ITR5 Information Usage

Lecture 10

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Reading

Shapiro and Varian, chapter 2

Commodification

Is the process by which the value of information declines to the marginal distribution cost, i.e. close to zero.

We have discussed this process in the previous lecture. In this lecture, we assume that there is an information provider has some unique information that they and only they control. Here we discuss ways that they can extract value from it.

Here we talk about personalized products and personalized pricing.

Personalization

Example: opera software. Linux version funded by adds, lets me customize adds.

Example: weather.com.

Example: NYT registration: ZAG

“know thy customer”

“On the Internet, no-one knows that you are a dog.”

Psychological studies on print media have shown that the time spent on looking at an item is the best way to find out how interested somebody is in this item.

It is difficult to find this out from the logs of the web. But what is available is quite valuable. It takes some computer skills to find out.

Personalized pricing

Imagine a software company that will sell an accounting software.

There are two costumer groups, professional and home use.

Assume that professionals will pay \$60, and home users will pay \$20.

What price should they charge?

three level of differential pricing

- personalize pricing
- group pricing
- versioning

Versioning will be done later.

Personalized pricing

This is very common in the mail order business. When the Britannica tried to determine the price of its CDs, it used a mail order campaign quoting prices between $70 and $125.

Supermarkets can gather personalized information through frequent shopper cards, and use that to make personalized special offers.

Such personalized pricing is trivial to do on the Internet.

Group pricing

There are four reasons for group pricing

- price sensitivity
- network effects
- lock-in
- sharing