

Jain, Sanjay; Kannan, P. K.

Pricing of information products on online servers: issues, models, and analysis. (English)

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Summary: Online information servers that provide access to diverse databases where users can search for, browse through, and download the information they need have been rapidly increasing in number in the past few years. Online vendors have traditionally charged users for information on the based on the length of the time they were connected to the databases. With hardware and software advances, many online servers have recently started changing their pricing strategies to search-based and/or subscription-fee pricing. This paper examines the various issues involved in pricing these information products, and presents an economic approach to analyze conditions under which the various pricing schemes may prove optimal for the online servers. Our results show that the variation in consumer expertise and valuation of information affects the choice of a pricing strategy by the server. We present general conditions under which subscription-fee pricing is optimal even when consumer demand is inelastic. We also find that, given the cost structures characterizing the market, undifferentiated online servers can compete and coexist in the market each making positive profits. We show that in a competitive setting an increase in costs of online servers can sometimes benefit them by enabling them to differentiate themselves. Our results offer insights into the trends in pricing strategies and may provide an explanation as to why many servers may persist with connect-time strategies.

MSC:

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