Discussion of “The Economics of Digital Goods” by Paul Belleflamme
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The Economics of digital goods

- Models have to be simple to be tractable

- Need for a new model to capture key changes

Identified disruptive forces

- New intermediaries – mainly in retail
- New forms of distribution - particularly streaming
- New business models – subscription, advertising, freemium
But these are not the only new concerns

- Disintermediation at the production level
  - We need to open the black box of production and let some of the theory of the firm in
  - Caves talk about nexus of contracts – who sits in the centre? Who should sit in the centre?

- We may be looking at a period of disequilibrium
  - The CD is dead
  - Now downloading is dead
  - Long live streaming
  - And next year?

- Are the rules of the game fit for purpose
  - Time to question effects from regulation especially on dynamics
Comment on the new models

- Consumers:
  - Network effects can be severe, especially with derivative works – depends on how important it is to listen to what the peer-group is listening to.
    - Do we need to think in terms of more than one group of consumers?
  - What can we learn from library lending of CDs or downloads?

- From an economic point of view we care about the amount of industry revenue going to the artists
  - In particular revenue from live performance may matter

- The assumption that there is a common view among artists and record companies may be too strong [at least for some modelling purposes]
Simple vertical structures

- **Established artists**
- **Non-established artists**
- **Publishers**
- **Retailers**
- **Consumers**

Power flow from established artists to publishers, then to retailers, and finally to consumers.
What have we learned from our research

- **Books**
  - Strengthening of market power at the retail level – will get more severe with streaming
  - No evident lessening of power at the publisher level
  - Potentially increased power at the artist level through self-publishing
    - CREATe Working Paper 2017/06

- **Music**
  - Strengthening of market power at the retail level – will get more severe with streaming
  - No evident lessening of power at the publisher level
  - Potentially increased power at the artist level through self-publishing
  - The continued role of the Content Management Organisations
    - CREATe Working Paper 2017/07
Common traits – apart from “all about streaming”

- Big difference between the have and the have-nots when it comes to artists
  - Significant differences in incentives
- Significant political economy issues
  - Famous artists popular with politicians
- Current long-run appears to be streaming combined with niche markets allowing for niche retailers
- Increased creativity when it comes to collecting funds
- Need to rethink rules and regulations
Other issue – what are the policy aims?

- Quantity
- Quality
- Diversity
- Efficiency
- Protecting firms
- Protecting artists
- Distributional concerns

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