

15.567 Reading Guide

Sermo, Inc. and Network Economics

There are a lot of interesting aspects about Sermo, Inc. One that we will analyze in this session is the economics of networks. Not only does Sermo give away access to its site and tools for free to qualified physicians, but they also work hard to get them to use it. Understanding this strategy, where it applies and where it doesn't, can be essential for the successful introduction of many types of digital products and services.

Required Readings:

Case: Sermo, Inc. HBS Case 809142-PDF-ENG

Shapiro and Varian, Ch. 7 Networks and Positive Feedback, pp.. 173-225

Optional Readings:

Economides, N. The Economics of Networks, *International Journal of Industrial Organization*, vol. 16, no. 4, pp. 673-699 (October 1996).

Leibowitz, Steven and Steve Margolis , “Network Externalities (Effects) “ *The New Palgraves Dictionary of Economics and the Law*, MacMillan, 1998.

<http://wwwpub.utdallas.edu/~liebowitz/palgrave/network.html>

URLs:

Stop by Sermo and read how it works: <http://www.sermo.com/about/introduction>

Study Questions

Please think about the following questions as you do the readings.

1. Who are the main stakeholders in Sermo's Community? What do they each contribute and what do they each get?
2. What are some alternative revenue options for Sermo?
3. What do you see as Sermo's immediate challenges? What are the long-term opportunities and challenges?
4. For what other products or services would Sermo's approach work?

Required Assignment “One Pager” for Sermo Class

Please write a one page memo addressed to Dan Palestrant (max 300 words) analysis) by 9pm the day before Session 2. Submit either a PDF or MS Word file, with your name, date and assignment title at the top.

Question: If you were advising Dan Palestrant facing the situation he did in 2009, what strategy would you recommend and why?

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