct access to customers. He can access customers only through intermediaries who not only have access to consumers, but also privileged information about them. The seller sets up a referral program which offers a payment for each buyer referred. The fee can be contingent on the outcome of the sale or not. Intermediaries can refer their buyers to the seller and release some information about them, but can also choose to mediate the transaction by buying the object in order to resell it. We show that the intermediaries cannot accrue any rent from possessing monopolistic access to buyers. The seller can acquire access to all buyers at an arbitrarily low cost. When referral fees can be made contingent on the sale, intermediaries cannot accrue any information rent either. With un-contingent referral fees, equilibria exist where the intermediaries earn a rent on their information.

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