Pricing Information

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Cost of producing information

• costly to produce
• cheap to reproduce
• cost of selling \( x \) copies = \( cx + F \)
  – fixed costs are sunk costs
  – capacity constraints are minimal
• copying and redistribution are cheap

Selling information

• info is an experience good
• reputation is critical
• repeated purchases are common:
  subscriptions
• finding information is key
  – Amazon $18 M deal with AOL
  – popularity of Yahoo, et al

Pricing information

• cost-based approaches don’t work
  – markup on incremental cost?
  – markup on sunk cost?
• value-based pricing is key
  – different consumers have different values
  – so charge them different prices

Prices based on identity

• Student discounts
• OEM installed software
• Site licenses
• Internet
  – easier to differentiate due to flexibility
  – harder due to verifying identity

Versioning information

• Offer a menu of different price-info packages
• Vary the packaging to get the market to self-select
• Classic example: airline pricing
• Info example: books, movies
Dimensions to vary

- Delay (stock prices)
- User interface (DialogWeb v DataStar)
- Resolution (photos)
- Speed (Mathematica)
- Format (Lexis/Nexis)
- Capability (voice recognition)

Kurzweil voice recognition

- VoicePad Pro: $79
- Personal: $295
- Professional: $595
- Office: $795
- Law: $1,195
- Medical: $6,000
- Surgical: $8,000

Pitfalls

- Arbitrage
  - Workstation NT, Server NT
  - airlines
- Resentment
  - airlines
  - catalogs

Bundling

- Offer packages of goods together
  - Microsoft Office
  - magazines: bundle of articles
  - subscription: bundle of magazines
- Cost reasons
  - many go away with electronic delivery
- Demand reasons
  - are increased with electronic delivery

Example of Bundling

<table>
<thead>
<tr>
<th>Word processor</th>
<th>Spreadsheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mark Ketting</td>
<td>120</td>
</tr>
<tr>
<td>Noah Count</td>
<td>100</td>
</tr>
</tbody>
</table>

Unbundled sales: revenue = $400
Bundled sales: revenue = $440

Why bundling works

- Reduces dispersion in customer value
- Previous example
- Works even if values aren’t correlated
  - magazines
- Generalized bundling
  - consumers choose
Versioning: good or bad?

- Does it increase size of market?
- IBM Laser Printer Series E
  - office
  - home
- Textbook example
  - India
  - US

Terms and conditions

- Crypto envelopes & SD to enforce T&C
- Liberal terms
  - more valuable, less sold
- Conservative terms
  - less valuable, more sold (maybe)
- Library history, video history
- Maximize value, not protection

Summary

- Cost and demand differences of info
- Differential pricing
  - groups
  - versioning
- Bundling
- Good or bad?
- Terms and conditions