

ESSAYS ON PRICING AND COMPETITIVE STRATEGY IN INFORMATION AND SUBSCRIPTION MARKETS

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Abstract

Consumer purchase decisions are increasingly influenced by recommendations generated online. New delivery models are also emerging for information goods due to change in consumption patterns. Information services markets are experiencing growth owing to new entrants offering bundles and subscription services. This dissertation comprises of three studies motivated by these trends. In my first study, we examine the influence of recommender systems on the long run market share of a new product whose introduction follows that of an incumbent, with some established sales. We find that when the sales of the incumbent are below a threshold then the entrant can dominate the market in long run when the trust in the recommender system is sufficiently high. We also analyse a proportional market share based recommender system and find that the incumbent's advantage is dampened under such a system except under some restrictive conditions. In my second study, we examine the response of an incumbent to an entry threat in subscription market. Entry of subscription based firms demands that existing businesses adapt their strategy in response to emerging competition. We study an incumbent's response to entry threat by a player who offers only subscription services with a small range of products that limits her service rate. We classify the market conditions under which a new subscription based entrant is accommodated by an incumbent firm. Our findings indicate that it is best for the incumbent to accommodate an inferior entrant, but deter entry of marginally inferior competitor. While we find that entry deterrence always involves a subscription offer by the incumbent, we show that the converse is not always true. Further, we show that extreme product differentiation is not a necessary condition for accommodation. Incumbent accommodation/deterrence of the entrant is moderated by the enhanced usage factor and psychological cost associated with pay-per-use. In my third study, we determine the optimal linear and non linear pricing strategy of a monopolist offering complementary information goods catering to two segments; where in one segment values the base product, and other segment values both base as well as complementary products. In this research, we analyse and compare four different types of pricing strategies and generate insights highlighting the role of base product valuation and level of complementarity among products, on the relative profitability of linear and non linear pricing strategies. Contrary to intuition, we find situations where a hybrid pricing is more profitable than incentive compatible bundling.