

Production Mode Choice and Price Competition in the Presence of Network
Effects: Shrink-Wrap via Cloud Service

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Abstract

We investigate how firms facing different production modes of software service determine their production mode and pricing decisions in the presence of network effects. We develop a two-stage game model to examine the network effect on the choices of production mode and the strategic behavior of the firms. We find that if all firms adopt cloud service production mode, the resulting software price is higher than if they adopt shrink-wrapped production mode. We also find that network effects lower the level of market price

Keyword : Cloud Service, Network Effects, Production Mode, Shrink-Wrap