Digitization and Competition in Copyright Industries:

One step forward and two steps back?

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Introduction

Incentives for content creation increase in two factors (among others):

1. The extent to which present creators can **appropriate** the value of creations.
2. The extent to which the market for copyright works remains **competitive**.

According to a relatively extensive literature, unauthorized copying has:

1. Reduced the appropriability for creators and rights holders.
2. Increased competition between creators/rights holders.
3. There is no evidence that the supply of new creative works would have been diminished by unauthorized, digital copying.

>> What will be the effects of digital retailing? <<

Benefits of e-retailing

1. Miniscule marginal costs of reproduction and disseminating works.
2. Lower costs of inventory storage.
3. Less need to predict demand for specific, existing works.
4. Lower search costs and shoe-leather costs on the user side.
5. Additional services such as recommendation systems that help users make better-informed decisions.
6. Facilitated gathering and processing of information on users by suppliers.
7. Digital retailing services are likely to compete better with unauthorized copying.

Market power of e-retailers (1)

- The economic point of a copyright system is to endow those investing the creation of protected, quasi-public works with some market power.
- The effective market power of copyrights holders decreases with market power of other intermediaries or users.
- Digital retailers will probably acquire substantial market power, which could undermine the desired effect of copyright.
- Digital retailing means the integration of distribution/wholesaling and retailing.
- Online retailing of copyright works is already more concentrated than traditional distribution and retailing ever was.

Market power of e-retailers (2)

- The market share of the iTunes store in paid music downloads was estimated to be 63% in the US during the fourth quarter of 2012, followed by AmazonMP3 with 22%.
- This means the iTunes store accounts for almost 30% of the entire US market for record music, online and offline (NPD, 2012).
- The market share of Spotify in the Scandinavian countries is extremely high (Findahl, 2011).
- Concentration in the entire market for recorded music among end-consumers is likely to become even greater as:
  - The traditional market for physical sound-carriers diminishes.
  - A ‘dominant-design’ for e-retailing of recorded music develops.

Market power of e-retailers (3)

VUT Survey (2010):

What was the percentage share of **self-distribution** in total unit sales of your record label(s) in 2009?[1]

	> 0%	> 50%	100%
Physical sound-carriers	83.7%	30.8%	12.0%
Downloads	25.4%	6.6%	4.1%

Notes: All German independent record companies in the VUT that operated in 2009; on the basis of 119 to 161 valid answers per sub-questions; for each sub-questions, respondents could choose between 13 response categories between 0% and 100%.

[1] Self-distribution means that the record label holding the 'related rights' to the recordings conducts the distribution itself, rather than licensing an external partner to distribute the work(s) in question.

Economic factors favouring large e-retailers

1. A cost structure with some sunk setting-up costs and fixed costs and low, non-increasing marginal costs.
2. Direct network effects.
3. Switching costs / end-user lock-in.
4. Indirect network effects.
5. Market information and asymmetric information of central intermediaries.

Altogether, there probably is a 'winner-takes-all' situation:

- Initially, competing e-retailers/platforms will compete fiercely to maximize their market share, often by subsidizing participants that attract other users and incurring losses.
- Competition is not sustainable but gives way to a quasi-monopoly where a single, dominant supplier operates profitably.

Conclusions

- Digital retailing makes trading of copyright works more efficient.
- Digital retailers will probably develop extensive market power.
- This could undermine the appropriability of creators and render copyright policy ineffective as a means to promote content creation.
- More empirical work is needed to monitor the situation, which is still far from stable.
- There is a need for adequate regulation or copyright policy may become ineffective in digital markets.