

Information Rules:

A Strategic Guide to the Network Economy

Information Policy

Carl Shapiro
Hal R. Varian

Jim Barksdale

- "...working with the government is far more productive than trying to ignore it."

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Competition Policy

- Differentiation of products and prices
- Lock-in
- Positive feedback

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Price Differentiation

- Robinson-Patman Act , 1936
 - price discrimination is illegal if it "effectively lessens competition")
- Legal arguments that work
 - Can set lower prices resulting from lower costs
 - Set differential prices to meet competition
 - Pricing only questionable if it "lessens competition"

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Differential Pricing Can Hurt Consumers

- 100 people wtp \$20, 1000 people wtp \$6
- Optimal flat price = \$6
- 100 people wtp \$20 for early edition, \$5 for later, 1000 people wtp \$5 for later
- Optimal to sell at \$20 and \$5
- Consumers now are worse off

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Differential Pricing Can Benefit Consumers

- 1000 consumers wtp \$20, 100 people wtp \$6 for early, \$5 for later
- Optimal flat price = \$20
- Versioning: sell for \$20 and \$5
- Key: will versioning increase size of market?

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Competition Policy

- Sherman Act
- Clayton Act
- Protects competition as a process
- Monopoly isn't illegal, but attempt to monopolize is

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Government Choices

- Do nothing
- Act on basis that monopoly was illegally obtained
 - Break up
 - Prohibit suspect practices
- Regulate the monopolist

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Implications for Strategy

- Monopoly may be inhibited from using strategies that are legal for other firms
- But even small firms may be accused of antitrust violations
- Role of treble damages

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Be Aware

- Virtually any acquisition or merger will be reviewed
- Watch out for meeting with rivals
- Document your compliance

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Mergers

- Adobe/Aldus
- Microsoft/Intuit
- Silicon Graphics/Alias/Wavefront

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Cooperative Standards Setting

- Standards setting...or cartel?
- Watch out for prices and terms agreements
- Performance standards as barrier to entry
- Patent cross licenses
- Interconnection agreements

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Single Firm Conduct

- Exclusive dealing
- Tying

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Achieving Critical Mass

- Private sector can be creative about network externalities
 - Video stores
 - Kodak film system
- Important basic technology needs to be proven or demonstrated

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Regulation

- Control genuine monopoly power where it exists

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Universal Service

- Corollary to network externalities?
- Geography
 - Incorporated into land prices
- Income level
 - Merit goods
 - Why do some not have service?

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Lessons

- Don't expect government's role to diminish
- Every company needs to know the rules
- You can usually use differential pricing
- Policy should ensure fair fight, not punish winners or protect losers
- Mergers are subject to review by DoJ

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Lessons, continued

- Cooperate to set standards and develop new technologies, so long as efforts benefit consumers
- If you gain a leading share of market, conduct audit of your practices
- Don't expect government regulation of telecom to diminish any time soon

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