Pricing Digital Textbooks for growth and profits

Team Project
15.567 Economics of Information
MIT Students
Exponential growth forecast, but pricing is key
Pricing in the ‘textbook’ category is less variable

Source: Amazon.com
Hypothesis

In a market with

- a well developed 2nd hand market\(^1\)
- where goods do not degrade significantly through use

- pricing will be less variable
- 2\(^{nd}\) hand pricing indicate WTP for rental

\(^1\) 50-60\% of textbooks are purchased 2\(^{nd}\) hand. Source: Survey of MIT Sloan students. 49 respondents.
Data suggests WTP for rentals is ~30% of list price

Source: Amazon.com
Survey confirms WTP for rentals ~30% of list price

Q: At what discount rate do you expect to sell your books at the end of the semester?

Source: Survey of MIT Sloan students. 49 respondents.
Many versions exist in the current market

- Buy new to keep, 25%
- Buy new to resell, 10%
- Buy used to keep, 26%
- Buy used to resell, 34%
- Rent, 1%
- Buy digital textbook, 4%

Source: Survey of MIT Sloan students. 49 respondents.
Digital textbook limited to one version: Purchase at ~20% discount

Source: Amazon.com
Current price point fails to maximize growth & profits

• 29% willing to pay full price to own
  – But currently purchase at 20% discount
• 44% would not buy digital as buying and reselling print is better value
  – Slows growth in digital textbook sales
  – Printing + shipping costs reduce profits
• 30% of new and 55% of used books purchased will be resold
  – No value captured on these transactions

Source: Survey of MIT Sloan students. 49 respondents.
Hypothesis II

Enabling resale of digital textbooks would create a 2\textsuperscript{nd} hand market and increase growth and profits

• Buy-to-own
• Buy-to-maybe-own
Resell fee controls size of 2nd hand market

Next: Use survey data to establish supply curve and optimal fee

Source: Amazon.com
Current conclusions

• 2nd hand textbook market enables us to establish the value of temporary ownership and hence WTP for rentals

• Enabling resale of digital textbooks, whilst controlling the size of 2nd hand market through resale fees, would increase profits

Could this help maintain higher price points for other digital goods?
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