Chapter VIII

Digital Products on the Web:
Pricing Issues and Revenue Models

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Abstract

Products that exist in digital form can be bought, sold, and, in some cases, delivered, online. The pricing issues that arise in the sale of these products are different from those that sellers face when pricing physical goods and can lead to interesting opportunities for devising revenue models. The success of revenue models for companies that sell digital products depend on the nature of the product, the characteristics of the buyers, and the traditional practices in the industry. This chapter examines the nature of digital products, their pricing issues, and the efficacy of various revenue models that have been implemented by companies that deal in digital products.

Digital Products

Some products exist only in digital form, such as software and certain types of information databases. Many more types of products exist in physical form, but can be digitized.
These products include many forms of intellectual property such as text, pictures, photographs, architectural drawings, choreography notes, sound recordings, and video recordings. In some cases, digital products arise from the transmission of other digital products, as in the case of telephone and fax transmissions.

Defining Digital Products

Krishnamurthy (2003) defines a digital product as anything that can be digitized and includes such items as “advertisements” and “financial assets” such as stocks or bonds. This overly broad definition contrasts with Choi and Whinston’s (2000) definitions of knowledge-based and knowledge-enhanced products. Choi and Whinston (2000) include “information, knowledge, news, databases, software, literature, arts, and other forms of human creation” in their definition of knowledge-based products and any products that can be “enhanced by knowledge, networked, and customized” in their definition of knowledge-enhanced products. Note that these “goods” as defined can include sales of what might have been called “services” in the past.

Ease of use of digital products can be affected by changes in the underlying technologies used to transport, deliver, or provide the end-user experience associated with the product. In some cases, the underlying technology can create a digital product from a traditional physical product or service. Some examples of traditional physical products that have been converted in this manner include:

- Newspapers converted to news Web sites (Krumenaker, 2003)
- Magazines and journals delivered on Web sites (Barsh, Kramer, Maue and Zuckerman, 2001)
- Computer games presented as online experiences (Moon, 2001)
- Audio recordings of music or spoken words (for example, lectures) presented on Web sites (Manjoo, 2003)
- Financial market reports converted to financial information Web sites or Internet-delivered information feeds using, for example, technologies such as Really Simple Syndication (Gillmor, 2003)

Characteristics of Digital Products

Most digital products have common characteristics that identify them as digital products. These characteristics distinguish them from physical products or intangible products without a digital existence, such as financial instruments. These characteristics include:

- High fixed cost to produce the first unit, but low marginal costs to produce subsequent units,
- Quality is difficult to judge without actually experiencing the product,
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