

Pricing music in the digital age: Mutually advantageous price discrimination in practice

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This paper presents preliminary results of the research project “Direct Assessment of a Method for Digital Music Distribution Supporting Revenue Generation and Sharing” (£276,662; funded by the RCUK Digital Economy programme). The unsuitability of past business models and the lack of viable replacement have been generally acknowledged as being one of the key contributing factors in the crisis most cultural industries have experienced since the advent of digital technologies.

Rayna (2008) and Rayna and Striukova (2008) have pointed out that finding suitable business models for the digital economy requires to understand the changes in economic nature and characteristics brought about by digitalisation. One key aspect, as demonstrated by Rayna (2008) is that digitalisation transforms content into pure information. It has long been known that the very nature of information is prone to cause market failure, in particular when transmission costs are negligible (Arrow 1962). Hence, information is a quasi-public good, and so are cultural goods as soon as they have been digitised.

For the same reason that a standard market mechanism cannot be used to provide an efficient outcome of public good (Samuelson 1954), current business models are simply unsuitable to trade digital goods. Rayna and Striukova (2008) suggested that an answer to this problem, as well as the issue of personal information collected at the expense of consumers, could be found in a mutually advantageous first-degree discrimination system, where consumers would be rewarded for disclosing their reservation prices so that price discrimination would not make them worse off. Rayna (2010) demonstrated that, since the imperfect competition is currently the rule in the cultural industries, a switch to such a system of price discrimination would result in a clear Pareto improvement.

This paper aims to demonstrate how these theoretical concepts can be used in practice. Using the music market as application field, it is shown how such a mechanism could be implemented within existing online distribution channels. The expected impact on social welfare as well as the potential

effect on consumer piracy are also discussed. Finally, the various requirements (legal, technological, etc.) required for this new business model to succeed are analysed.