An interesting phenomenon has been the emergence of "infomediaries" in the form of Internet referral services in many markets. These services offer consumers the opportunity to get price quotes from enrolled brick-and-mortar retailers and direct consumer traffic to particular retailers who join them. This paper analyzes the effect of referral infomediaries on retail markets and examines the contractual arrangements that they should use in selling their services. We identify the conditions necessary for the infomediary to exist and explain how they would evolve with the growth of the Internet. The role of an infomediary as a price discrimination mechanism leads to lower online prices. Perhaps the most interesting result is that the referral infomediary can unravel (i.e., no retailer can get any net profit gain from joining) when its reach becomes too large. The analysis also shows why referral infomediaries would prefer to offer geographical exclusivity to joining retailers.

(Referral Services; Infomediaries; Intermediaries; Internet; Price Discrimination; Retail Competition; Exclusive Contracts)

1. Introduction
The exponential growth of the Internet is an important business development of the last decade. The growth of e-commerce has been accompanied by changes to the traditional ways of doing business in several industries. The emergence and growth of the so-called "infomediaries" such as autobytel.com and carpoint.com in the automobile industry, avviva.com in real estate, austinlaws.com in legal services, and healthcareadvocates.com in medicine evidence the impact of these institutions on the functioning of conventional markets.

The performance of these infomediaries and their impact on the traditional retail marketplace have been closely watched in the automobile industry. These infomediaries (or Internet referral services), such as Autobytel, Autovantage, and Carpoint provide consumers with information on invoice prices, specifications, reviews, and the opportunity to get a price quote from a local retailer who is enrolled with the service. Third-party referral infomediaries are affecting the way consumers shop and buy their cars. A J. D. Powers study in July 1999 reported that retailers collected an average of 37 leads a month from Internet referral infomediaries and closed an average of 15%. Forrester Research reports that more than two million households used these Internet companies to research car purchases and estimates that 50% of new car buyers will research purchases online in the next five years. A Consumer Reports survey (Wall Street Journal, March 17, 2000) also indi-