

Consumer Resale in a Digital Age

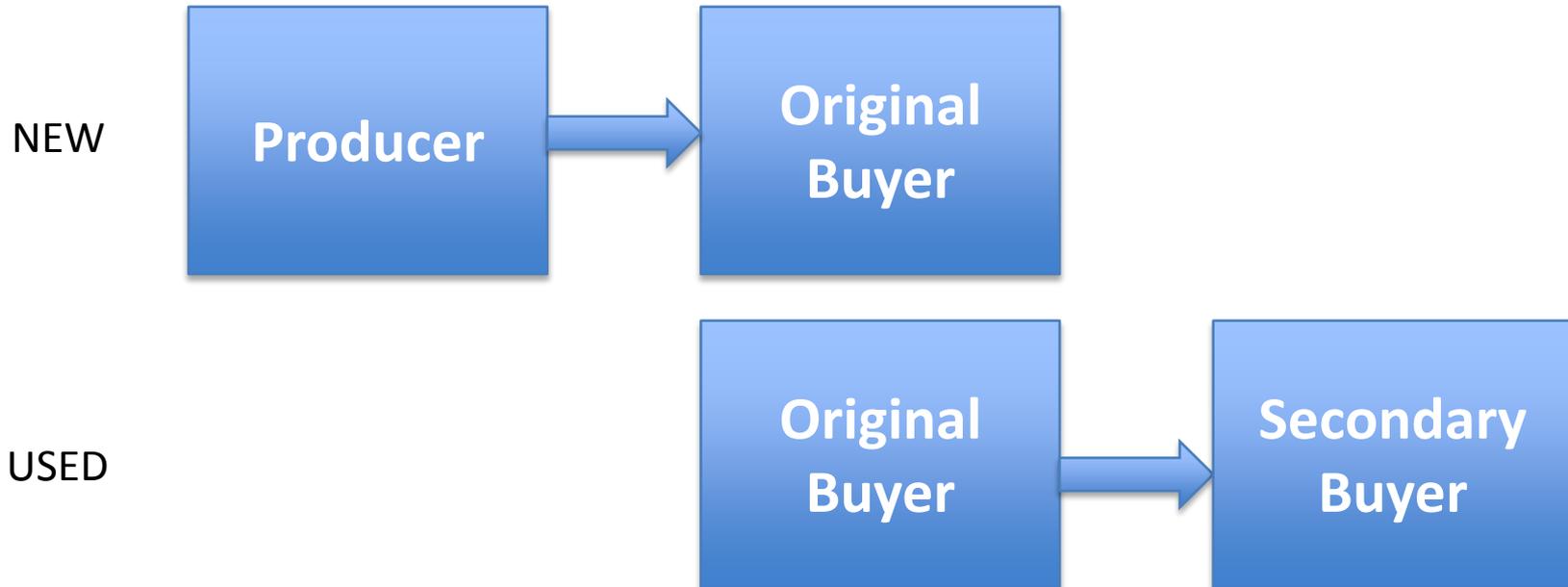
MIT Students

Digital Used Goods

Used goods have several characteristics

	Physical Appearance	Content	Availability (Timing)
Used goods	X	X	X
Digital used goods			X

Image by MIT OpenCourseWare.



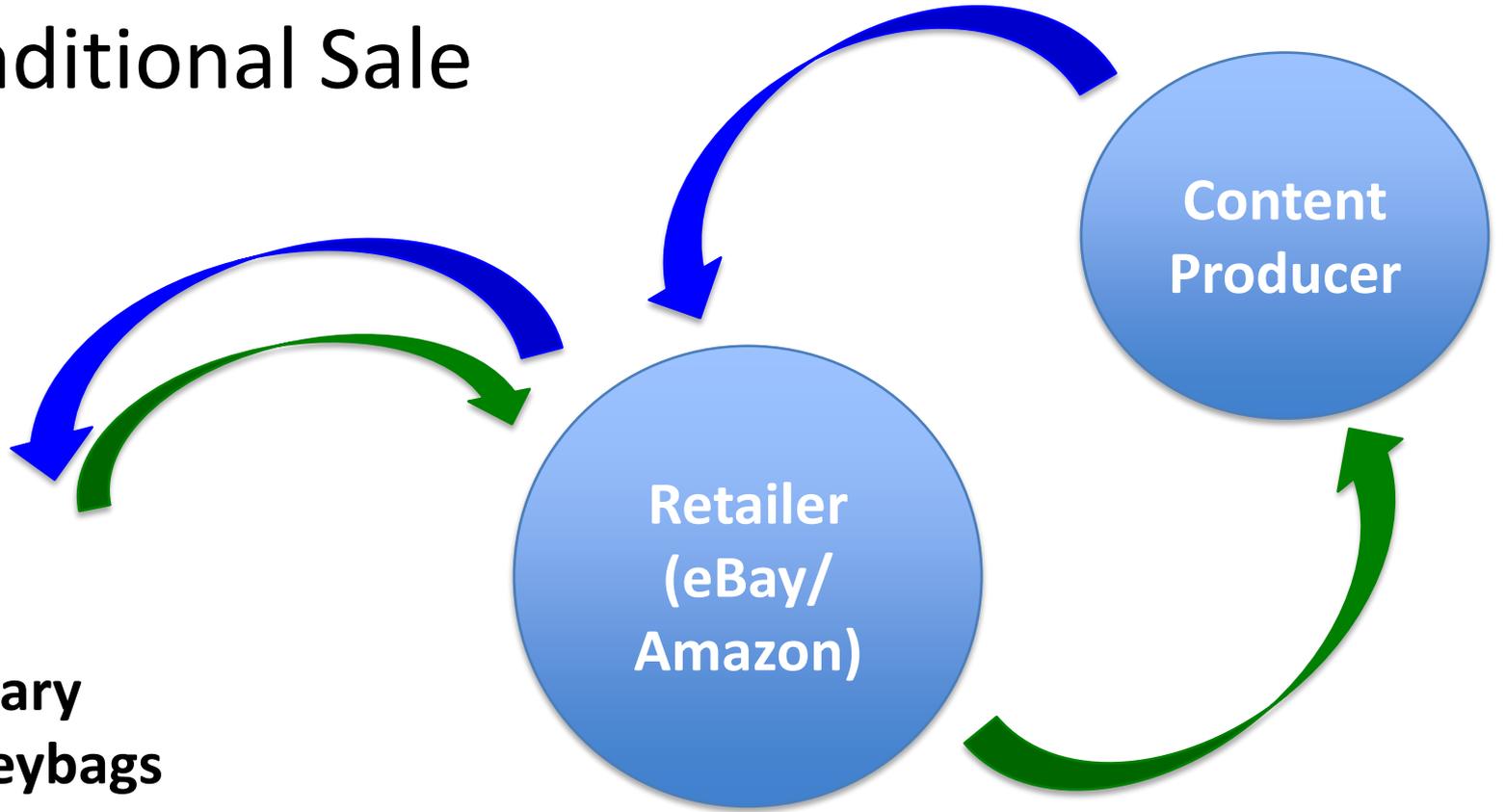
Current State

- Legal restrictions currently disallow digital resale
 - Amazon Explicitly disallows this when purchasing digital content
- Piracy
 - Those with $WTP < \text{Purchase Price}$ have only pirating as an option
 - Current Pirates are not a concern of content producers. Only those converted by lower prices are.

Traditional Sale

Mary
Moneybags

Charlie
Cheapo

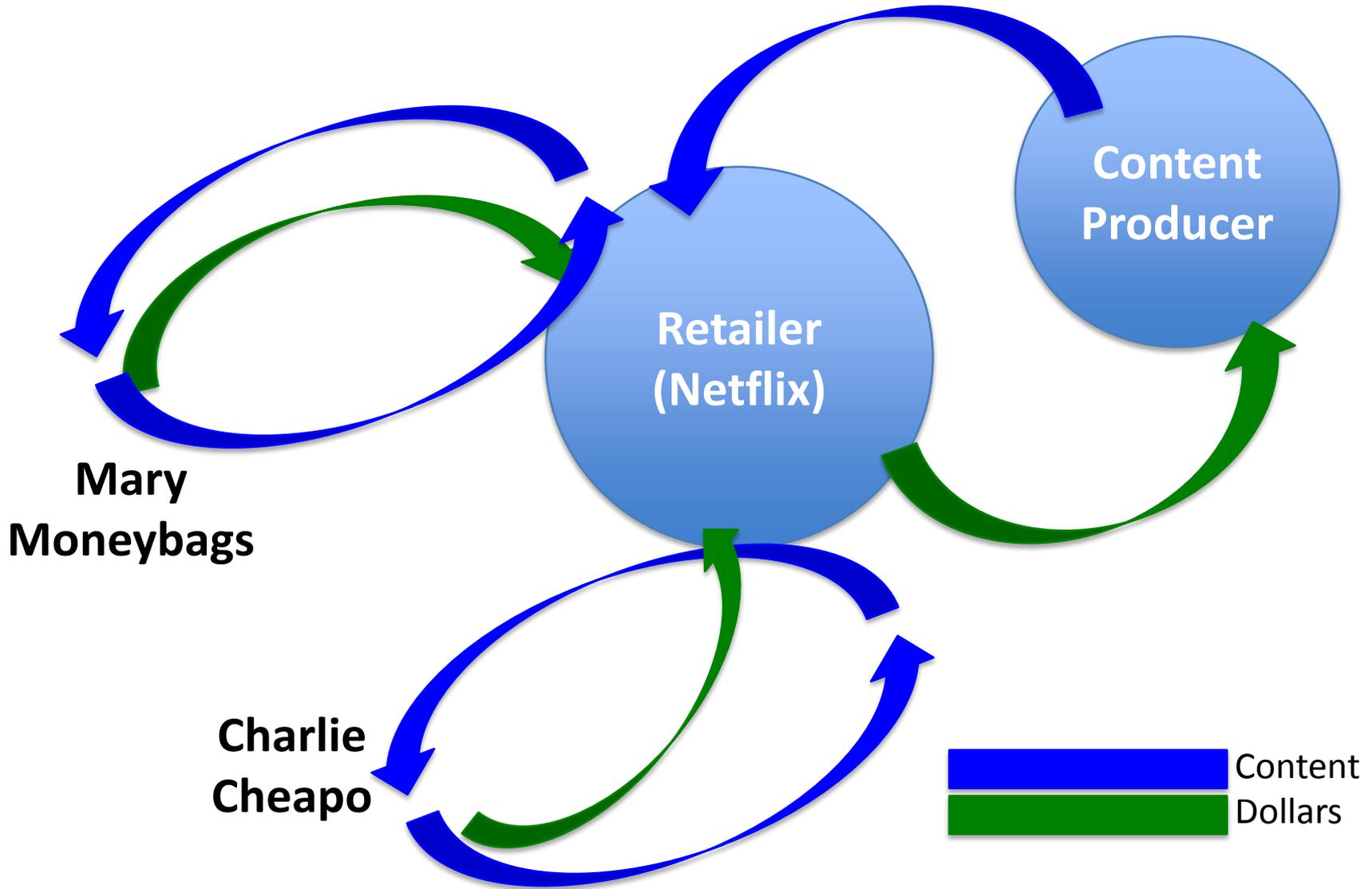


 Content
 Dollars

Used Good Sale

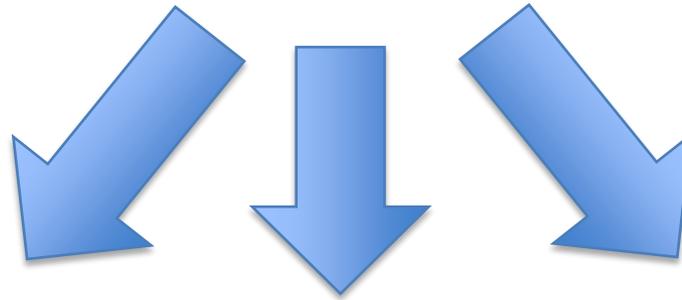


Current Rental Market



Hypothesis: A Used Digital goods market decreases dead-weight loss

A resale market for digital goods would reduce deadweight loss.



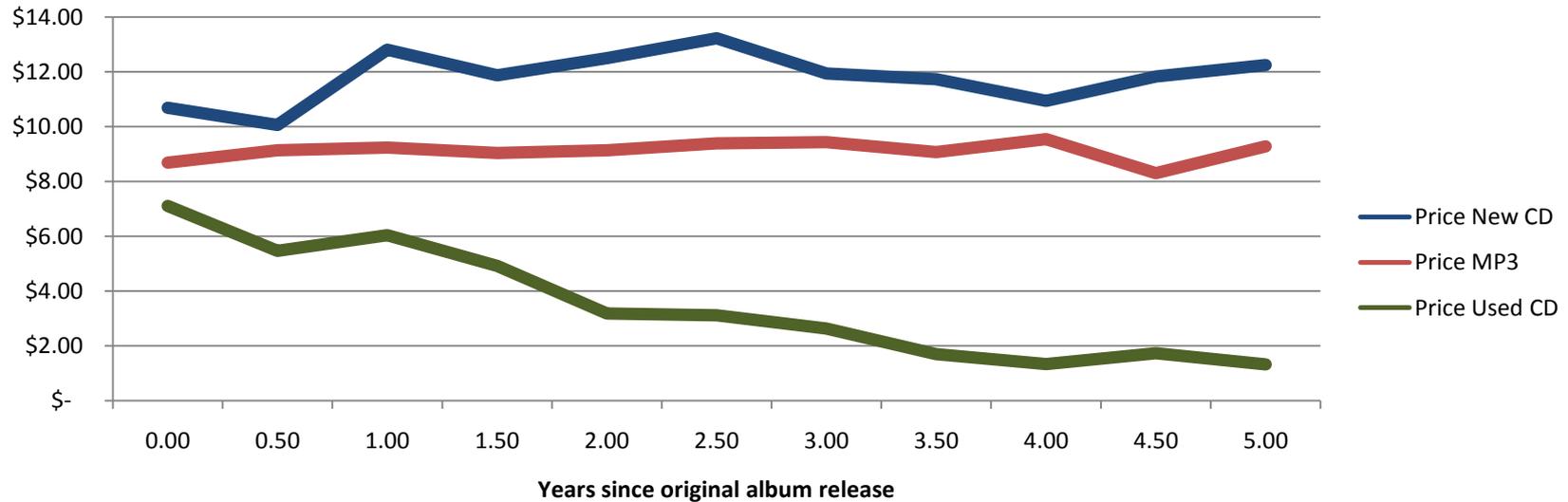
Consumer Benefit
Used Good Pricing
Different WTP

Retailer Benefit
More Volume
Transaction fee from each resale

Content Producer Benefit
Increased content spread
Increased Piracy Conversion

Benefits to Consumer

Top 10 Albums Average Price

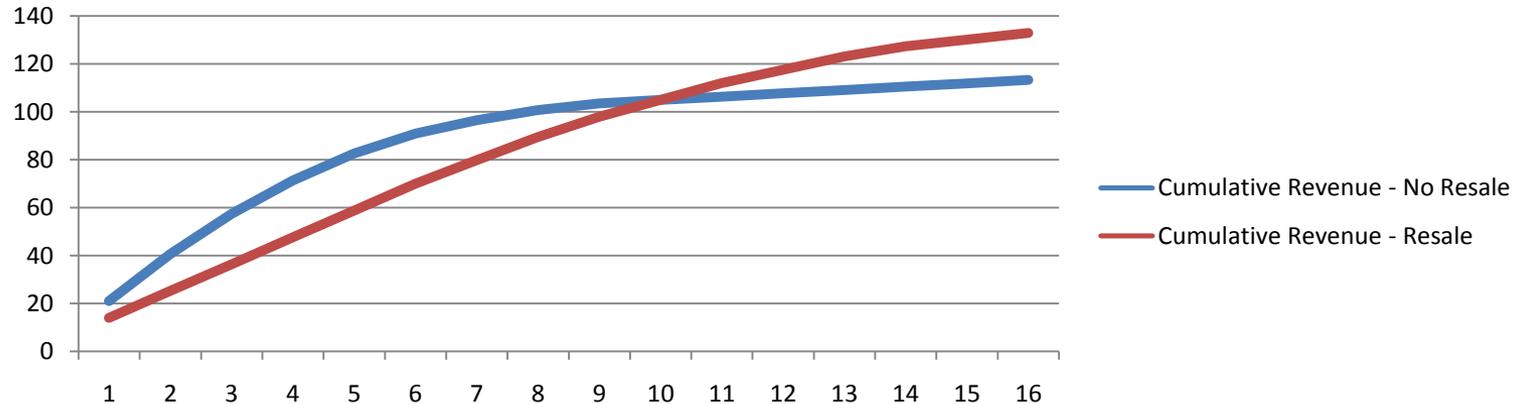


- Consumers Pay a lower price for identical content
- They are willing to trade the ‘freshness’ of their music for dollars

Current rigid prices for digital goods do not reflect consumer willingness to pay

Benefits to Retailer

Cumulative Revenue from Transactions over Time



- More Transactions = More Revenue
- Used goods allow you to capture consumers at different price points over a longer period of time.
- MC for enabling these resale transactions is zero.

Benefits to Producer

- Content Exposure
 - Long tail
 - Peer to peer: “word of mouth”
- Piracy Conversion
 - Customers with a $WTP > \text{Resale Price}$ can purchase used rather than pirated content (some revenue vs. no revenue)
- Alternative Options
 - Droit de Suite vs. First Sale Doctrine
 - Droit de Suite allows original producers to collect a fee each time a work is resold.

Consumer Resale Should be Allowed

- Reduces deadweight loss in society
- Each party in each transaction has some benefit, appealing to all stakeholders.

Questions?

MIT OpenCourseWare
<http://ocw.mit.edu>

15.567 The Economics of Information: Strategy, Structure and Pricing
Fall 2010

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