Abstract

This paper studies the practice of influencer marketing in oligopoly markets and its effect on market efficiency. We develop a duopoly model in which firms sell horizontally differentiated products. Consumers are influenced by other consumers' choices, and some consumers are more influential than others. Firms' influencer marketing strategy involves discovering the influence of a subset of consumers and price discriminating based on this information.

In equilibrium, firms subsidize consumers whose influence is above average and charge premia to below average influential consumers; the equilibrium premia/discounts depend on the strength of network effects and the level of information that firms have on consumers' influence. From a normative perspective, we show that influencer marketing leads to inefficient consumer-product matches. Firms' investments in discovering consumers' networks are strategic complements, leading to a race for information acquisition that erodes total surplus and firms' profits but increases consumer surplus.