

A stack of three books is shown on the left side of the image. The top book is white with a yellow pencil resting on its surface. A red apple is placed on top of the pencil. The background is a solid green color.

# Pricing Digital Textbooks

for growth and profits

Team Project

15.567 Economics of Information

MIT Students

# Exponential growth forecast, but pricing is key

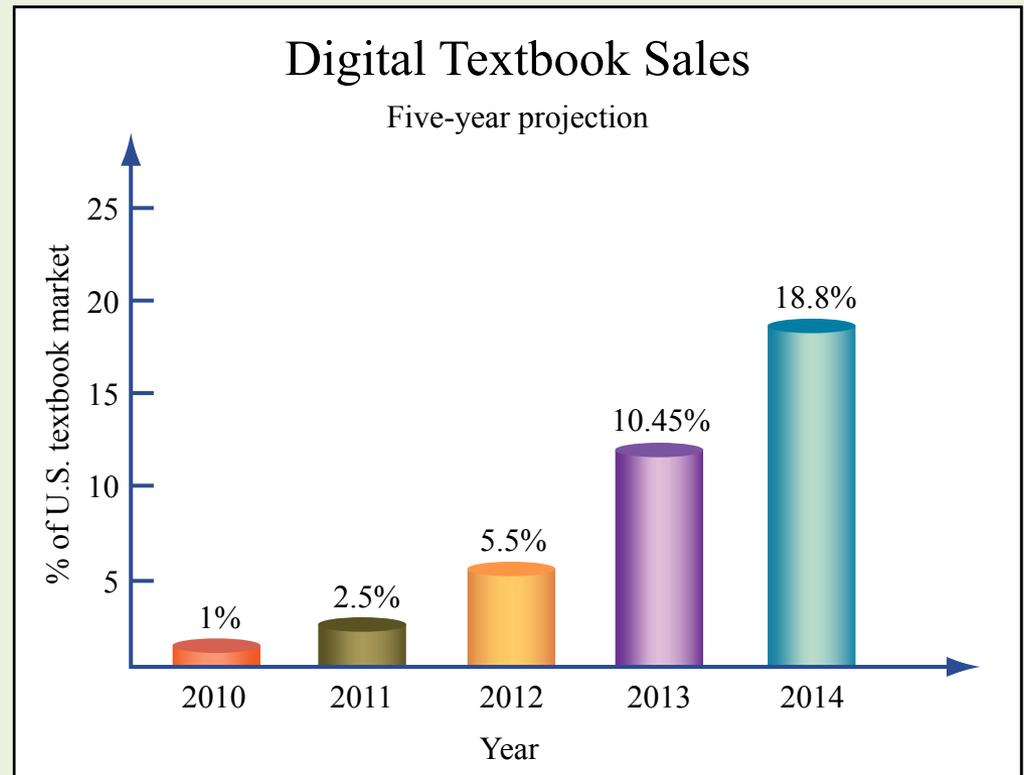
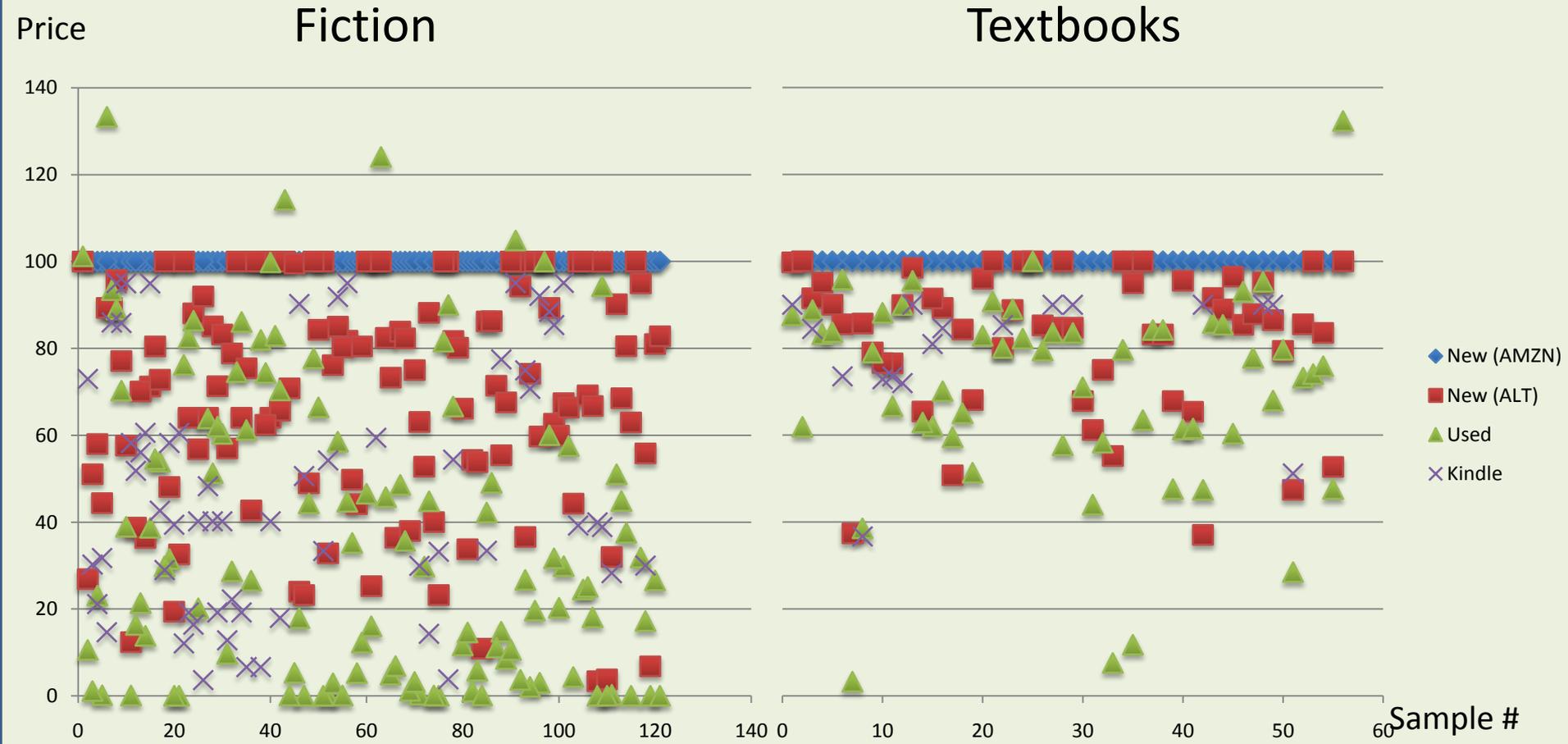


Image by MIT OpenCourseWare.

# Pricing in the 'textbook' category is less variable



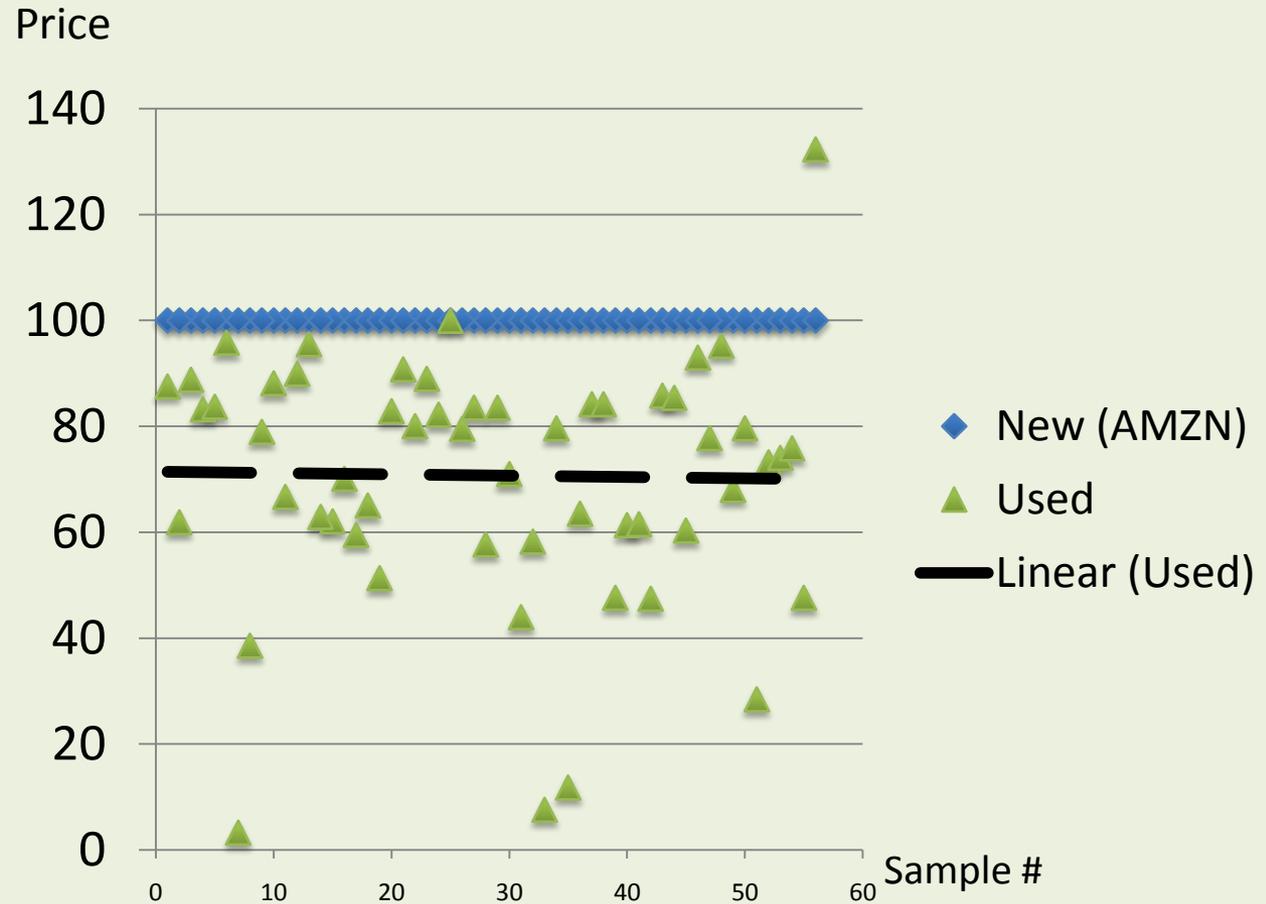
# Hypothesis

In a market with

- a well developed 2nd hand market<sup>1</sup>
  - where goods do not degrade significantly through use
- 
- pricing will be less variable
  - 2<sup>nd</sup> hand pricing indicate WTP for rental

<sup>1</sup> 50-60% of textbooks are purchased 2<sup>nd</sup> hand. Source: Survey of MIT Sloan students. 49 respondents.

# Data suggests WTP for rentals is ~30% of list price

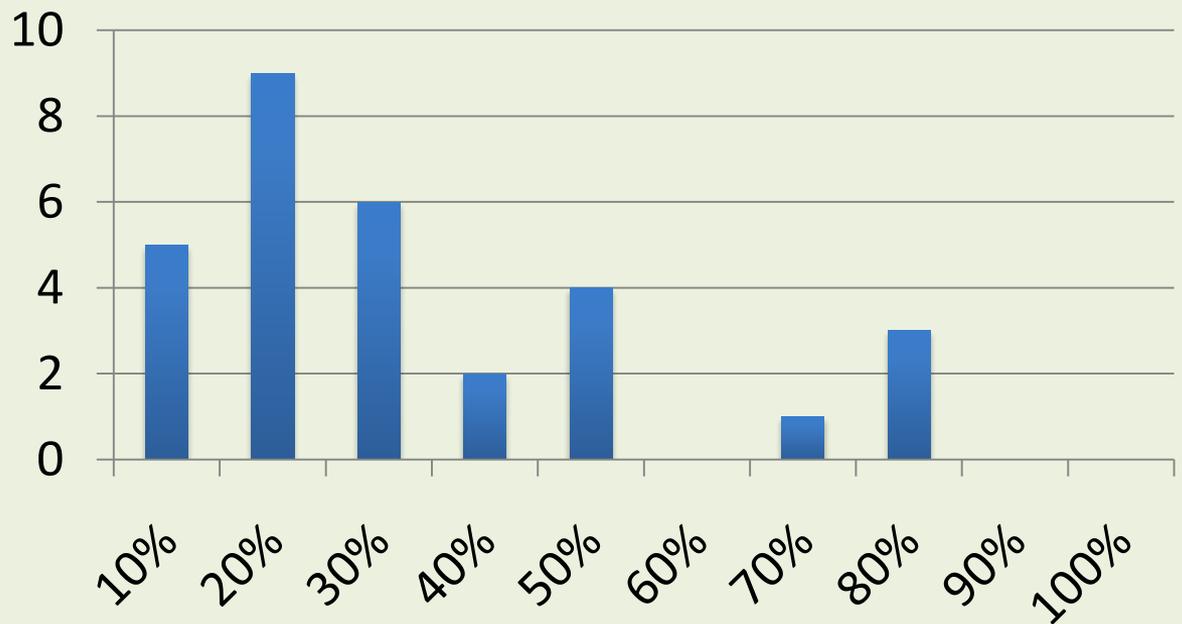


Source: Amazon.com



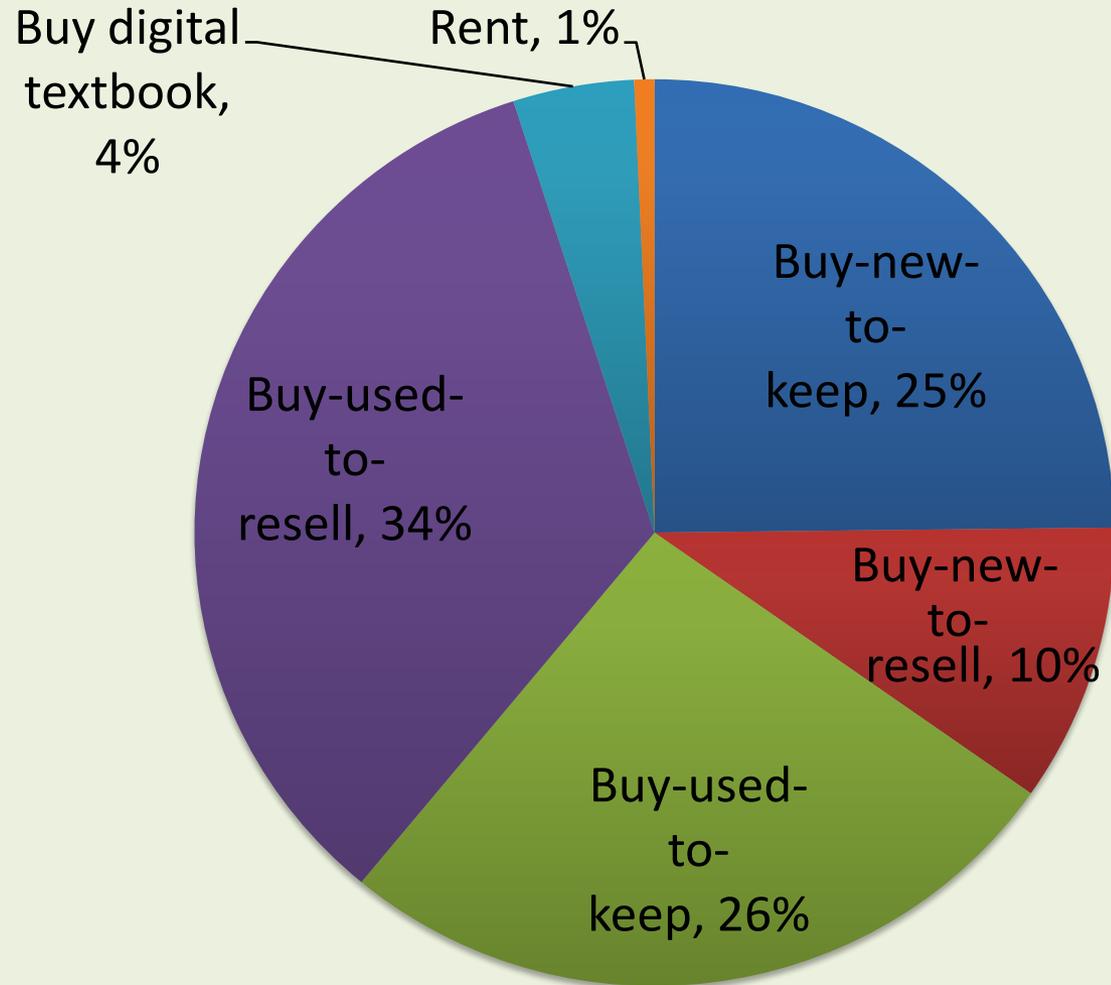
# Survey confirms WTP for rentals ~30% of list price

Q: At what discount rate do you expect to sell your books at the end of the semester?



Source: Survey of MIT Sloan students. 49 respondents.

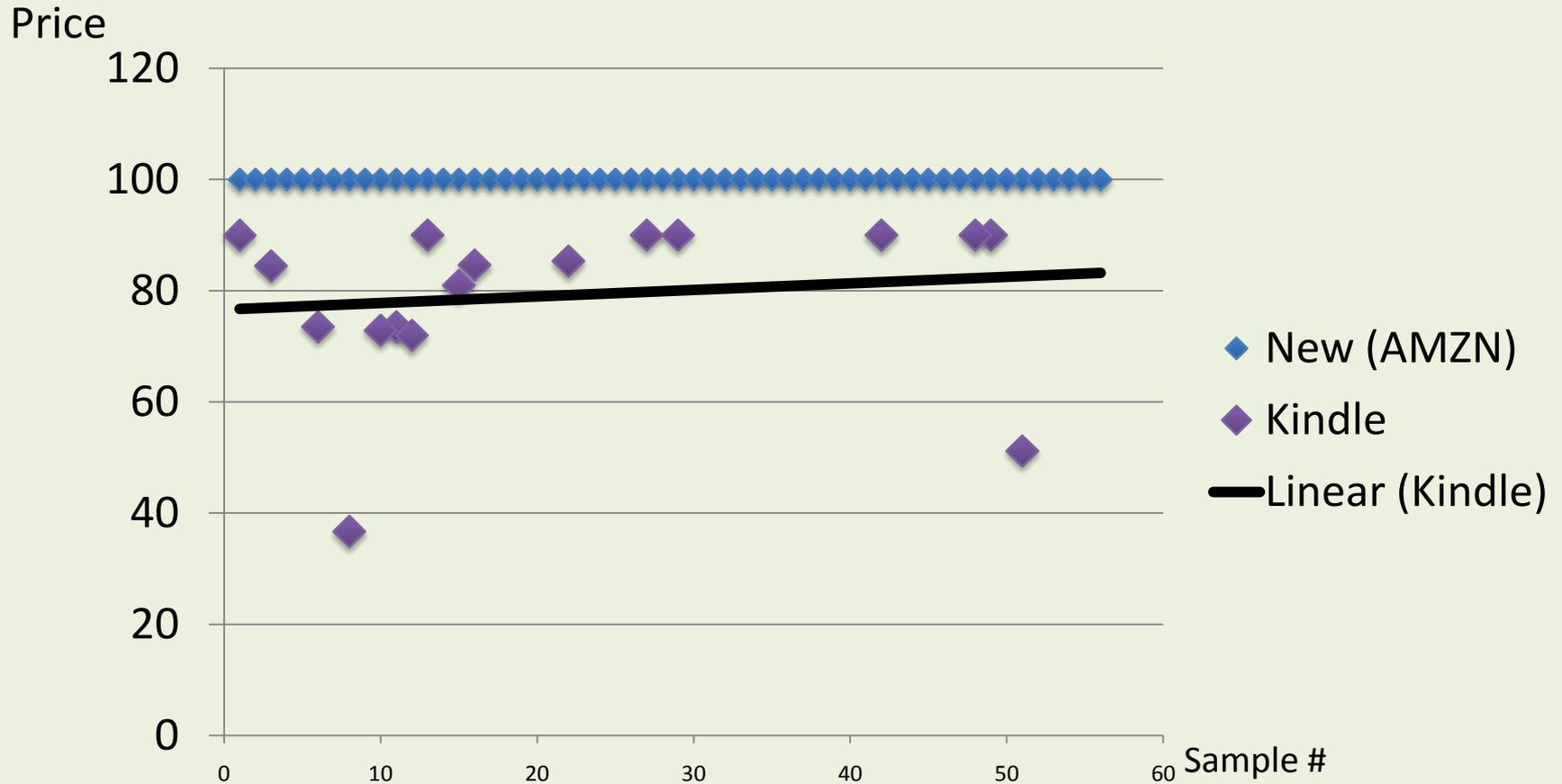
# Many versions exist in the current market



Source: Survey of MIT Sloan students. 49 respondents.



# Digital textbook limited to one version: Purchase at ~20% discount





# Current price point fails to maximize growth & profits

- 29% willing to pay full price to own
  - But currently purchase at 20% discount
- 44% would not buy digital as buying and reselling print is better value
  - Slows growth in digital textbook sales
  - Printing + shipping costs reduce profits
- 30% of new and 55% of used books purchased will be resold
  - No value captured on these transactions

# Hypothesis II

Enabling resale of digital textbooks would create a 2<sup>nd</sup> hand market and increase growth and profits

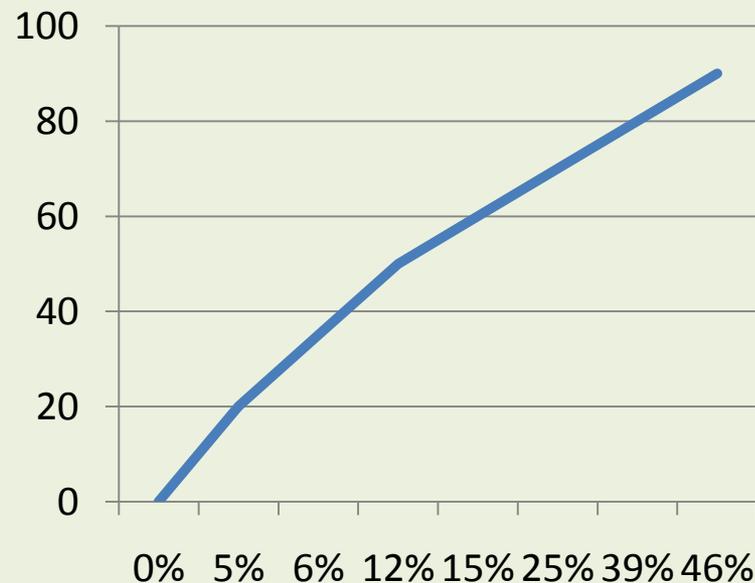
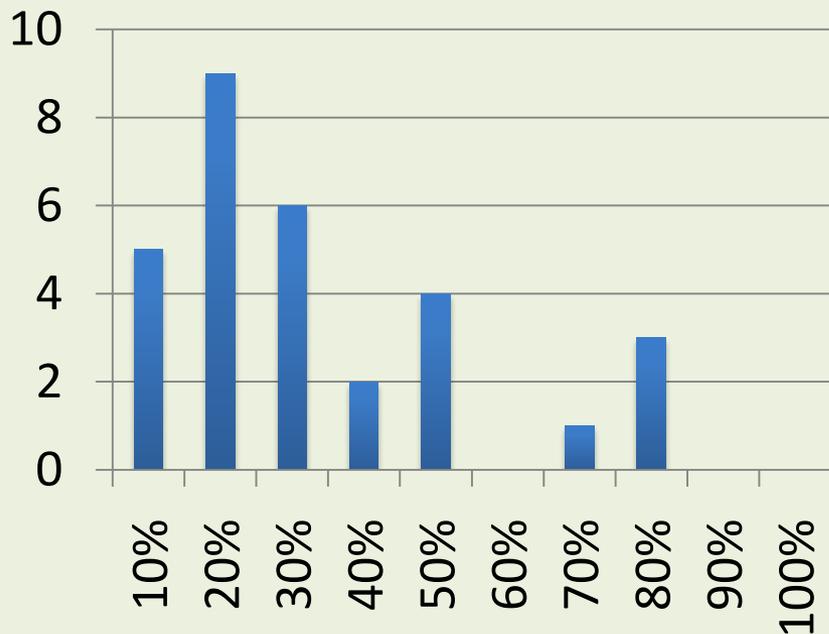
- Buy-to-own
- Buy-to-maybe-own

*New  
Version!*



# Resell fee controls size of 2<sup>nd</sup> hand market

Next: Use survey data to establish supply curve and optimal fee





# Current conclusions

- 2<sup>nd</sup> hand textbook market enables us to establish the value of temporary ownership and hence WTP for rentals
- Enabling resale of digital textbooks, whilst controlling the size of 2<sup>nd</sup> hand market through resale fees, would increase profits
- Could this help maintain higher price points for other digital goods?

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

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