



# Discussion of “The Economics of Digital Goods” by Paul Belleflamme London 26 May 2017

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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:

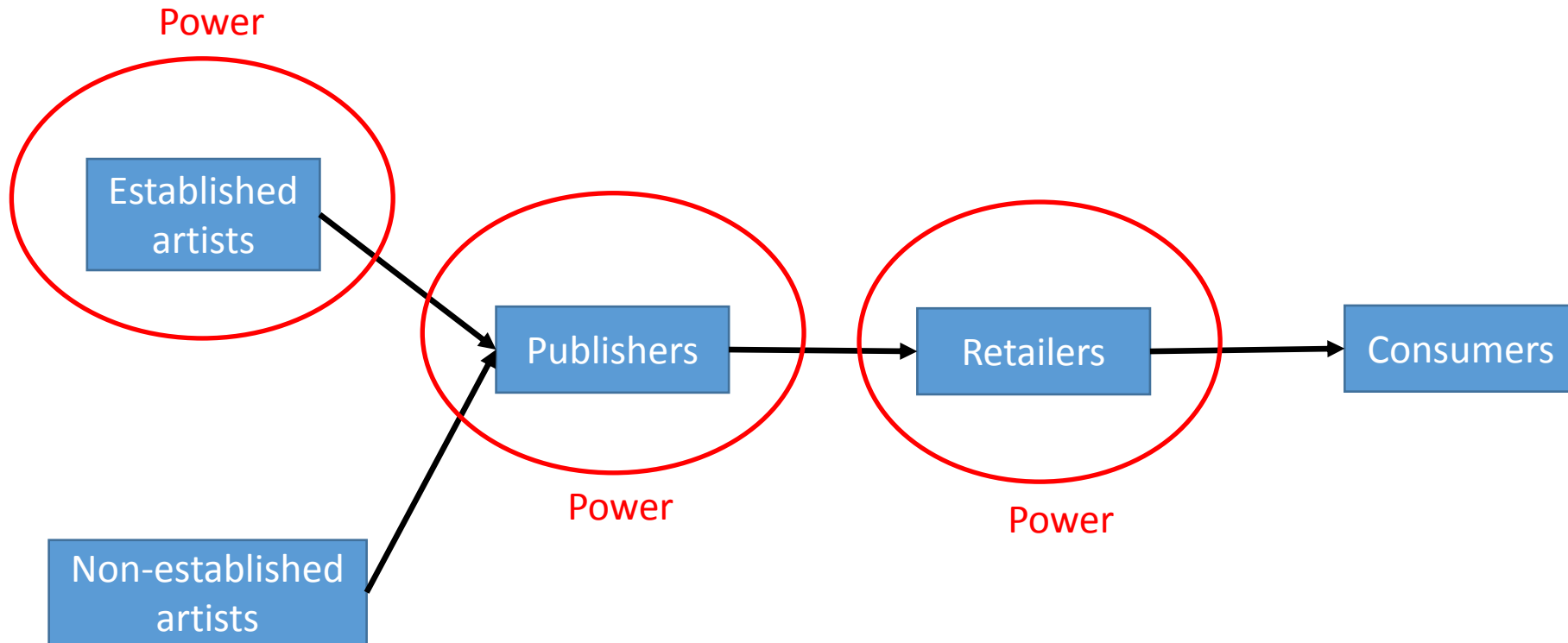
- Network effects can be severe, especially with derivative works – depends on how important it is to listen to what the peer-group is listening to.
  - ❑ Do we need to think in terms of more than one group of consumers?
- What can we learn from library lending of CDs or downloads?

## ❖ 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



# 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