Chapter 1
The Information Economy

- Information goods
- Cost structure of production
- Characteristics of consumption
- Networks effect
- Lock-in
- Compatibility and System competition

Information goods

- Anything that can be digitalized
  - Baseball scores, books, database, magazines, movies, music, stock quotes, Web pages
- Focus on the value of information to different consumers
  - People have widely different values for a particular piece of information

Cost characteristics

- High fixed costs (sunk cost)
- low marginal costs of production
- No significant capacity constraints
- Particular market structures
  - Monopoly
  - Cost leadership

Right Management

- Low reproduction cost is two-edged sword
  - Cheap for owners
  - But also cheap for copiers
- Maximize value of IP, not protection
- Examples
  - Video industry
  - Hollywood now makes more from video sales and rental market, them theater presentation

Consumption Characteristics

- Experience good
  - Browsing, always new, reputation and brad
- A wealth of information creates a poverty of attention
- Internet is a hybrid medium between a broadcast and point-to-point
  - Allow information vendors to move from the conventional broadcast advertising to one-to-one marketing
  - Know your customer and provide customized information

Information Technology

- The infrastructure that make it possible to store, search, retrieve, copy, filter, manipulate, view, transmit, and receive information
- Adds value to information
  - Static HTML in Web =1.5 million books
  - If 10% is useful= 1 Borders Bookstore
  - Value of Web is in ease of access
    - Front end to database et
    - Currency

Network Effects

- Value depends on number of users
  - Networks effects lead to demand side economies of scale
- Positive feedback
  - E.g. Fax (1843, 1987), Internet/ Email(1969,1989-1995)
- Indirect network effects
  - DVD players, Software
- Expectations management (battle for the standard)
  - Competitive pre-announcements to be standard
  - Quattro Pro (Borland),1980s, MS pre -announce Excel
- Assemble a powerful group of strategic partners
  - Customers, Complementors, competitors
  - Ex. Java coalition (from Sun)

Lock-In and Switching Cost

- Example
  - Stereos and LP (long-playing phonograph records)
  - Costly switch to CDs
- System lock-in: durable complements
  - Hardware, software
  - Individual, organizational, and societal

Compatibility

- Complements
  - Different manufacturers
  - Strategy for complementors as well as competitors
  - Compatibility as strategic choice
  - Standards and interconnection

Systems Competition

- Microsoft-Intel:Wintel
  - Intel
    - Commoditize complementory chips
  - Microsoft
    - Commoditize PCs
- Apple
  - Integrated solution
  - Worked better, but lack of competition and scale to current problem