

Guillermo Caruana's discussion of:

Versioning when customers can *buy both*
versions: An application to intertemporal ***movie*** *distribution*

by

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Taking perspective

- Versioning
 - Sequencing
- } Two types of price discrimination
- When does a monopolist price discriminate?
When he has the ability to use an instrument that has a differential effect on different types of consumers (single crossing condition)

time



Movie
today

Movie
tomorrow

quality



DVD
today

DVD
tomorrow

time



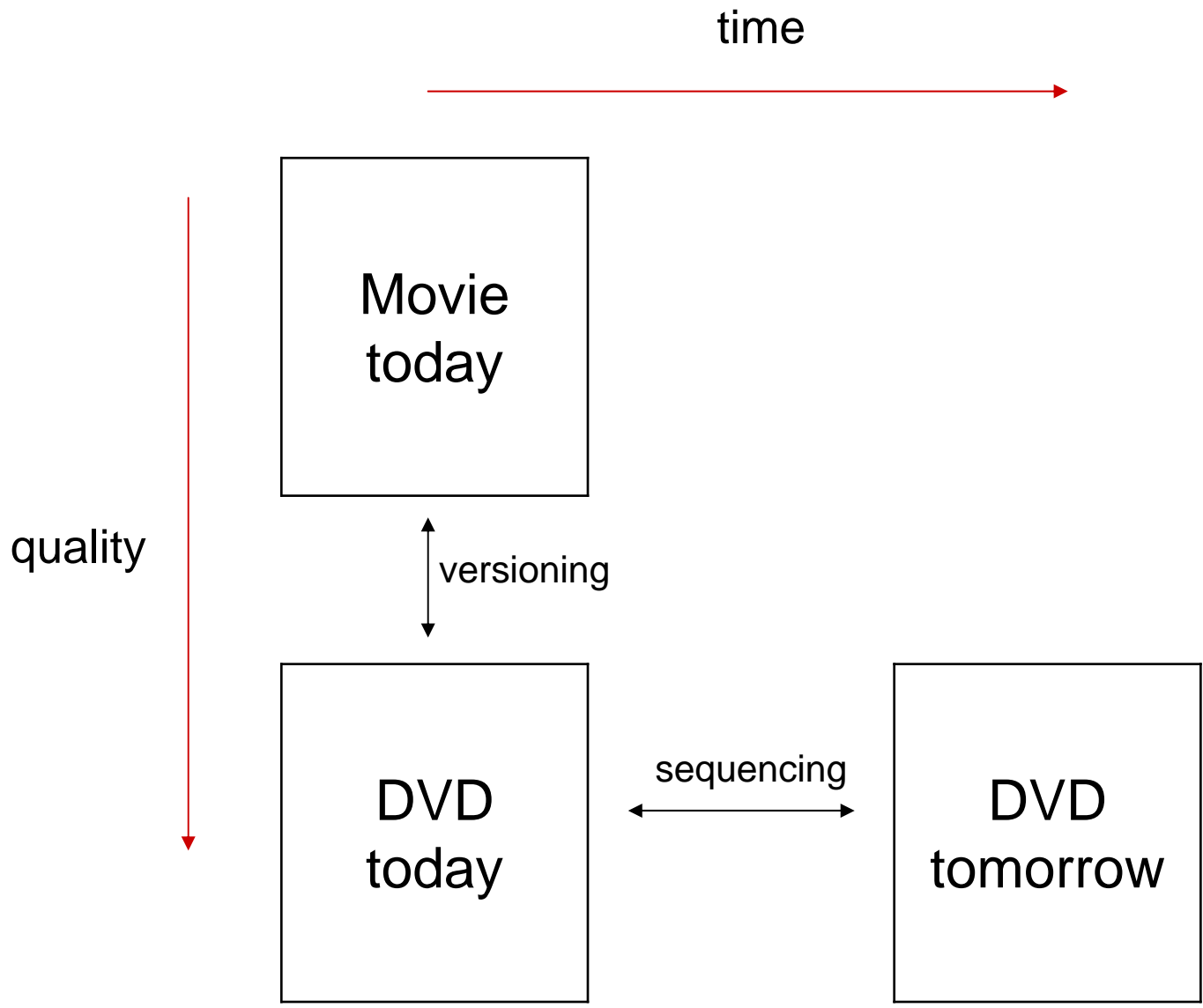
quality



Movie
today

DVD
today

DVD
tomorrow



Summary of the results

In a linear uniform model as the one presented in this paper:

- “Previous literature” obtains NO VERSIONING.
- By allowing consumers to purchase both goods, one obtains VERSIONING, but no SEQUENCING.
- By introducing a particular industry structure, one obtains SEQUENCING.

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Sensible reasons that lead to differential effects

- Informational externalities.
- Different discount rates for distributors and consumers.
- Different discount rates across consumers.
- Different marginal costs for movies and DVDs.
- Differential perceived costs across consumers (big families vs. a single consumer).
- Movies are perishable, DVDs durable.

In sum, it is not difficult to envision more intricate substitution patterns between products that lead to **VERSIONING** and/or **SEQUENCING**.

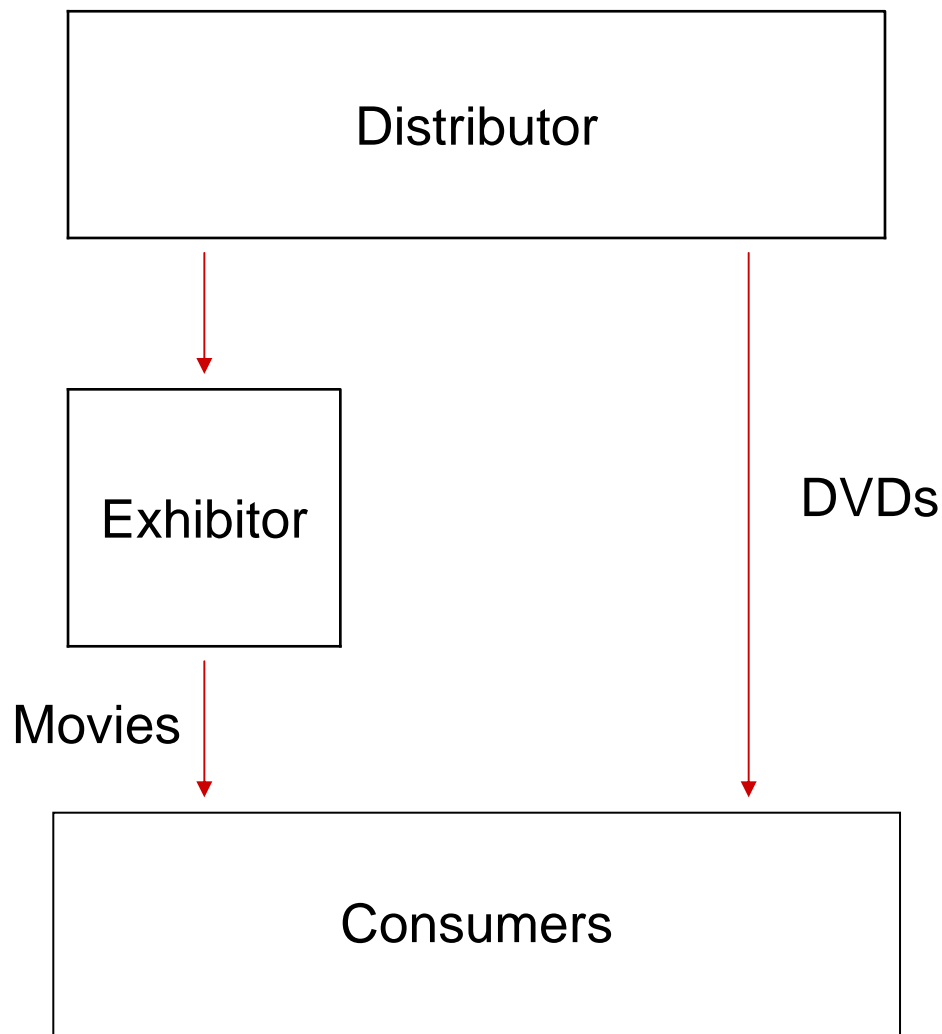
→ The merit of the imperfect substitution channel becomes an empirical question.

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 - *why?* imperfect substitution.
- By introducing a particular industry structure, one obtains SEQUENCING.
 - *why?* As a way to bypass the exhibitor’s market power.

Market structure



Double marginalization
leads to versioning

+

Exhibitor bargaining
power leads to
sequencing

Caveat: Is this the actual
market structure?

Final remarks

- Imperfect substitution is not needed for the sequencing result.
- This seems to divide the paper into two parallel stories.
 - Buying both explains versioning
 - Market structure explains sequencing
- The model assumes Nash bargaining over the windowing..., but not over the other terms. Problematic for two reasons:
 - Nash bargaining over all terms would bring the results back to the case with no exhibitors.
 - More natural to have the distributor deciding on the windowing ex-ante.