Consumer Resale in a Digital Age

MIT Students
Digital Used Goods

Used goods have several characteristics

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<tr>
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<th>Physical Appearance</th>
<th>Content</th>
<th>Availability (Timing)</th>
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<tbody>
<tr>
<td>Used goods</td>
<td>X</td>
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<tr>
<td>Digital used goods</td>
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NEW

Producer

Original Buyer

USED

Original Buyer

Secondary Buyer

Image by MIT OpenCourseWare.
Current State

• Legal restrictions currently disallow digital resale
  • Amazon Explicitly disallows this when purchasing digital content

• Piracy
  – Those with $WTP < Purchase Price$ have only pirating as an option
  – Current Pirates are not a concern of content producers. Only those converted by lower prices are.
Traditional Sale

Mary Moneybags

Content Producer

Retailer (eBay/Amazon)

Charlie Cheapo

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<tr>
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<th>Content</th>
<th>Dollars</th>
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Used Good Sale

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Content Dollars
Hypothesis: A Used Digital goods market decreases dead-weight loss

A resale market for digital goods would reduce deadweight loss.

**Consumer Benefit**
- Used Good Pricing
- Different WTP

**Retailer Benefit**
- More Volume
- Transaction fee from each resale

**Content Producer Benefit**
- Increased content spread
- Increased Piracy Conversion
Benefits to Consumer

• Consumers Pay a lower price for identical content
• They are willing to trade the ‘freshness’ of their music for dollars

Current rigid prices for digital goods do not reflect consumer willingness to pay
Benefits to Retailer

- More Transactions = More Revenue
- Used goods allow you to capture consumers at different price points over a longer period of time.
- MC for enabling these resale transactions is zero.

Cumulative Revenue from Transactions over Time

- Cumulative Revenue - No Resale
- Cumulative Revenue - Resale
Benefits to Producer

• Content Exposure
  – Long tail
  – Peer to peer: “word of mouth”

• Piracy Conversion
  – Customers with a WTP > Resale Price can purchase used rather than pirated content (some revenue vs. no revenue)

• Alternative Options
  – Droit de Suite vs. First Sale Doctrine
    • Droit de Suite allows original producers to collect a fee each time a work is resold.
Consumer Resale Should be Allowed

• Reduces deadweight loss in society

• Each party in each transaction has some benefit, appealing to all stakeholders.
Questions?