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. This research studies the impact of digitization and shift in consumers’ preference for digital medium on outcomes in content markets including social welfare. We consider a publisher who offers information goods in the physical and digital mediums and also in a bundle of physical and digital mediums in a market where consumers are heterogeneous in both their valuations for content and their preferences for mediums. We find that the publisher’s optimal medium-pricing strategy is to offer content only in the digital medium under some market conditions, while under other market conditions the publisher’s best strategy is to offer content in a menu of a bundle of mediums and the digital medium. Interestingly, while the price of the bundle of mediums increases with the marginal cost of the physical medium, the price of the digital medium may decrease with the marginal cost. Surprisingly, we find that consumer surplus and social welfare may decrease as the proportion of digital-savvy consumers increases. Counter to intuition, while the digital price increases with the proportion of digital-savvy consumers, the price of the bundle may decrease when more consumers prefer the digital medium.

Bio: Ran Zhang is a PhD candidate at University of California, Irvine. His research focuses on attribution of digital advertising, tradeoff effects between platforms, pricing strategy, and bundling information goods under multi-medium access. His dissertation addresses research questions relating to: 1) the effectiveness of firms’ strategic interaction with consumers through targeting, bundling, and pricing, and 2) the substitutability and complementarity effects of platforms. His research has been accepted at CIST, HICSS, AMCIS and Chicago Big Data Analytics Conference.

He has a Master degree in Information Systems from Iowa State University College of Business, and a Bachelor degree in Information Systems from Nanjing University of Aero.