

# UNIT 5

## RIGHTS MANAGEMENT

### PRODUCTION AND DISTRIBUTION COSTS

- Digital technology changes two significant costs faced by a publisher of content:
  - Reproduction costs: Digital technology dramatically reduces the cost of making perfect reproductions.

- Distribution costs: Digital technology allows these reproductions to be distributed quickly, easily, and cheaply.
- Some technologies made copying easier, and others made distribution easier. Consider the following two examples
- A tape recorder offers a cheap way to copy music,
- But it is just as expensive to distribute a copy of a cassette as it is to distribute the original cassette.

- The tape recorder lowers the cost of copying, but not the cost of distribution.
- An AM broadcast of a classical recording is a cheaper way to distribute the music than a high-quality CD,
- But the sound fidelity is poor, and, even worse, listeners have no control over when they listen.
- Digital technology is uniquely potent precisely because it sharply lowers both copying and

distribution costs. Each of these new capabilities offers a different set of challenges to rights management and requires a different set of responses.

- Similarly, a black and white photocopy of an art book may be a cheaper method of distribution
- but it is not nearly as valuable to potential users as the original full-color book.

- In these cases, the distribution costs are reduced, but the quality of the reproduction is much worse than the quality of the original

## LOWER DISTRIBUTION COST

- We can take advantage of lower distribution costs

- Allows to promote your products more effectively

## LOWER DISTRIBUTION COST

### **Give away your content**

- information good is "experience good":  
consumers don't know what it is worth to them until they experience it.
- By "giving away" at least part of their content, they end up making a lot more money

- Give away ***only part of your product***. This is like the old marketing tactic of offering free samples of consumer products, but updated for the digital age
- Trick is to:
  - break your product up into components; some you give away, others you sell. The parts that are given away are the advertisement
- The infomercials : for the parts you sell
- Internet is ideal for "infomercials."
- Cheap versions (which can even be free) serve as advertisements for the high-priced versions

# Demand for Repeat Views

- For some sorts of information—music, for instance—repeated plays are very important.
- If you hear a song on the radio that you like, you may want to hear it again right away.
- But if you read a novel—even one that you enjoy very much—you are unlikely to want to read it again in the near future.
- The radio broadcast of a song is an ad for itself—or, more accurately, it's an ad for a more conveniently packaged version of itself.



- This means that giving away a single view of the product is often an attractive marketing strategy for information goods targeted at the children's market.
- The desire for repetition is common among children. There is something very comforting to a child in reading the same story, or hearing the same song, or seeing the same video over and over and over again.
- In case of adults, specially Sci-Fi movies encounters repeated viewings

- Free samples of information are effective for two reasons:
  - (1) consumers need samples to see what it is you are selling (the experience good effect)
  - (2) it costs you almost nothing to provide these extra bits (the zero marginal cost effect)

## Complementary Products

- One attractive idea is to give away an index or table of contents and to sell access to the main material.

- This exploits the obvious complementarity between the contents and the content
- Offer the index or search service for free to increase demand for priced content

## **LOWER REPRODUCTION COSTS**

- Let us turn now to the other significant cost factor charged by digital technology:
  - Reproduction.

- Digital copies are *perfect copies of the original*.
- For digital content, production is reproduction.

## Historical Example – Growing the market

- The book producers in 1800 and the video producers in 1980 didn't appreciate how dramatically the market could grow. Publishers used to dealing with a wealthy elite didn't foresee that literacy would dramatically increase if there was something interesting to read

- Hollywood producers didn't recognize that VCRs would become a mass-market item if popular content was available for them

## Historical Example – Growing the market

- It's easy to see the threats inherent in the new media; it's hard to see the promise.
- The key issue is how to exploit economies of scale: a thousand consumers paying a dollar a piece to download a piece of software that costs pennies to produce

- We think that the natural tendency is for producers to worry *too* much about *protecting their intellectual property*
- The important thing is to *maximize the value of your intellectual property*

## CHOOSING TERMS AND CONDITIONS

- The first thing to do is to recognize the fundamental trade-off between control and customer value.

- The more liberal you make the terms under which customers can have access to your product, the more valuable it is to them.
  - you can charge a higher price, and second, more consumers will want to buy it.
- However, the more liberal the terms and conditions, the more copying and sharing, and the less the producer sells
- When choosing terms and conditions, recognize the basic trade-off: more liberal terms and conditions will tend to raise the value of your product to consumers

but may reduce the number of units sold. The trick is to pick the terms and conditions to maximize the value of your intellectual property, not to maximize the protection

## End of Unit 5