

Information Rules:

A Strategic Guide to the Network Economy

Versioning Information

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Value-Based Pricing

- Don't need to price by identity
- Offer product line, and watch choices
- Design menu of different versions
 - Target different market segments
 - Price accordingly (self selection)

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Quicken Example Revisited

- Quicken for Windows at \$20
- Quicken Deluxe at \$60

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Traditional Information Goods

- Hardback/paperback
- Movie/video

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Dimensions to Use

- Delay (Fed Ex, PAWWS)
- User Interface (DialogWeb, DataStar)
- Image Resolution (PhotoDisk)
- Speed of operation (Mathematica)
- Format (Lexis/Nexis)
- Capability (Kurzweil)
- Features (Quicken, tech support)
- Comprehensiveness (DialogWeb, DataStar)

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Example

- 40 type As: \$100 for speed, \$40 for slow
- 60 type Bs: \$50 for speed, \$30 for slow
- Identity-based pricing: \$7000 revenues
- Offer only speedy: \$50 is best price, revenues=\$5,000
- Offer only slow: not as profitable

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Versioning Solution

- Try speedy for \$100, slow for \$30
 - Will this work? Compare benefits and costs
 - $100-100=0$, but $40-30=10 > 0$
 - Discount the fast version: $100-p=40-30$
 - So, $p=90$
 - Revenues = $\$5,400 = 90 \times 40 + 30 \times 60$

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Making Self-Selection Work

- May need to cut price of high end
- May need to cut quality at low end
- Value-subtracted versions
 - May cost more to produce the low-quality version.
- In design, make sure you can turn features off!

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Pitfalls

- Resentment
 - Victoria's secret
- Arbitrage
 - Windows NT workstation/server

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Online and Offline Versions

- The Whole Internet
- Netscape Navigator
- Dyson Dictum: think of content as free
 - Focus on adding value to online version
- National Academy of Science Press
 - Format for browsing, not printing

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How Many Versions?

- One is too few
- Ten is (probably) too many
- Two things to do
 - Analyze market
 - Analyze product

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Analyze Your Market

- Does it naturally subdivide into different categories? AND
- Are their behaviors sufficiently different?
- Example: Airlines
 - Tourists v. Business travelers

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Analyze Your Product

- Dimensions to version
- High and low end for each dimension
- Design for high end, reduce quality for low end
- Low end advertises for high end

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Goldilocks Pricing

- Mass market software (word, spreadsheets)
 - Network effects
 - User confusion
- Default choice: 3 versions
- Extremeness aversion
- Small/large v. small/large/jumbo

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Microwave Oven Example

- Bargain basement at \$109, midrange at \$179
 - Midrange chosen 45% of time
- High-end at \$199 added
 - Mid-range chosen 60% of time
- Wines
 - Second-lowest price

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Customizing the Browser

- Collect behavior information (Java)
- Optimize viewing
 - B&W page images
 - Buffering
- Can turn it on and off

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Bundling

- Offer a package
- Microsoft Office
 - 90% market share
- Work together
- Discount one of the products
- Option value: zero incremental price
- Microsoft's per-processor license

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Reduce Dispersion

- Example: price separate or together
- Mark: \$120 for WP, \$100 for spreadsheet
- Noah: \$100 for WP, \$120 for spreadsheet
- Profits
 - Without bundling: \$400
 - With bundling: \$440

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Reduce Dispersion: Price separate or together?

	Word Processor	Spreadsheet
Mark Ketting	\$120	\$100
Noah Count	\$100	\$120

Profits: With Bundling: \$440 Without: \$400

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Information Bundles

- Magazines and newspapers
- Law of large numbers
- Customized bundles
- Nonlinear pricing
 - In previous example sell first item for \$120
 - Sell second item for \$100
 - Example: MusicMaker

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Promotional Pricing

- Sales, coupons, rebates
- Only worthwhile if segment market
- Credible signal of price sensitivity
- Problem with software agents
 - Bargain Finder
 - Price Scan

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Lessons

- Version your product
- Delay, interface, resolution, speed, etc.
- Add value to online information
- Use natural segments
- Otherwise use 3
- Control the browser
- Bundling may reduce dispersion

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