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Possession or Sharing - The New Rules of Property Management in Profit Making

1. Introduction

The fast changing environment and developing communication technologies are forcing companies to adjust to new conditions and create more effective business models. The virtual reality, characterized by the lack of entry barriers and sharply declining costs, constitutes a real challenge for companies, forcing them to create networks and offer their products at very low or even zero-prices. Such competitive conditions create a specific environment for companies which are trying to use business models that have never existed before and are finding new sources of profits from their resources.

The aim of the article is to show how changes in the new economy influence the rules of profit-making with the use of intellectual property. The author will try to answer questions concerning the substantial challenges related to competing in the virtual reality and the ways of coping with these problems. Protecting and making use of intellectual property will be the most important aspect of the analysis.

2. Property and its meaning for the profit creation process

Property rights have constituted the basis for profit creation for years. According to David Ricardo, attractively located and fertile land created a competitive advantage for its owners. As a consequence of the theory, a set of valuable assets (tangible and intangible) of a company started to be treated as the main explanation for the company's success¹. Popularization of the resources-based view gave rise to the conviction that a competitive advantage is gained due to the heterogeneous equipment in resources of limited mobili-

1 V. E. Penrose, *The Theory of the Growth of the Firm*, Wiley and Sons, New York 1959.

ty². In this way, the property of unique resources was substantial for profit making, giving the owner rights to use and dispose of the object of property, excluding other persons³. The owner also has the right to possess, use, profit from, and dispose of the property in order to make profits. Hereby, the law gives companies tools to fight with competitors with the use of exclusively owned resources.

However, not all company resources are considered to be a source of competitive advantage. The most valuable resources are characterized by four features: value, rarity imitation, and organization⁴. Valuable resources help to create features priced by final customers. Due to these resources, the customer can receive the most innovative products, the newest technologies, high quality, unique brands, relationships, emotions, etc. The rarity of the resources enables the company to set higher price for its products, as the competition's ability to offer similar features is significantly reduced. Rarity is thus an 'explanation' of a higher price set for the offer, because it makes the offer's characteristics unique. Then the imitation, which prevents the competition from offering similar values. Imitation is more difficult when the source of advantage is complex (it consists of many interdependent components) and is difficult to specify. Those inimitable resources are attributable to casual ambiguity, making the company's advantage sources unique and inimitable⁵. The last element - organization - makes managing and transferring the resources easier and creates multiple possibilities of usage (in different markets, regions, sectors, etc.).

Companies create their competitive strategy with the use of a set of valuable resources. The fact of exclusive possession (especially of such intangibles as relationships, brands, know-how, technologies, etc.), limits competitors' possibilities to effectively compete with the use of the same tools (by copying the leader), and at the same time gives the company the right to receive a higher sales margin (as the final customer is willing to pay much more for the company's unique offer). Companies thus use a simple profit-creating rule – the customer pays for the unique value the company offers, thanks to its resources. The clients pay the company for its products.

The strategically important resources (having the four above-mentioned features), are the main source of a company's competitive advantage, making the owners more cautious of its use and protection. One of a company's main concerns here is to guarantee its rights as the only owner and prevent competitors from attempting to copy the company's brands, product characteristics, offer and know-how. The importance of resources

2 J.B. Barney, *Firm Resources and Sustained Competitive Advantage*, Journal of Marketing Management 1/1991, p. 99–120.

3 Dz.U. 1994, No. 24 item 83.

4 J.B. Barney, *Gaining and Sustaining Competitive*, Prentice Hall International, Englewood Cliff 2001, p. 173.

5 R. Reed, R. DePhillippi, *Casual Ambiguity, Barriers to Imitation and Sustainable Competitive Advantage*, Academy of Management Review 1/1990, p. 88–102.

protection leads firms to the problem of finding an effective means of preventing competitors from imitating, or making any other attempt to try to undermine the company's position on the market. Business practice shows a few possible actions that can be taken in such a situation.

One of the substantial and commonly used tools is legal protection (particularly intellectual property rights, as intangible resources are nowadays a key element of competitive advantage). The main idea of the law is to protect the author's rights by equipping him with the tools of prevention as well as reaction to infringement of his rights. Although intellectual protection law was created and is used in the majority of countries, we can observe many examples of its infringement in business practice. Companies use similar logos (for example the CE sign, meaning *Conformité Européenne*, and China Export - with only a slight difference in logo design), brand names (like Abibas or Adidas), misleading product packaging (the case of *Delicje Szampanskie* packaging – where one of the companies was forced to change the packaging design as it was considered to be misleading⁶) and product designs (physical product features are the most commonly imitated elements of the offer).

Rapid internet development and new communication technologies have extended the possibilities for intellectual property rights infringement. Nowadays, many products can be easily multiplied and spread to thousands of users, possibly with no respect for property rights. Artists, writers and software producers are especially exposed to such danger. Internet development and increasing storage capacities have created almost unlimited possibilities for file exchange between internet users, with zero marginal costs. Napster was undoubtedly one of the first and most successful platforms of such file exchange – with 70 million users it even found a place in the Guinness Book of World Records as the fastest growing business⁷. The service was based on an application allowing users to access somebody else's computer content and copy it to their own hard disks⁸. The service raised a lot of questions about intellectual property law infringement, finally forcing Napster to pay a high fee for unauthorized music use. In effect, Napster was forced to change its free application into a paid subscription system, which finally led it to bankruptcy⁹.

6 AK, *Wedel musi je wycofać ze sprzedaży* [online]. *Pieniądze – Fakt.pl* [access: 2013-11-21]. Available at: <http://pieniadze.fakt.pl/Wedel-przegral-w-sadzie-Jedyne-za-podobne-do-Delicji-Szampanskich,artykuly,190060,1.html>.

7 R. Niewa, *Ashes to Ashes, Peer to Peer: an Oral History of Napster*, CNN Money, Fortune, September 5/2013 [online]. *Fortune Tech* [access: 2013-11-20]. Available at: <http://tech.fortune.cnn.com/2013/09/05/napster-oral-history>.

8 Codrut Nistor, *File Sharing—History*, PCTIPS3000, June 24/2009[online]. *PC Tips* [access: 2013-11-20]. Available at: <http://www.pctips3000.com/file-sharing-history>.

9 T. Lamont, *The day the Music Was Set Free* [online]. *The Guardian, The Observer* [access: 2013-11-20]. Available at: <http://www.theguardian.com/music/2013/feb/24/>

The story, however, didn't solve the problem of intellectual property rights protection in the virtual world. Many other, more technologically advanced, followers appeared on this market. The most commonly used became peer-to-peer networks – systems allowing for file download from not only one user (as with Napster), but from huge numbers of internet surfers, making the process more effective. The possibilities of file sharing – created by peer-to-peer networks (such as e-Mule or BitTorrent) and popularized due to portals such as IsoHunt or PirateBay – made file exchange more popular and, ipso facto, intellectual property rights easier to infringe. In this way, legal protection appeared to be ineffective and not following changes in the virtual reality.

Legislation can provide good protection of a company's property when it is properly used. The company has to answer the question: What exactly should be protected? The will to protect everything can lead to extensive cost multiplication and, in fact, not provide real protection. The continual strife between Samsung and Apple over intellectual property rights is a good example. Apple sued the Samsung Company for not respecting the law in 26 of its products. Apple even requested the withdrawal of Samsung products from the market, but the court finally turned down Apple's requests, ruling that there was no proof of customers being misled by Samsung's strategy¹⁰. The strife led the two companies to a patent battle over even the smallest details of their offers – such as, for example, Apple's patent for an electronic device with rounded corners¹¹.

The situation shows that bad choices on the subject of protection cannot be an effective tool for preventing competitors from imitating. The right choice of the subject of protection is thus a key element of a company's legal protection. The sewing machine inventor – C.F. Wiesenthal – patented only one, but the most important element of his machines – the needle¹². Copying the product without the needle wouldn't make sense. Sometimes, however, the key element of success can be difficult to protect. For example, white headphones, being a symbol of Apple's iPod, and one of the elements of its marketing success (helping to promote the product as the symbol of its users), probably could not be protected, as it doesn't have any innovative and unique features. Nevertheless, due to the associations in customers' minds it is still associated with Apple products.

Unique associations with the brand and the offer, created in customers' minds, constitute an additional copying barrier. There can be many products on the market, but the

napster-music-free-file-sharing.

10 M. Scott, Apple gets \$290M in Samsung patent dispute, November 21/2013 [online]. USA TODAY [access: 2013-11-22]. Available at: <http://www.usatoday.com/story/tech/2013/11/21/jury-awards-apple-290-million-in-patent-dispute-with-samsung/3644555/>.

11 Apple opatentował prostokąt z okrągłymi narożnikami [online]. Technologie [access: 2013-11-20]. Available at: http://technologie.gazeta.pl/internet/1,113841,12843825,Apple_opatentowal_prostokat_z_zaokraglonymi_naroznikami.html?v=1&cobxx=12843825.

12 G. Forsdyke, A Brief History of the Sewing Machine [online]. ISMACS [access: 2013-11-20]. Available at: http://www.ismacs.net/sewing_machine_history.html.

original is always the most desirable one. Creating a unique brand position enhances the value of the original product, leads customers to praise the original product more and discourages people from using fake products. Moreover, such associations are difficult to change, making the protection more stable. Such an additional means of protection is used by companies managing their brands, with luxury brand owners of watches, clothes, shoes, accessories and technical equipment, particularly prominent. The brand image of the original offer strongly supports intellectual rights protection.

According to Shumpeter's theory, however, the most effective way of protecting the company's position against competition is through innovations (which are a prerequisite for economic development). Launching new products and solutions can protect the company against competition, as the competition will not be able to follow the changes. The strategy – although necessary – is not totally free of challenges. Nowadays, due to the high pace of technological development, the time for innovations is constantly being shortened. This fact, together with the rising costs of inventing the high-tech products, forces companies to invest huge amounts of money in projects, with a relatively short time for a return on the investment. As a result, the pioneer strategy becomes riskier than ever, preventing some companies from becoming market pioneers. Business practice shows that many companies became a market leader due to the strategy of leader following¹³. The strategy provides the possibility of avoiding mistakes made by a leader and, what is more, of improving pioneer concepts. Nevertheless, the improvements made by the follower are also related to innovations and here we come back to the conclusion that innovations are necessary to gain a significant position on the market.

Nevertheless, apart from innovation, the high pace of technological development creates one more problem. The legislation procedures aimed at creating a satisfactory level of protection are very often too time-consuming to be effective. The protection can be offered long after it is needed. The same situation concerns sanctions against abusing a dominant position on the market, due to limiting access to valuable resources. The Microsoft story is a good example here. The company, sued for not giving access to source codes and using a bonding products strategy (Windows with Internet Explorer), finally lost the case in the United States, but the sentence did not produce the expected results, as the market situation had changed significantly by that time¹⁴.

13 T.T. Mady, *Does It Pay to Be First? A Cross-National Comparison of Mature and Emerging Market Consumer Attitudes toward Pioneer and Follower Brands*, *Journal of International Consumer Marketing* 1/2011, p. 276–296.

14 A. Scheibe, U. Szulczyńska, *Działalność innowacyjna i budowanie przewag konkurencyjnych przedsiębiorstwa – przykład firmy Microsoft*, [in:] *Konkurencja we współczesnej gospodarce*, ed. C. Balaśniński, E. Stawicki, *Urząd Ochrony Konkurencji i Konsumentów*, Warszawa 2007, p. 92–126.

The above-mentioned problems illustrate that finding effective protection tools for company property (especially intangible property) can be a real problem in the contemporary world.

3. Changes in the contemporary business environment

The contemporary business environment is undergoing stormy and unexpected changes, creating new challenges for managers. Factors such as trade liberalization, financial market sophistication, privatization and deregulation have created new market conditions for companies. The most influential phenomena are, nevertheless, globalization and the information revolution. Globalization makes a wide range of products available to the customer, making them simultaneously more conscious and fussy. Globalization also influences the company in many ways, for example, by creating possibilities for contractual production, or internationalization of even micro- and small companies. The information revolution has increased the customer's power by creating wide possibilities for information exchange. The fast development of microblogging and social networking (Facebook, Twitter and many others) makes the information flow as fast and widespread as never before. Communication technology development influences companies as well, by creating possibilities for direct access to stakeholders and communication in real-time. Production units, deliveries or any other kind of company activities can be observed or even managed from any place in the world.

The facts combined together force companies to search for new and more effective forms, business models, organizations and strategies which are adjusted to the contemporary conditions. Hereby, the concepts of network, virtual or agile organizations are created.

The new business models aim at finding new profit sources, and are adapted to the changing environment. The most challenging changes are taking place in the so called *new economy*, defined as *aspects or sectors of an economy that are producing or intensely using innovative or new technologies...[which] applies particularly to industries where people depend more and more on computers, telecommunications and the Internet to produce, sell and distribute goods and services*¹⁵. In practice, this is usually limited to TMT sectors -telecommunication, media, and hi-technology. The rules, however, are also reflected in other sectors, as they are related to new technology diffusion, new business models and knowledge-based economies.

The new economy can be described by some characteristics, which are totally new, or which have simply intensified in the new conditions, and decentralization is one of

15 Glossary of statistical terms, OECD [online]. OECD Statistics [access: 2013-11-20]. Available at: <<http://stats.oecd.org/glossary/detail.asp?ID=6267>>.

them¹⁶. It makes companies operate as a network of units, not as one merged company (e.g. a network or virtual organization). Decentralization also raises the question of company boundaries¹⁷. In the past, the internal and external environment was precisely defined. Nowadays, the role of the company's partners has increased to such an extent, that without them firms are not actually able to exist. Nike is a good example. The company's production is based in contractors' factories all over the world (over 900 factories), giving work to over a million people¹⁸. In this case, would Nike be a successful global company without them? Nike, together with the contractors, creates an effective operating system, making the partners an important part of the company. Decentralization can also refer to customers. In the age of hyper-segmentation, adjustment of the offer to individual requirements is gaining in popularity and maybe in the future will be a substantial factor in market success. Due to technological development, facilitating more direct contact with the client, customers are more often engaged in companies' activities. They are encouraged to present their own opinions, give suggestions on companies' offers but also to design their own products. Customers become *prosumers* – people wanting to actively participate in company and social life, presenting their opinions and having an influence on people's viewpoints and company activities¹⁹.

New communication techniques give more power to decentralized individuals. They can easily create networks, gaining more opportunities for knowledge sharing. The new tools, such as mobile phones, tablets and laptops, having access to mobile internet, make such information available in any place and time (in real time). Everybody can benefit from *crowd knowledge*. Information presented on the internet can be easily found, copied and shared, raising the question of intellectual property from a legal perspective. People may copy the information, thinking that something which appeared on the internet is commonly accessible and that the author agrees to the spreading of the data. The authors' rights can thus be commonly infringed. Globalization of the internet makes the phenomena more significant and crosses country boundaries.

As a result of continuous technological change, virtual life has started to strongly interfere with reality. New mobile applications allow one, for example, to order real food to

16 K. Kelly, *Nowe reguły nowej gospodarki*, Warszawa 2001, p. 1.

17 L. Hirschhorn, T. Gilmore, *The New Boundaries of the Boundaryless Company*, Harvard Business Review 3/1992, p. 104–115.

18 Sustainable business report [online]. Nike, Inc [access: 2013-11-20]. Available at: <http://www.nikeresponsibility.com/report/content/chapter/manufacturing>.

19 The term created by A. Toffler in a book "The Third wave", A. Toffler, Trzecia fala, PIW, Warszawa 1997; see also: English Definition of "prosumer" [online]. Cambridge Business English Dictionary [access 2013-11-20]. Available at: <http://dictionary.cambridge.org/dictionary/business-english/prosumer>.

the house, when standing at a bus stop and using a mobile phone²⁰. E-administration or e-learning is another example of such interactions. The tightened relationship between the virtual and real worlds can also cause excessive intellectual property rights infringement, and not only on the internet.

4. Creating competitive advantage in new conditions – the use of intellectual property rights

The new reality forces companies to search for more adequate methods of profit creation. In the high-tech and virtual sectors, network externalities create the basis for competitive advantage. This fact has produced a strong imperative to create a network of companies supporting clients and partners. The success of a new product is influenced by the number of complementary products, without which the company's success wouldn't be possible. Systems such as Windows, Linux or Android would probably not be so successful without a wide range of additional software, compatible with the systems. The customer, when buying the new product, wants it to work with the majority of devices that he or she already possesses (so as not to create additional costs). This fact leads companies to give access to knowledge facilitating complementary product production (e.g. a source code). This also creates a new imperative to share valuable resources rather than simply possess them. In this way, a former profit creation rule (payment for products produced due to exclusive resources) is broken. Some of a company's valuable resources have to be shared to create a competitive advantage. The guideline also seems to be supported by the *winner takes all* rule. In high-tech sectors, where setting the standard is a key to market success, only one company can take its place on the market, leaving no space for competitors. The most common example of this is the Betamax system, which was completely pushed out of the market by its competitor – VHS. The *winner takes all* rule works in sectors with network externalities. Many social internet portals fall into this category. The popularity of Facebook can be partially explained by the huge number of people already using its services (an individual, thinking of joining a social network, would choose the one with the biggest number of friends already registered). The same situation exists with, for example, sales and auctions portals like the world famous eBay, or the Polish Allegro.

Taking into consideration these facts, the fastest way for the company to achieve success is by creating a wide spread of networks of individuals, or even better: to gain access to already existing networks - which will allow them to reach not one but thousands

20 W. Boczoń, Fotografujesz zakupy, a za godzinę masz je w domu, November 7/201 [online]. Bankier [access: 2013-11-20]. Available at: <http://www.bankier.pl/wiadomosc/Fotografujesz-zakupy-a-za-godzine-masz-je-w-domu-2982040.html>.

of individuals at the same time. This is the reason for the huge number of mergers and acquisitions in the contemporary world.

The effect of such actions taken by companies in the new reality is the customer lock-up effect. Customers, accustomed to one supplier, show a declining will to change provider. This is usually a consequence of the high level of switching costs, related to all the inconvenience the customer will experience when changing supplier (such as time, learning, financial expenses, finding and getting used to complementary products and many others). The customer lock-up effect makes clients more loyal toward a current provider and this strengthens the company's position on the market. As a result, the advantage gained from network participation again becomes relatively stable.

This also creates another, even more problematic phenomenon – problems with price setting. In the network economy, a set of cooperating individuals is needed. The bigger the number of partners, the bigger the chances of network success. The law of demand, however, relates the quantity of bought products to the price. The higher the price, the lower the demand. This seems to force managers to lower the price, maybe even to the extreme level of zero-pricing. The method is already used by many dot-coms (internet companies), giving free access to their platforms. If the most common platforms such as Twitter, Facebook, LinkedIn, or Goldenline were paid, a lower number of customers would probably use them and, in fact, the companies wouldn't be able to achieve network externalities, as well as such a predominant position on the market. The question here, therefore, is whether to gain direct profits from selling access to the service (the traditional business model allowing the earning of direct profits from property) or to try to find new profit sources for the company when allowing free access to products. The reality actually seems to force companies into giving free access to products for a chance to gain the whole market (according to the rule *winner takes all*). The idea of zero-pricing also seems to be supported by the supply side – meaning falling costs of data transfer and storage.

According to Moore's law (the number of transistors doubles every two years)²¹, and Gilder's theory (the cost of information will continually fall, finally reaching zero²²), setting a zero price on virtual products is very possible. This increases the possibilities of infringing property rights by sharing and storing illegal versions of virtual products. Technological changes seem to support the phenomena. Due to miniaturization, increased storage possibilities, raising computational capacities, downloading, transmitting and storing, pirate versions of software, books, movies or music are accessible to almost everyone possessing a personal computer or mobile phone²³. Common, cheaper,

21 Moore's Law [online]. Moore's Law [access: 2013-11-21]. Available at: <http://www.moorelaw.org>.

22 K. Kelly, *op. cit.*, p. 41.

23 J.M. Newman, *Copyright Freeconomics*, Vanderbilt Law Review 5/2013, p. 1409–1469.

and faster internet access, together with its mobility, make such exchanges easier, and increases the possibility of intellectual rights infringement. Furthermore, even the legal actions taken against individuals evidently infringing intellectual property rights are not able to completely eliminate the phenomena, as internet users creates new and more difficult to detect versions of file-sharing software.

The next significant problem for a network economy is actually the property right within the network. Nowadays, when solutions are created, modified, improved and changed by many different people and organizations, the problem of property rights can be really hard to solve. If a whole network of individuals creates a part of a final result, who is the actual creator of the final solution? All the cloud solutions (of increasing popularity) are examples of such problems, posing a question about the legal possession of everything that is placed in the cloud. The possibility to place data possessed by another company, and share it with others, poses a question about data protection and transfer of property rights between all the network users.

All the above-mentioned problems raise questions regarding the sense of intellectual property protection and the use of the traditional rules of profit making. Maybe the changes in the contemporary world are forcing companies as well as individuals to rethink their approach to intellectual property use and treat it not as a direct source of profits but as a tool for creating profits in an indirect way. Nowadays, many examples of such free-price sharing can be noticed. All the products under the GNU license are a good example of such behaviour²⁴. Creators give the right to use their products for free to some or all internet users. For individuals, it can be a way to gain popularity, to help other people or to become a leader of the community. For companies, this is more problematic, as the company is created for profits. In cases where it is decided to offer something for free, it loses the possibility to create income. Internet companies thus have to face the problem of combining the challenges of network externalities (related also to small or zero pricing) with the profit creation imperative. This leads them to create new business models, with new profit sources.

5. Property and profits in the new reality

An analysis of a means of profit creation in new conditions should be started with the zero-price model analysis. The problem has not drawn a lot of scientists' attention and is still not fully recognized²⁵.

Zero-pricing strategies were present in customers' lives mainly due to sales promotion actions. Free products, usually of smaller than normal size, were added to the main offer

24 H. Bond, *What's so Great About Nothing*, Michigan Law Review 12/2005, p. 547–571.

25 J.M. Newman, *op. cit.*, p. 1409–1469.

as an incentive to purchase. Its aim was to encourage people to buy the main offer. The actual price of the added product was included in the price of the main offer – taking into consideration not only the current but also future profits. The situation in the new sectors, however, forcing companies into price reduction, seems to be different. The free products are not just to be added to the main offer but to constitute the main offer itself.

The fundamental question here is how such zero-prices will be perceived by buyers. A high price is a sign of the higher quality of the offer. On the other hand, a price which is too low raises suspicions of low quality, informal sales, or of the product being outdated or fake²⁶. The last rule, however, cannot be applied to products which have always been sold for free²⁷. The research has also shown that freely offered products fall into different categorization rules. People start to qualify the exchanges as social contracts (not market contracts), which makes them fall into different behavior rules²⁸. This can lead to a limiting of the number of consumed items and changes the typical shape of the demand curve into a D letter shape (when the price reaches zero and the number of consumed items is significantly reduced due to social reasons). On the other hand, however, setting a zero price can lead to abuses associated with the extensive use of such goods, as happens with pollution of the natural environment when treating nature as a free and commonly accessible good²⁹.

In the virtual world, the zero price is somehow expected and well regarded by customers. Customers fall into the pattern where there is a significant increase in the number clients when the price reaches zero and a decrease when it raises. A zero-price is thus perceived as a value added element³⁰. People, when trying to find it, ignore some kinds of additional costs like opportunity, search costs, and attention³¹. This can be a justification for the acceptance of the proportions of price versus time. When buying official products, a customer reduces time but increases the price. By choosing an illegal source, the client has to spend more time searching and increases the risk of downloading something other than that which he or she expected³². Nevertheless, in many cases, customers seem not to notice these difficulties as finally, in their opinion, the offer is really free.

Facing these facts, managers try to fit their strategies to the changing conditions. The free price rule is also used by companies wanting to offer official products, with respect to intellectual property rights. This raises the question of finding new business models, (in-

26 Ch. Anderson, *Za darmo*, Kraków 2011, p. 64.

27 J.M. Newman, *op.cit.*, p. 1409–1469.

28 J. Heyman, D. Ariely, *Effort for Payment: A Tale of Two Markets*, *Psychological Science* 15/2004, p. 787.

29 J. Newmann, *op. cit.*, p. 1446.

30 K. Shampañer, N. Mazar, D. Ariely, *Zero as a Special Price: The True Value of Free Products*, *Marketing Science* 26/2007, p. 742–757.

31 K. Shampañer, N. Mazar, D. Ariely, *op. cit.*, p. 742–757.

32 Ch. Anderson, *op. cit.*, p. 75.

cluding new profit sources) that could be used in a situation where the company offers its products for free. The models have to be based on the indirect rule of profit making – not making customers pay directly for the company's product, but giving something for free. Some of the forms of such activities have already been used by 'real world companies', but nowadays they are also adopted in virtual reality.

One model is based on subsidizing free products with profits coming from selling other items, options or from other entities. Probably the most common model is based on advertising.

The content is supplied to the clients for free, but in return they have to agree to advertising-filled content. Information portals, web pages and social networks are based on this model. Even typical social networking portals such as YouTube or Facebook have started using it. Although the model seems to be clear and easy, it is not free of problems. The main question to be answered is the number of potential advertisers and the amount of money they are willing to pay for the advertising. The numbers directly influence the income level of the company. Furthermore, the brand association (portraying the portal as freely accessed and socially based) can prevent managers from placing advertising on such webs. Facebook is a good example of such problems, as it is a place perceived by people as a space to meet friends, but not to buy things or find information about offers. Nevertheless, this hasn't stopped companies from creating their own web-pages and placing their adverts. Moreover, an e-commerce Facebook application has already started to be used³³. In the model, the money spent on advertising comes back to the sponsor when the customers decides to buy the advertised product.

The model, though effective, cannot be used by all portals. Some of them (such as Wikipedia) are perceived to be genuinely social – created by people for people – and any attempt to mix them with profit-set advertising could weaken participants' willingness to get involved in their creation. Wikipedia, belonging to the Wikimedia Foundation (promoting free knowledge), is therefore forced to base its business model on donations and grants³⁴. Other organizations, however, try to replace donations with other sources of income. Another model therefore, is based on getting from people what they want to give for free (in return for the product) and using or selling it for the company's benefits³⁵. In this way Google provides the search tool for free, but gathers information on the individual search to use when placing adverts. The risk of the model is that the customer can feel cheated and their trust abused when discovering the real use of such information.

33 Free Facebook Store [online, access: 2013-11-20]. Available at: <http://www.ecwid.com/facebook-app.html>.

34 Wikipedia Foundation [online, access: 2013-11-20]. Available at: <http://wikimediafoundation.org/wiki/Home>.

35 Ch. Anderson, *op. cit.*, p. 37.

Another commonly used model is based on giving only a part of the offer for free, while making profits on the rest. The model is commonly used by e-books sellers as well as application and software suppliers. E-book sellers offer a part of the book for free (usually a shorter pdf version). The trial version is designed to introduce the customer to the book and encourage him to buy the full version. As the cost of data transferring and the marginal cost are very low (reaching zero), profits are thus created by people buying the full version. The commonly used practice of software sellers involves offering a basic software version for free, and making people pay for upgraded, complete, or extended forms of the product. The strategy helps somehow to combine the idea of achieving network externalities and profit making. The free version helps to create brand awareness, as well as decreasing the cost of change (by familiarising the client with the product) for the customer. On the other hand, customers willing to pay for the additional improvements are the source of profits for the company. In this strategy, the most questionable thing can be the price itself. It can be fixed (customers paying for access to the improved version) or variable (payment for a time, transfer, etc.). A variation of the strategy is often used by games producers, such as the Zynga Company, producer of the Farmville game offered as an application on Facebook. The game is offered for free, but players who want to gain access to extraordinary items and place them on their virtual farms, have to pay for it. The price set for such products is usually very low (a few dollars), but multiplied by thousands or millions of users, encouraged to use the game - due to network externalities - it can create a significant profit source for the company. Another example is Skype - offering the application for computer to computer calls for free, but making customers pay for phone to phone or computer to phone calls. Also, some TV, music and movie portals give limited access to their offers and make people pay for access in prime time, and with no time limits³⁶.

The same strategy has been used by some music artists, who noticed declining possibilities of making profits directly from selling music recordings, and decided to offer new music on the internet for free (like Polish singer Kuba Sienkiewicz, or British band Radio Head). The artists hoped to raise their popularity, make people come to their concerts, buy t-shirts, special music collections or any other additional items. The strategy can be treated as a sign of stopping fighting against pirating, which seems to be impossible to stop in the new reality.

The hope of future profits, can also be a motivation for pirating acceptance. Thanks to such pirating actions, companies can build brand awareness, and gain access to a wide range of customers. Gaining access to pirate versions of software can accustom the customer to the product, make him prize the product's features and encourage others to use it. This is then the basis for obtaining network externalities and customer lock-up. In

³⁶ For example: Darmowa Telewizja Internetowa [online, access: 2013-11-20]. Available at: <http://darmowatelewizjainternetowa.com..>

effect, in the case of imposing legal solutions which are more favorable for the company, or increasing income levels from local customers (making the official version affordable to the receiver), the company can hope to earn excessive profits, as the customers would probably choose their product. This can explain why, in some cases, infringement of intellectual property law can even be accepted by the author.

6. Conclusions

The information revolution has changed the competing conditions for all companies. Facilities in data transfer and storage have influenced company strategies and business models. The idea of possessing valuable resources and using them to earn profits directly from selling the products has become outdated in the new, virtual world. Companies, dependent on the huge number of network participants, are forced to share valuable resources rather than possess them. With limited access to resources, achieving network externalities becomes more difficult. Companies are thus forced to popularize their solutions, ideas and products – often at zero-price - to acquire the biggest number of supporters and in this way gain a competitive advantage over rivals. In some cases they are also willing to accept some form of intellectual property rights infringement, as in the long term it can increase their profits. Moreover, the legal protection of intellectual property in the contemporary conditions is really difficult with the use of already existing legal regulations. The pirating processes, with the use of new communication technologies, nowadays seems to be unrestrained, taking into consideration the pace of change in communication technologies.

The undergoing changes in companies' competitive environment pose a lot of questions about the sense of intellectual property protection. Some companies (such as Apple and Samsung) started a battle over patents, which finished in the courts and lead to the protection of even the smallest elements of their products. The battle seems not to have an end, and the whole buzz around it may even increase the popularity of the two companies. On the other hand, other firms resign from protection, giving their users full rights to use or even modify their products. There is no best solution to the problem, but the situation raises the question of whether the form and sense of intellectual property protection in the virtual world is appropriate.

Another unanswered question is related to profit-making and new business models created under the imperative of zero-pricing. Internet companies use several models for earning profits by earning from some additional products, options or people. Maybe the models of directly selling products to customers cannot be used any more, again supporting the thesis of not protecting the rights of the creator.

The questions posed here seems to have no answer yet. The problems defined in the article still haven't been sufficiently explored by scientists. The fast changing environment, so characteristic for virtual reality companies, makes the problem even harder to explore. New business models created on the internet are still insufficiently explored, exposing internet companies to serious risk. The phenomenon of zero-pricing has not been widely analyzed by scientists and constitutes a field for further research as well. The future reality will probably show how companies will cope with such competing conditions, and whether the strategies based on indirect income sources will appear to be effective. The future will also bring the answer to the question of forms of intellectual property protection in the networking age.

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SUMMARY

Possession or sharing - the new rules of property management in profit making

The aim of the study is to evaluate the new rules of property management in profit making. The author analyse the notion of the property and its meaning for the profit creation process, changes in the contemporary business environment and creating competitive advantage in new conditions on the example of the use of intellectual property rights, property and profits in the new reality.

KEYWORDS: property management, profit creation process, management studies

