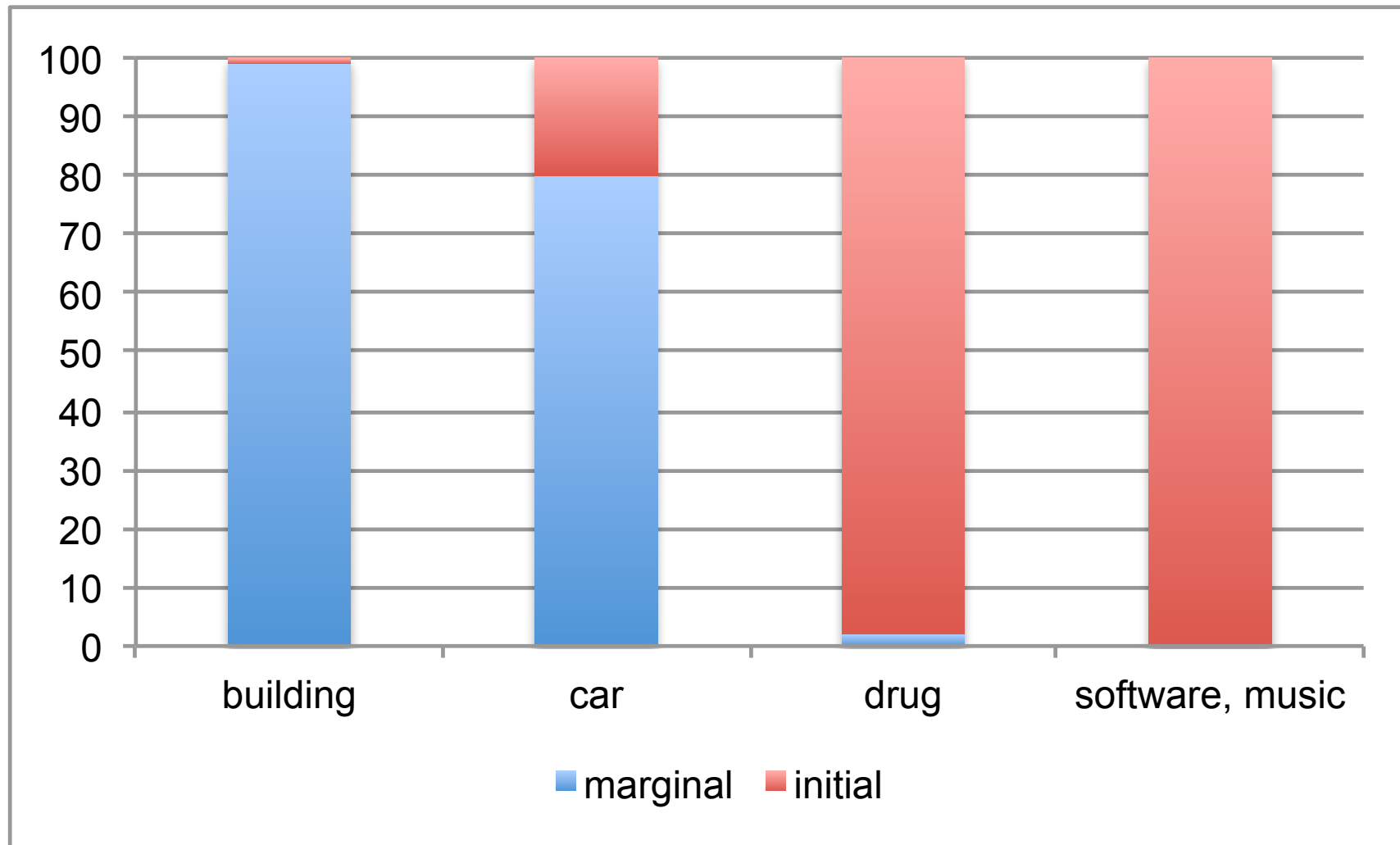


# Delinkage of R&D costs from unit prices: non-pharma industries

US Senate, Dirksen Office Building, Dec 2, 2016

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# Marginal vs total cost



# Problem with infinity

- Where marginal production costs approach zero, recovering initial costs through pricing at the margin is a misalignment of costs and prices
- Dependent on state-granted monopoly rights, consumers feel unit pricing is unfair, don't see unauthorized copying as theft, etc.
- Nothing natural - just one business model

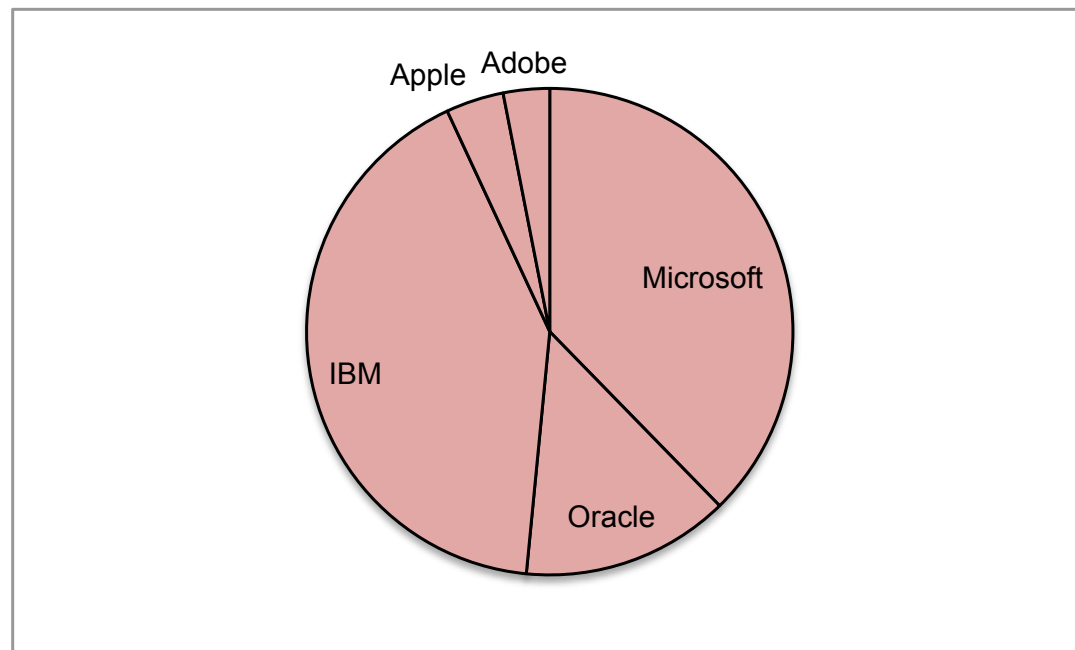
# 20 years in software

- Proprietary software sales —> mainstream open source
- Business models have moved away from unit priced software sales
- Software producers are still very profitable

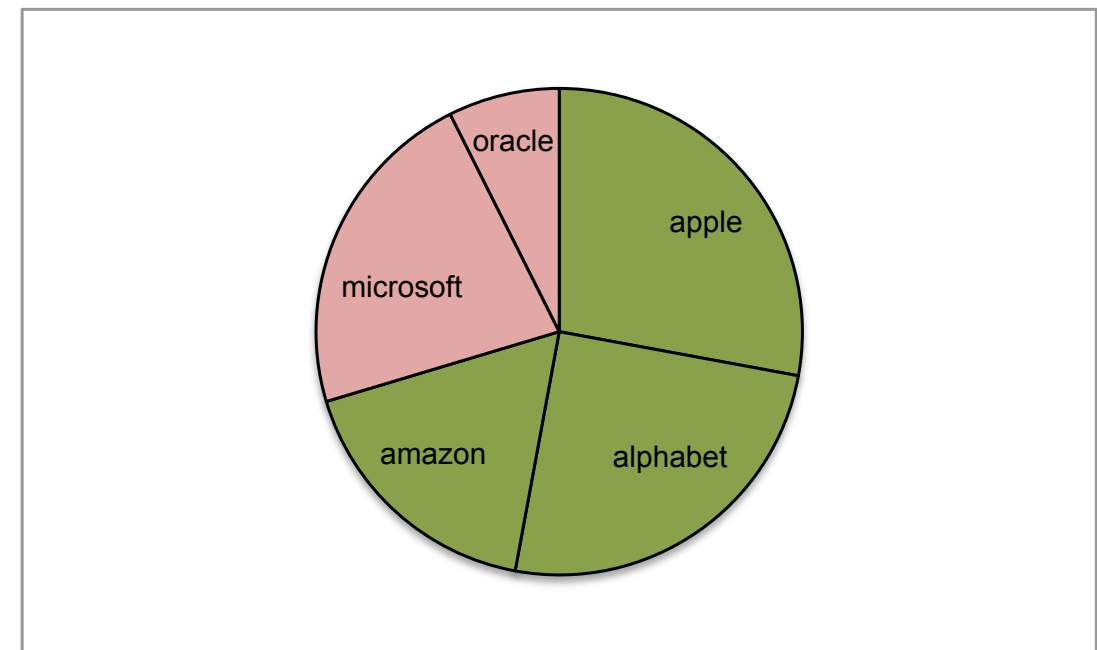
# Top software producers

Market cap as % of top 5 IT firms

1996



2015



**Software sold with unit pricing**

**Software distributed without unit pricing**