

Utilizing Piracy As A Strategic Partner For Competitive Advantage

Casius Darroux, Rudolph L. Boy

Abstract: After decades of continuous technological evolutions and advancement in all facet of life we stand at the cross road between maximizing the use of intellectual knowledge, talents and skill to bring about economic and innovative variations to business or ignore the many opportunities that exist from piracy within the global market. This paper will take a close approach as to how business can utilize the pirate community as a strategic partner for competitive advantage and bring profit to business, creation of legitimate ideas, piracy as a source for technological and strategic innovation to both existing and new industries. This paper will also examine how piracy can enhance business performance of organization that owns IP and how pirate help to create value to IP holders and the drive for legal version of the pirated products.

Key words: intellectual knowledge, innovative talent, technological, strategic innovation

1 INTRODUCTION

THE phenomenon of product piracy has received intense attention from philosopher in all facets. However, in most instances they only pay attention to the drawback of piracy and little attention given to the channels and opportunities that is created for profit maximization, creation of value, and avenue for new ideas. Product piracy is the misappropriation of intellectual property by a party other than the rightful owner resulting in making unauthorized copies of product ⁽¹⁾ (McDonald & Roberts, 1994; Conner & Rumelt, 1991). In most instances the consumer who buy these product are aware that it is pirated because it is generally cheaper. The foremost reason for greater threat of piracy is through the use of software, audio and video contents. For example it has been reported that the software industry lost billions of dollars of revenues each year from pirates who make illegal copies. It has been estimated that 5 percent of software used in the U.S is illegal while in China and Russia the rate of illegal copies approach 90 percent ⁽²⁾ (Horowitz, 2003; Givon, Mahanjan & Muller, 1995). Only recently have researchers begun to examine the possibility that product piracy can improve overall customer demand for legal versions of the product and thus result in the benefit of intellectual property. One example is when Conner and Remult⁽³⁾ (1991) challenge the argument that piracy harms producer (through lost of sales) by reasoning that piracy could act to increase the customer utility of a product, thereby increasing demand and the firm profit. Furthermore, they contended that piracy, because it increases the customer awareness, it may raise the value and knowledge about the product for all users and potential users.

Using a diffusion modeling approach on a sample of two type of software in the UK, Givon, Mahajan and Muller (1995) found that six out of seven software users utilized pirated copies; the pirated software was responsible for generating more than 80% of new software buyers, therefore greatly influencing the legal diffusion of the software. This paper will employ the theory of network effect to examine the sales of pirated products and try to provide a platform for rethinking the benefit of piracy, to further explore the impact that piracy has on demand for legal version of products and gain greater insight of the way that piracy can enhance the performance of those firms that own IP. It will also explore the conditions under which piracy generates and/or increase network effects, reduces cost of search and information processing, generates a positive signal to the market and encourage the herding effect and how piracy help building barriers to entry, which in

competitive advantage.

2. The future of knowledge in a digital age:

Knowledge, unlike labor or land can be infinitely replicated. The dynamism of creative growth depends on its replicated. Laws based upon the principle of scarcity are absurd in this context. The tragedy of the commons, and argument used to justify the enclosure of land for the sake of maximizing production, does not apply to knowledge. The privatization of knowledge through IP curbs innovation and productivity. A

a threat to the democratization of education, civic participation, the promotion of creative expression, and protection of a shared human heritage of knowledge and creativity. As the state sponsored corporate interest continues to develop and expand the terms of ownership over human creativity, they do so at the expense of the public domain; that then is the battle over enclosure of the knowledge commons. This battle is being played out in the local, international, regional and global policy institutions, and it is a debate that none of us can afford to ignore. Knowledge democratization is important to human development and survival especially in the light of technological explosion in other to innovate.

-
- *Casius Darroux is currently pursuing PhD degree program in Business Administration in Wuhan University of Science and Technology, China.
E-mail: kharibdarroux2@hotmail.com*
 - *Rudolph L. Boy is currently pursuing PhD degree program in Logistics and Supply Chain management in University of Ballarat, Australia,
E-mail: rudolphlboy@gmail.com*

3. Product piracy

products have been copied and sold without the permission of ⁽⁴⁾ (1994). They further differentiate between counterfeiting, piracy and knock-offs. They argue both counterfeiting and piracy result in illicit products, but that counterfeit products is one which the manufacturer produces with the intention of deceiving the customer, while in the case of piracy, the customer is aware that he is buying a fake product because of the price, purchase location and obvious differences in design, quality and features. Knock-offs they define as a similar product designed to ride the brand or trade dress of the leading product in this category. These terms are also important because mounting evidence, in particular in the case of technological content, that customers do not perceive the acquisition of pirated products to be a crime if they perceive it to be a victimless crime. Piracy occurs when the price of the legal product includes component of the cost of creating the intellectual property.

4. Pirated product as substitutes for legal products

Early studies of piracy consisted of attempts to analyze the cost for firms in term of lost of revenue from sales ⁽⁵⁾ (Globerman, 2001). A crucial assumption that was made in these earlier piracy studies was that the sales of pirated

7. Piracy, demands and firm profitability

Many managers are of the view that piracy diminishes the demands for legal product but from economic sense piracy can do the opposite. When piracy increases the demand for the legal version of a product, the firm that holds IPR can benefit through improved firm performance. Increased demand for a product can enhance firm performance in three ways; the firm can charge higher prices for the legal version and sell the same quantity (improved profit margin), the firm can charge the same price and sell a greater amount of the legal version of the product (increase market share and absolute profit), or some combination of the two. While piracy can improve performance through increased net demand for the legal version of the product, firm performance can also be improved by reducing the current expenditure on direct cost enforcing IPR and defending brands against piracy.

8. Piracy as a strategy

recording industry treated Napster like a Terrorist of piracy- they sued, fought and closed it down. What would happen if the music labels- the virgin, EMIs, etc had gotten together and invested in Napster or just bought it and made it their industry - a la iPod- would have complemented the business. The moral here is that piracy must be understood before it is fought. According to Alok Kejriwal, a digital entrepreneur and CEO and co-founder of games2win.com based in Mumbai indicated that he runs a casual-games company that produces 15 games a month and has library of 350 games and so far he knows of 8900 website

It brought shocks but he felt happy about it because it proves that what is being done is of value. In so doing he has used those sites through piracy to help him to succeed. Piracy is the

not, piracy or not, firms, especially the music and software industry is going to be zapped all over the world without

than squander the opportunity away. Piracy creates perfect business strategy and creates value to the industry. These are some of great values and opportunities that exist through piracy (a) **Piracy create economies of scale.** Distribution by agency and companies is history. Consumers distribute content amongst themselves- leading to consumption waves and distribution. So in effect, the cost of digital, software and other industries is actually being reduced through the pirates without hired help. Creators/innovators can price their wares very aggressively given this new economic dynamic. (b) **Piracy creates democracy.** It is no longer a chance of producing a product and letting it making its way through the market by just mere advertising to make it famous or adding value to it. Pirates are the best advertising agents out there and they do it for free. The business in the making need to partner with this global tide rather than fighting it. (c) **Piracy creates innovation.** The big gaming-console companies did not succeed in the markets like China due to rampant piracy. Their CDs were copied and sold in the black market. They felt cheated and held back. That created a massive vacuum in the market that was filled by the online game companies that created games that were meant only for browser that required subscription and virtual goods purchase. This was the stepping stone to games like Farmville and mafia wars.

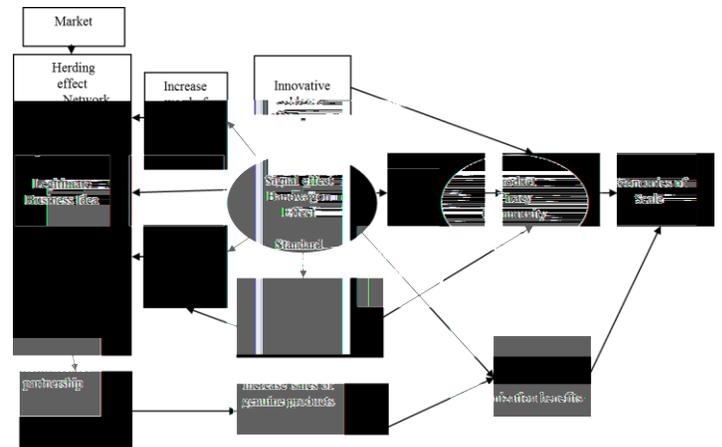


Fig.1: Displaying piracy as a marketing strategy and business partner.

Conclusion

Though piracy may seem unethical at a glance, however when the fundamentals of piracy is studied carefully business can capitalize and reap great benefits from this community that is here to stay no matter what amount of IP laws that may be implemented. Organizations need to see the pirates as giving the customers greater exposure of their products with is a good marketing strategy for free. What business with IP needs to do is to work harmoniously with pirating community by adopting a permissive stance, counter piracy by providing superior products and value at the price that customers are willing to pay so that the organization can penetrate the market. Offer something extra that will lead customers to purchase legal version of pirated products and switch to a model that is less vulnerable to piracy. As a business strategy organizations need to envelope and make maximum use of the technology used by the pirating community and try to increase the perceived moral intensity associated with the decision to participate in the market for pirated products. When this can be done the IP holders gain an established standard that would have been set by the pirates. Another strategy that the organizations can do is to segment the markets by following closely how the pirates are participating in effective pricing discrimination. In so doing the business can market itself by offering a limited functionality products at a lower price to serve the needs of the low income earners (especially where labor is cheap) who are the ones most likely to suffer from perceptions of inequity and thus commit piracy. Finally, of course there are negative impacts of piracy but if the pirated copies can be distinguished from the original then the genuine products/ software and IP owners is presented with significant opportunities: increased awareness, access to new market, closing off competition and an affirmation on the products values. Once these opportunities can be harnessed the rewards is great

References

- [1]. G. McDonald, & C. Roberts. 1994. Product piracy. Journal of brand marketing
- [2]. S. Horowitz. 2003, May Antipiracy efforts face uphill battle. Security Management
- [3]. K.R. Corner, & R.P. Rumelt, 1991. Software piracy: Analysis of protection strategies. Management science
- [4]. S. Globeman. 2001. Addressing international product piracy. Journal Business studies
- [5]. M.L. Katz, & C. Shapiro .1985. On the licensing of innovation. Rand journal marketing
- [6]. T. Erdem,& J. Swaits. 1998. Brand equity as a signaling phenomenon. Journal of consumer psychology
- [7]. J.S.Adams, 1963. Toward an understanding of inequity. Journal of Abnormal and Social Psychology
- [8]. D.A. Aaker, 1972 A measure of brand acceptance. Journal of marketing research
- [9]. S.B. Dyuti. Software piracy: a strategic analysis and policy instruments »International Journal of Industrial Organization, Volume 21, Issue 1, January 200
- [10]. S.J. Liebowitz. "Durability, Market Structure and New-Used Goods Models," American Economic Review, September 1982,
- [11]. C. Shapiro. "Economic Effects of Home Copying," mimeo, Princeton University, May 1988.