MISQ Archivist

The Impact of Digitization on Content Markets: Prices, Profit, and Social Welfare

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Abstract

The pervasiveness of the Internet and digitization has revolutionized the delivery and consumption of information goods. In this paper, we study the impact of digitization and the shift in consumers' preferences for the digital medium on outcomes including social welfare in content markets. We consider a publisher who offers information goods in both physical and digital media and also in a bundle of physical and digital media in a market where consumers are heterogeneous in both their valuations for content and their preferences for media. We find that the publisher's optimal content-medium strategy is to offer the content only in the digital medium under some market conditions, and to offer the content in a bundle of media and the digital medium under other conditions. Interestingly, while the price of the bundle of media increases with the marginal cost of the physical medium, the price of the digital medium may decrease when the marginal cost of the physical medium is sufficiently large. Surprisingly, we find that consumer surplus can decrease as the proportion of ***digital-savvy*** consumers (consumers who prefer the digital medium over the physical medium) increases, and social welfare may have a discrete decrease when the proportion of digital-savvy consumers is sufficiently large. Counter to intuition, when more consumers prefer the digital medium, while the digital price may have a discrete increase, the price of the bundle may have a discrete decrease.

Keywords: Information goods pricing, partial-substitute medium, bundled media, heterogeneous preference for media, content market