

Software Marketing on the Internet: the Use of Samples and Repositories

March 2009

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CCP Executive Summary

BACKGROUND

- Firms practice a variety of strategies in the marketing of experience goods over the Internet. In particular, they often offer free samples of their products. For example, an online newspaper may offer the first paragraphs of an article for free, a book seller may provide access to the first few pages of a book, and a dating site may provide basic features for free.
- Those firms may rely on intermediaries such as Google News, MyYahoo or Amazon.com to provide wider access to the samples. Those intermediaries then direct consumers back to the websites where the sampled products are sold.
- Software itself is often offered as shareware, free on a trial basis. Shareware may have a built-in expiration date, or it may have some features disabled. After the trial period or in order to have access to the missing features, the consumer must buy the complete version of the program.
- Software publishers who offer shareware often choose to let shareware repositories, such as Download.com, handle the distribution of their sample.
- Offering samples is desirable from a social welfare point of view as samples provide consumers with all the information they need to perfectly rank alternatives, and thus promote competition.

METHODOLOGY

- The paper focuses on software marketing to address the question of when firms offer free samples and, when they do so, when they choose to let intermediaries handle their distribution.
- A theoretical model is developed and then four types of Probit-based models are used to corroborate the findings empirically. Software was selected in 2006 from two databases, CNET download.com, which is the dominant shareware repository, and amazon.com, a dominant internet retailer.

KEY FINDINGS

- The paper shows a significant relationship between the choice of a strategy and the prominence of a software publisher's website. Better-known publishers usually do not offer samples. Less well-known software

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publishers tend to offer samples and rely heavily on shareware repository for distribution.

- This type of difference in strategies is only sustainable because not all consumers know of the existence of shareware repositories, so well-known firms can profitably exploit less knowledgeable consumers even at the expense of sales on the repositories, where better informed consumers go.
- Firms are thus still able to build on their brand to maintain profits. Seen in another light, this means the internet does not make reputation or location irrelevant. Search engines and other internet tools do not make the internet a level playing field where opportunities to sell would depend only on the product's own merit rather than its visibility.
- Results of this study show that Internet search technology is not used by enough consumers or is not efficient enough to identify all available alternatives. This is why better known firms can avoid offering samples.
- Whether such a state of imperfect competition will persist depends on whether consumers learn to better use internet search tools and whether firms can keep on advertising their products successfully enough to bypass repositories.

THE CCP

The ESRC Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

FOR MORE INFORMATION

The full working paper (CCP Working Paper 08-23) and more information about CCP and its research is available from our website: www.ccp.uea.ac.uk

ABOUT THE AUTHORS

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