

CS155b: E-Commerce

Lecture 10: Feb. 13, 2001

Business Models and Online Music
Distribution, cont.

Existing Business Models for Information Products

- Fee models: Subscription purchase, Single-transaction purchase, Single-transaction license, Serial transaction license, Site license, Payment per electronic use
- Advertising models: Combined subscription and advertising income, Advertising income only
- “Free” distribution models: Free distribution (no hidden motives), Free samples (*e.g.*, coming attractions), Free first version, Free information when you buy something else (complementary products, bundling).

Less Traditional Business Models for Information Products

- Extreme customization: Make the product so personal that few people other than the purchaser would want it
- Provide a large product in small pieces, making it easy to browse but difficult to get in its entirety
- Give away digital content because it complements (and increases demand for) the traditional product
- Give away the product, sell the service contract
- Allow free distribution of the product but request payment (Shareware)
- Position the product for low-priced, mass market distribution

Discussion Points

- * What should the Bertelsmann-Napster business model be?
- * Why does Bertelsmann need P2P?? They could have more control and possibly higher quality by “serving” music themselves.
- * Are DRM (and, more generally, TPS) and P2P (particularly Napster) antithetical?
 - What does the subscription fee (\$15/month?) entitle the subscriber to?
 - Are they critically dependent on technical protection? (If so, they may be in trouble...)
 - Why can't someone else develop equivalent P2P software and steal Napster's user base? (Recall IE and Netscape.)
Are users concerned about copyright law?

“Daft Club” Model

Purchase Daft Punk CD and you also get a “personalized code” that gives you access to the Daft Club server. From it you get:

- Ability to download a new Daft Punk “bonus track” each month. The bonus tracks are not released on CDs.
- Access to the rest of the Daft-Club user community.

Bonus tracks will be wrapped with DRM metadata that says they can’t be copied. Almost surely circumventable, but would many people bother circumventing?

“Napster++ as Superdistribution” Model (Napster--??)

- Napster users pay monthly subscription fee.
- They can download DRM-wrapped songs from Bertlesmann server. (And other labels if others also settle.)
- When they redistribute via P2P file sharing, they get rebates on their next month’s subscription fees. DRM system keeps track.
- They retain the chat-room, “Napster community” network effects.

Again, probably circumventable. But is there a price point at which circumvention would not be worth it?

“Street Performer” Model

Novelist gives chapter 1 to publisher and promises rest of book after she is paid $\$X$.

Publisher posts chapter 1, collects payments, issues signed receipts to customers (“donors”?).

If publisher collects $\$X+Y$, he gets rest of book from novelist, posts it, gives $\$X$ to novelist, and keeps $\$Y$.

If he collects less than $\$X+Y$, he sends refunds to customers. Also, if novelist doesn’t deliver rest of book, she gets bad publicity and customers get refunds.

“Street Performer” Model (Cont.)

Many variations:

- New author gives first book away
- Non-anonymous big donors
- Some publishers “edit” and choose, and some don’t
- Famous authors don’t have to deliver chapter 1 in advance

“Hum A Few Bars” Model (K. McCurley, Financial Crypto '00)

“I listen to music in the living room, in the office, in the car, in the shower, and while jogging. I want the music companies, consumer-electronic companies, and data-networking companies to wire these environments so that I can hum a few bars and get the song I’ve hummed looked up, retrieved from their databases, and piped into my speakers. I’d expect to pay one monthly fee, as I do for cable TV.”

JF Note: Can be “all streaming”; no need to clutter your living room floor or your computer disk with a “CD collection.” Music will be purely a service, not a product.

Notable Business-Model Components

- + Buy one song at a time (cheap!)
- ? “Lock” content to user.
- “Lock” content to device(s).
- “Play k times.”

(+ / ? / -: Just my guesses.)

Revised Schedule

- ✓ Jan 23: First HW Assignment Due
- ✓ Feb 1: Second HW Assignment Due
- ✓ Feb 8: First Hour Exam
- Feb 22: Optional Final Project/Paper Description Due
- Mar 1: Third HW Assignment Due
- Mar 27: Fourth HW Assignment Due
- Apr 3: Second Hour Exam
- Apr 19: Final Paper/Project Due

Reading Assignment for February 15 and 20, 2001

Chapter 6 of The Digital Dilemma

http://books.nap.edu/html/digital_dilemma/

Benkler and Lessig's Amici Curiae Brief in
Universal v. Reimerdes.

[http://www.eff.org/IP/Video/MPAA_DVD_cases/
20010126_ny_2profs_amicus.html](http://www.eff.org/IP/Video/MPAA_DVD_cases/20010126_ny_2profs_amicus.html)