

'Digital piracy' may benefit companies

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Digital piracy has been claimed to endanger whole industries.

Unauthorised copying of software, music or films, so-called digital piracy, may have benefits for the affected companies, an Oxford researcher has claimed.

In her talk at the Annual Conference of the Royal Economic Society, Oxford economist Karen Croxson suggests that piracy does not necessarily undermine profit as pirates may actually help to promote the product they steal.

Ms Croxson said: ‘Digital piracy has been claimed to endanger whole industries. A natural question to ask is: Why do some companies develop water-tight technology to safeguard their intellectual property when others appear more relaxed about copying?’

Ms Croxson points out that piracy poses a threat to sales only when those who otherwise would buy become tempted instead to copy. In any market there are some who value the product but never would buy. Their piracy cannot harm the seller. Quite the opposite: because, like any consumer, a pirate will talk to others about product experiences, copying which does not displace sales can actually help business. Consumer ‘buzz’ is hugely important for sales success, studies have shown, and piracy drives up buzz without the need for extra marketing.

Ms Croxson’s analysis considers the temptation to copy a product illegally. This comes down to quite personal factors. Relevant parameters include the value of time, fear of penalties, and moral costs. Modelling this behaviour enables her to predict the variation across markets in the genuine threat to sales and the optimal response of the seller in different cases.

Computer games, for example, are protected heavily because their products are aimed at the youth market. Younger people tend to value games most, but may worry less about copying illegally and have more time on their hands. Piracy may be cheap for them, but their copying, because it undermines sales without generating extra promotional benefits, is detrimental to business. A taste for draconian anti-piracy measures, unsurprisingly, is prevalent among games manufacturers.

In contrast, business software producers appear to put lower effort into protecting their products against piracy, and the reasons may not be immediately obvious. The model provides some explanation. Professional users are known to attach a higher worth to office software

than, for example, students. At the same time, they are likely to have higher piracy costs as their time is more precious and they may focus more on legal repercussions.

Ms Croxson explained: 'With valuable users shying away from copying, the sellers in the business software market find themselves more naturally insulated against lost sales. Those more inclined to pirate, perhaps students, probably wouldn't have bought the product anyway, so represent virtually free promotion. This helps explain why business software companies do not put as many resources into protection as computer games manufacturers.'

'Building a theoretical model of `promotional piracy', it is possible to distinguish markets that are best advised to put considerable resource into safeguarding their products from others which may live quite comfortably with a higher incidence of digital piracy.'

Source: Univesity of Oxford

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