FairPay Relationship Pricing: An Adaptive, Value-Based Strategy for Consumer Markets

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Abstract

As businesses confront the challenges and opportunities of the digital era, they should look deeply at their assumptions about the basic social contract and value propositions that drive customer relationships, and how they center on price and value. Businesses still set prices unilaterally, in advance, with little regard for customer differences in needs, usage, or value perceptions, or to the lifetime value of each relationship.

This paper outlines how to find a new logic for customer relationships in mass consumer contexts that centers on personalized value propositions and pricing, and how that can build strong and sustaining relationships that maximize customer lifetime value (CLV). It shows how this can work as a *repeated game* that builds cooperation and enables high economic efficiency to co-create value at multiple levels, through personalized *value discrimination* over the course of a relationship. It extends the principles of value-based pricing to mass B2C markets in a radically simple and scalable way, and explores a range of promising use cases.

Introduction

The digital era has brought disruptive challenges and great new opportunities -- often, as two sides of the same coin. Peter Drucker observed that "The greatest danger in times of turbulence is not the turbulence, it is to act with yesterday's logic."

Here we outline a new logic, starting from the "ground-zero" of digital disruption in consumer content services. News, music, TV/video, and the like are facing extreme disruption because consumers know that this content can be distributed at almost no cost, and so, question why they should pay for it (and often feel it is fair to steal it, based on a "Robin Hood" justification).

At the same time, the B2B world has begun transforming business relationships by recognizing the power of digital to facilitate "value-based pricing." That provides a basis for far more effective co-creation of value – and real competitive advantage. Unfortunately, these methods have been too unwieldy to apply to mass-consumer markets (and so have been largely ignored in the B2C world).

FairPay was conceived as a way to address the crisis in digital content pricing (Bertini and Reisman, 2013; Reisman, 2016a; Reisman and Bertini, 2017). It shifts our logic from a transaction level to relationship level, centered on dialogs about value, in order to sustain the co-production of value. FairPay develops a lightweight, emergent variant of value-based pricing that is simple and scalable for consumer markets.

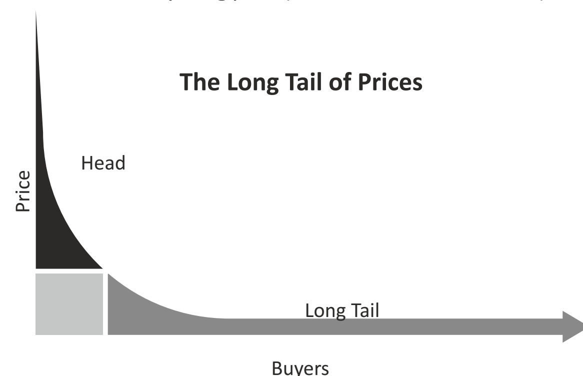
More broadly FairPay suggests thinking in terms of a "ladder of value" that can help shift B2C customer relationships in many business sectors to be more win-win, and to maximize customer lifetime value (and vendor lifetime value) -- even with more conventional pricing strategies.

Moving in this direction promises to transform market commerce -- first in selected sectors and market sectors, and then more broadly -- to become more profitable, sustainable, cooperative, fair, and human.

The Dilemma of Pricing for Digital Content

Pricing is the central conundrum of the digital media business. Consumers hate to pay, or even think about paying, so content providers need to make it simple -- but simple does not work well. FairPay applies a new logic to that problem. Let's consider a content subscription service -- such as a newspaper or magazine, or a music or video service -- but this applies broadly.

Conventional paywalls face the dilemma that they put a wall in front of sales. Priced too high and many potential buyers will simply turn away; priced too low, and much potential revenue is left on the table. This is illustrated in The Long Tail of Price Sensitivity, using the figure shown here (different from but inspired by Chris Anderson's The Long Tail (Anderson, Chris, 2006) as described in my blog post (Reisman, Richard, 2010).



Ranking buyers in order of price sensitivity, some would be willing to pay more than the set price, and many would only pay less. The green box represents the realized revenue. All who buy pay the fixed price, leaving the red excess on the table, and those who turn away would be willing to contribute the amber revenue. Pick your poison: you either price too low or too high for many buyers. There is no win-win, only bad or worse.

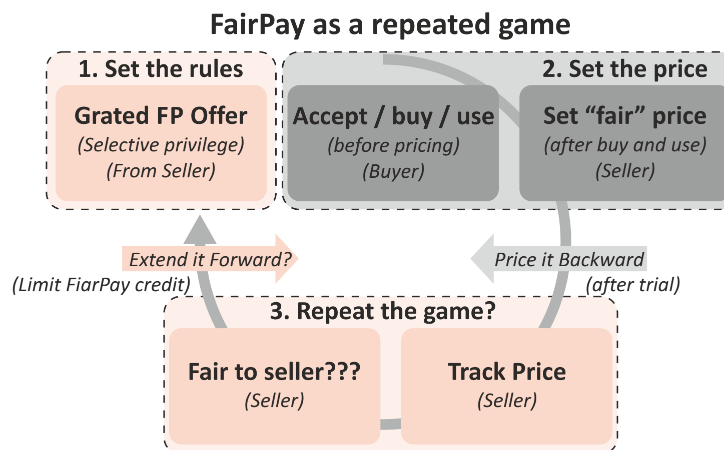
Keep it simple, and you are left with that dilemma. Add refinements such as tiers of premium content or tiers by usage volume or other segmentation by market, and you add complication, and still have a step function that runs well below the sensitivity curve. Even when you exploit the power of free by using freemium (Anderson, Chris, 2009), you are still stuck with some set price for the premium version.

FairPay as a repeated game

FairPay *literally* changes the "game" of commerce -- from a series of independent one-time games of individual transactions, to a repeated game of relationship. Modern B2C commerce is built on seller-set pricing of transactions that is optimized for mass marketing seeking to make sales in the short term. (Even recurring subscriptions have pre-set prices designed to get subscribers, not keep them.) That model can now be seen to have two fundamental failures:

1. Despite the rise of 1:1 marketing, this model has little structural orientation to retaining customers by building long-term relationships that maximize loyalty and customer lifetime value (the games are essentially independent and zero-sum).
2. Despite the growing prevalence of experience goods, this model gives little consideration to how individual variations in value received can affect the value proposition.

The diagram below highlights how FairPay creates a new kind of relationship focus. This centers on its structure as a repeated game (Greiff, Matthias; Egbert, Henrik, 2016). At the most essential level, it has just three repeating steps:



Set the rules (Seller)

Just as in current practice (in mass-marketing), *the seller* sets the ground-rules of the game. The seller decides to whom to make an offer, and on what terms and conditions. That gives the seller overall control. The seller makes the ground-rules clear to the buyer upfront, so both parties understand the nature of the game. *FairPay is a game that seeks fairness, transparency, and cooperation.*

Set the price (Buyer)

"Price it Backward." Reversing traditional practice, with FairPay, the *buyer* is granted the power to set the price -- and does that *after* using the product/service and seeing its actual value in use, and in context ("post-pricing"). *The buyer is the one who has direct*

knowledge of the perceived and realized value in the buyer's unique context -- and after use, is when that value is known and quantifiable. (Obviously the buyer has selfish incentives to set the price lower than the actual fair value, but FairPay provides a new way to balance that selfish motivation.)

Repeat the game? (Seller)

"Extend it Forward?" This *seller power* is what makes FairPay work to converge on fair prices over the course of the relationship, balancing the power of the buyer to set the price. ***The buyer knows this is a repeated game, and must consider the consequences when exercising his price-setting power.*** The seller tracks the price and determines, in the context of the overall history, whether it seems fair enough to the seller to continue the game for another round. That motivates the buyer to price reasonably fairly. FairPay offers are not always open to all -- they are a privilege that can be granted or withheld.

- **Repeating the steps (back to Step 1, with a growing shared understanding)**

  If the seller pricing is judged fair by the seller, the game repeats, returning to Step 1. At that point, the seller can adjust the rules by changing what is offered, and under what terms and conditions. If the buyer pricing is judged as generous, more attractive offers may be made. If fair enough, similar offers may be made. If fairness is questionable, more restricted offers may be made, and probationary warnings may be given. Fairness is determined not just from the current transaction, but with consideration to the *fairness reputation score* that the buyer has established over the history of the relationship. If, after repeated tries to nudge the buyer, the seller concludes the buyer is just unwilling to play fairly, the seller may decide that FairPay game is not to be repeated further (for that customer).

- **Ending the game -- Fallback to conventional pricing relationship**

  If the game is not repeated because the seller concludes the buyer is unfair, conventional set-pricing offers would typically be maintained as the fallback option. In any case, buyers know that if they want to maintain the FairPay privilege of setting their own price, they must satisfy the seller that they are being at least marginally fair about it, most of the time.

Real simplicity?

FairPay may seem more complicated than conventional subscription relationships, but I suggest that complication can be largely hidden from the customer. Yes, customers are forced to think about pricing more than once, but is that such a problem? Don't you think about pricing every time you eat in a restaurant and leave a tip?

With a simple paywall, customers must think about prices when they first hit the paywall. The hope is they will pass through it, go onto an auto-renew subscription, and never think about it again (while the money just rolls in). That will be the case for some, but others will balk. Either way, the Procrustean paywall will cut off a huge portion of the potential revenue (whether the red head or the amber foot). One size just does not fit all. This simplicity is very costly to the seller -- and a turn-off to many buyers.

As for those who do forget about their subscription price and just renew forever, is that really such a windfall? Those who do not think about their continuing payments are those who are not very price sensitive to begin with -- and so they are just the ones who might be persuaded to pay more than the fixed rate under FairPay. Maybe they are the heavy users, who know they are getting more than fair value. So maybe a fixed-rate paywall is their windfall, not yours...

Is FairPay really more complicated or more of a hurdle? FairPay is "Fair Pay What You Want", and at heart, pay what you want is almost as buyer friendly as free. FairPay costs only what the buyer thinks fair -- what is so complex about that? It is not rocket science, but gut intuition, guided by some conventions. The threshold for seller acceptance can be soft enough to remove all but a minimum of anxiety (as with tipping) -- and once buyers establish a reputation, price setting actions can be infrequent and easy, and left on autopilot, except as change is warranted. (Sure, free is even more buyer friendly, but we are all adults here.)

Simple, fair ...and profitable

As to the apparent simplicity of auto-renewing subscriptions, FairPay can hide a huge amount of complexity, because it is buyer-driven and intuitive. The buyer can set a price that naturally reflects his needs, his usage, his valuation of the product and of the relationship, and his ability to pay -- all with unlimited nuance and adaptation to current circumstance, and with hardly a thought. Fully evaluating all that richness on the seller side (as to fairness) will take sophisticated decision rules, but the seller can begin with a simple, forgiving, fairness model to get close to true sensitivity, and later refine it to get even closer. This is just another aspect of customer relationship management, one that gets to the heart of the value exchange. Isn't it just this kind of customer relationship management that modern businesses should be seeking to cultivate?

The buyer finds a new kind of freedom, almost as much as free, or pay what you want. He no longer needs to wonder how much he will use and how much he will value it. That can be determined later, after he knows exactly what he got. If he underprices, the seller may be forgiving up to a point, and the worst that happens is he is back at the paywall. There is no fear of buyer remorse to stop him from using a product he thinks he might value. ...And the buyer and seller learn how to work together to find the maximum desirable and fair value exchange. The buyer is happy because the seller removes the pricing risk. The seller is happy to have a loyal and profitable customer.

Value-Based Pricing Is Transforming B2B -- Now for B2C...

Let's shift focus to look at how FairPay operates as a lightweight, emergent variant on the value-based pricing strategies that have proven effective for large-scale, high-value B2C relationships.

"There is broad consensus...that **a pricing orientation based on customer value and customer willingness-to-pay is best and can positively influence pricing power and firm performance**." -- Journal of Revenue and Pricing Management (Liozu, Stephan M., 2017).

FairPay is a new way to do *value-based pricing* -- in which prices are set based on the actual value realized by each individual consumer -- with a fair share of the value surplus going to the provider.

- Value-based pricing has proven transformative in B2B contexts. It is becoming accepted as best-practice, where feasible, even though this approach has been largely unknown in consumer markets.
- Now FairPay provides a lightweight way to exploit the economics of digital to achieve similarly transformative win-win results, in a way that is suitable for many mass-B2C businesses (especially for digital content/services).

This section reviews what value-based pricing is and shows how and why it is increasingly transforming businesses in the B2B space. It explains why it has generally not been relevant for B2C businesses and how FairPay provides a new variation on this theme that is specifically suited to consumer markets. (Links to authoritative references are provided -- it is strongly recommended that any manager with revenue

responsibility understand this increasingly important new perspective on strategy.)

New pricing strategies can drive business design and disrupt markets

Before jumping into the details, let's be clear that these ideas go far beyond the narrow "green-eyeshade" confines of pricing that many managers tune out. Pricing is an often neglected aspect of strategy, given little attention or respect. But pricing can have a huge impact on profitability, and value-based pricing has proven that it can transform fundamental business models and organization structures. It can drive design thinking in ways that improve customer relationships, disrupt competition, and reshape markets. It is truly a new logic for pricing. *In these times of turbulence, pricing is too important to be left to the pricing specialists.*

Value-based pricing -- seeking optimal value exchange

The terms *value-based, performance-based, outcomes-based* and *success-based* are often used for variations on the same basic idea. (I use the term *value-based*, for breadth and simplicity, since performance, outcomes and success are aspects of value.) These all differ from more conventional *cost-based* (cost plus markup) and *competition-based* (what the market will bear) pricing orientations, which are widely used, but are more simplistic and generally less effective.

My particular emphasis is on *post-usage assessments of value, which are central to individualized, in-context* ***experiences of value*** -- these are most important to quantifying the true value to a given customer (especially for experience goods). The term value-based pricing is also used for less collaborative, *pre-usage* pricing variants that are based on generic *predictions of value.* That is a step in the right direction, but generic predictions are just expected averages, and thus a poor approximation of post-usage measurements of value, as actually realized by any given customer.

Value-based pricing seeks to approximate the ideal of perfect price discrimination (Reisman, Richard, 2015c), which captures maximum revenue from every customer (including many who would otherwise not actually become customers at all). As currently applied, experiential value-based (post-) pricing has generally been impractical in consumer markets, but it has proven very effective and efficient for industrial items or services. For post-pricing based on value, the challenge has been that this requires - 1) that the parties can agree on how to measure value as it is experienced in context, and how to share in the value surplus that the product/service creates, and 2) that they are able to do the analysis required after the performance and outcomes are known.

While this challenge had limited usage contexts in which value-based pricing has been applicable, it is widely accepted that digital transformation is rapidly expanding that applicability.

Powerful lessons from the B2B world

The February 2017 special issue of the *Journal of Revenue and Pricing Management* is devoted to value based pricing — its editorial (Liozu, Stephan M., 2017) observes (emphasis added):

There is broad consensus among pricing scholars, consultants, and practitioners that **a pricing orientation based on customer value and customer willingness-to-pay is best and can positively influence pricing power and firm performance...More stories of successful transformation are being presented** at pricing and business conferences. More firms are piloting value-based pricing with specific projects and technology platforms.

One of the articles in that issue, "The conceptualization of pricing schemes: From product-centric to customer-centric value approaches" (Stoppel, Eduard; Roth, Stefan, 2017), provides a conceptual structure and a survey of practice to show how this can "strengthen the relationship between customer and provider" and provide numerous mutual benefits.

Helpful background on why this is so powerful is contained in 'Is Performance-Based Pricing the Right Price for You?', a 2002 paper from Harvard Business School Working Knowledge (Shapiro, Benson, 2002) (emphasis added):

Not every industry or company can benefit from performance-based pricing. But where there is a fit, PBP can be **a powerful tool that merges the interests of buyers and sellers**, says Harvard Business School professor Benson Shapiro.

Because pricing is such a difficult and complex arena, it has confounded sales and marketing executives and scholars for centuries. In no other marketing element is **the two-sided conflict and cooperation nature of the buyer-seller relationship** made so clear.

Part of the relationship is a zero-sum game between buyer and seller in which one's gain is the other's loss. Pricing is at the center of this part. **But, there is a second, win-win part of most buyer-seller relationships**, including almost all business-to-business relationships. The win-win part often includes improved products and services that simultaneously provide greater customer value and higher supplier profitability. We constantly strive to move elements of the relationship from the zero-sum conflict side to the win-win cooperation side to achieve business success and relieve personal angst on both sides. We have searched for ways to move pricing into the win-win category. In some situations, **performance-based pricing can make pricing a win-win element of the buyer/seller relationship**.

That paper goes on to give many examples, noting its popularity in advertising, as well as "industries as diverse as consulting, trucking, and heavy industrial services." It cites three advantages:

1. "alignment...between the buyer's goals and the seller's goals
2. "insurance...when the final performance of the service or product is in doubt," creating "a greater sense of 'fairness' for both buyer and seller"
3. "the very process...develops 'wide-bandwidth' communication between buyer and seller...a great deal of buyer/seller cooperation and coordination, and literally a much broader agreement."

The downsides cited by Shapiro are that it "is complicated...the amount to be paid cannot be determined until after delivery, and often even after usage' and that this "moves both the cost and price risk to the seller," (and that "it is not good for sellers who desperately need short-term cash flow"). It is this complexity that has kept such approaches out of B2C markets until now.

But Shapiro also observes that "the vendor then obtains the opportunity to better manage the spreads among value to the customer, price and cost to its advantage. With risk comes added opportunity. The vendor who uses performance-based pricing must thus be willing to accept greater, two-sided (price and cost) risk for added reward opportunity." These are advantages that I have highlighted as the motivations for FairPay. This idea of opportunity coming out of risk is important, and is addressed further below.

Additional interesting background that reinforces these points is in the chapter "Pay if it Works" in Smart Pricing, by Raju and Zhang of the Wharton School (Raju, Jagmohan, Zhang, Z., 2010), and a more recent

HBR article (Michel, Stefan, 2014).

This trend relates to the ideas described in my post, Price = Value (Reisman, Richard, 2015f), based on the growing acceptance that value derives from services, not goods (even if it is a service that is embodied in a good) — and that companies can profit from that by setting prices based on the value of their services, not just the goods that they are based on. (The theory behind this is recognized as a new logic, referred to as service-dominant logic as opposed to goods-dominant logic (Lusch, Robert F.; Vargo, Stephen L., 2014). I suggest FairPay builds on this by focusing on value-dominant logic, as opposed to price-dominant logic.) It gets to better and more broadly-based cooperative understandings of value propositions through a process of "co-pricing" (Frow, Pennie; Reisman, Richard; Payne, Adrian, 2015).

There have been many successes. Perhaps most familiar to people in content businesses are performance-based advertising pricing models, such as the shift from cost-per-impression to cost-per-click to cost-per-lead or cost-per-action. But industrial services provide many illuminating examples. For example, Rolls Royce profited from realizing that it need not sell jet engines as commodities, but could get more share of wallet and make its customers happier by selling "Power by the Hour," where the airlines pay for what they use (Knowledge@Wharton, 2015), and leave it to Rolls Royce to manage high capital investment and critical maintenance efforts. GE and others now do the same. Michelin now sells tires by the mile to fleet owners (IMD, 2013) (see Sidebar). There have been many more successes, including the example of Salesforce, which uses customized value-based pricing for its large accounts (as reported to me by the executive who managed development of that pricing system a decade ago). An important example where outcomes are increasingly viewed as an essential basis for fair and efficient pricing is in healthcare (Lauterbach, Karl; McDonough, John and Seeley, Elizabeth, 2016). (The Stoppel and Roth paper cited above provides additional examples.)

Sidebar: Usage versus value

Note important distinctions between models based on *actual* usage such as power by the hour and tires by the mile, versus those based on *potential* usage such as the 'all you can eat' (AYCE) subscriptions that are becoming dominant in consumer content sales (news, music, TV/video), as described in my Deadweight Loss post (Reisman, Richard, 2015b). Actual usage is a form of post-pricing, and thus tracks moderately well to realized value, while AYCE access subscriptions are pre-priced, with no correlation to whether actual usage (and thus value) is high or low.

At the next level of refinement, actual usage is still not an ideal metric of realized value, especially for experience goods. For jet engines and fleet tires, hours or miles (respectively) will usually correlate well with value, but for news stories or videos, the number of stories or number of programs (or minutes) may not correlate very well with realized value at all. That unforgiving "ticking meter" is why conventional usage-rate-based pricing of content (pay per view and micropayments) has remained unpopular with consumers. The "subscription economy" moves us closer to actual value than an ownership economy does, but the measurement of subscription value is the key challenge in making pricing truly value-based and win-win. That is why FairPay (with its fuzzy, value-based blend of AYCE and usage pricing) can make all the difference.

The advent of Big Data and the Internet of Things (IoT) is making this more feasible and effective in a much wider variety of businesses, as described in a 2014

HBR article (Iansiti, Marco; Lakhani, Karim R., 2014). Value can be measured in any appropriate manner, reflecting usage, performance, outcomes and other factors. (I addressed the similar potential for big data about content service use in an earlier post, "E-Books Are Reading You" — How That Enables a New and Far Better Economics (Reisman, Richard, 2014a).)

Value to the consumer! — a win-win game

Now FairPay takes the principles of the value-based pricing and applies them in a lightweight and intuitive form to consumer markets. In doing this, it can flexibly blend desirable features of other pricing models in a new paradigm. It combines aspects of freemium and participative pricing (along with post-pricing) in a new way — one that gives buyers and sellers evenly balanced power to set individualized fair prices in "dialogs about value" — a collaboration over time that can consider all of the relevant dimensions of value and fairness. Its assessments of value may at first be crude, but because of its continuously adaptive learning process they can be good enough, and get better, on average, as the relationship develops over time. (It also gets more seamless and habitual after a short initial learning period (Reisman, Richard, 2017b).)

Shapiro's paper nicely points out the *zero-sum versus win-win game* aspects of buyer-seller relationships (as quoted above). FairPay is based on just such a view, working as a repeated game that seeks win-win cooperation over the course of each relationship. A conceptual perspective on why this is important and how the value surplus can be shared fairly is in my blog post, An Invisible Handshake for The Digital Wealth of Nations (Reisman, Richard, 2015d).

Drawing on the conceptual model of Stoppel and Roth, pricing schemes have two key components: *measurement units* (that provide a basis for pricing), and *calculation mechanisms (*effectively the pricing rates that derive a monetary amount based on the units). These elements can be addressed in systematic ways in the large B2B contexts where value-based pricing has been successful, but are a challenge for B2C markets. The breakthrough of FairPay is to recognize that the individual relationships in B2C markets operate at a more subjective, intuitive, heuristic level, and that we can exploit computer-mediation to design the pricing game to operate at that same level.

- FairPay is not the same as traditional person-to-person negotiation, but both operate at a similar and appropriately subjective, intuitive, and human level.
- The choice of measurement units and pricing mechanisms can be flexible and dynamic, because cooperation is centered on fuzzy aggregate values where these details are merely reference points (serving a function much like reference prices (Kalyanaram, Gurumurthy, Winer, Russell, S., 1995)) for justifying an approximate valuation that is intuitively agreeable.
- The business can accept some degree of transaction-level valuation errors (given the low marginal costs), as long as the overall trend of the relationship leads to fair and sustainable profit.

FairPay pricing is *emergent* out of fuzzily approximate dialogs about value that converge toward reasonable accuracy and fairness. This has strong foundations in behavioral economics, as explained in Making Customers Want to Pay You — Research on How FairPay Changes the Game (Reisman, Richard, 2014b) and Thinking Fast and Slow about FairPay: A New Psychology for Commerce in a Networked Age (Reisman, Richard, 2012).

It is this embrace of fuzziness and emergence that enables FairPay to find a solution that transcends rigorous computational models to cut through the dilemma of unlimited all you can eat (AYCE) models

versus metered usage-based models, both of which are inefficient and have consumer acceptance issues (Reisman, Richard, 2015b). By accepting pricing risk (which is actually very manageable for digital services), FairPay opens vast new opportunities to collaborate, build loyalty, and upsell — to maximize customer lifetime value.

The competitive advantage of taking on risk

Expanding on the observations of Shapiro noted above, an article in a recent issue of PWC Strategy+Business, The Uncertainty Advantage (Avery, Karen and Lynch, Gary, 2017), notes that "Creative leaders don't fear risk — they turn it into a money-making strategy."

There is no better source of profit than your ability to first identify the opportunity hidden in disruptive forces and then use it to differentiate your company from its competitors.

Post-pricing based on individual value is such an opportunity. FairPay recognizes that in a digital world, service providers risk little by taking on pricing risk, because their marginal cost of service is near zero. *They can provide a big win for their customers — by taking on the customer's risk of disappointment, at little risk to themselves — and thus create a big win for themselves.*

FairPay can help us move from thinking narrowly about user experience (UX) and customer experience (CX) based on rigid, imposed pricing models, to the more central and win-win issue of value experience (VX). Notice that UX and CX consider the perspective of the user/consumer, but they do so *with the idea that the UX/CX is to be managed by the vendor* (and with the vendor's unilateral price setting power). VX looks at this from the broader perspective that value is something that neither party owns or fully controls, but is something that both co-create and share in cooperatively. With this central focus on value experience, we can then find ways to cooperatively look beyond conventional notions of pricing, to change the nature of our business models, and make them more win-win.

Which is a more win-win way to think about pricing? Which gives your customers a truly "customer-value-first" experience of value (Reisman, Richard, 2017a)*? Which will make your business most sustainably profitable? Isn't it time to give it a serious try?*

Use case examples

This section briefly notes several use cases to suggest how these principles can apply to various industries and business situations. The last, for TV/video bundling shows how even a solution that stops well short of the participative pricing of FairPay, but simply applies post-pricing, can make a big difference. (More details on all of these examples are in my book (Reisman, Richard, 2016a) and blog (Reisman, Richard, 2017d).)

Use case 1: Journalism

Journalism is one of the most prominent and socially important businesses being disrupted by digital. With news widely available free on the Web, many consumers question why they should pay. However, the harm of poor quality and downright false "fake news" has caused a resurgence of consumer willingness to pay for quality (Reisman, Richard, 2016d). Digital subscriptions are finding new takers, and membership and patronship models are emerging as ways to focus this direct support to sustain quality journalism (Reisman, Richard, 2017c).

Applying FairPay to subscriptions is straightforward—the cycles of dialog about value and pricing correspond to subscription cycles. Usage is recapped to remind consumers of the value received (and to account for any reverse value provided back to the publisher, such

as for collaborative journalism, attention to ads, use of personal data, viral sharing, etc.), a price is suggested, the consumer makes any desired adjustment, with explanations for any reductions, and the publisher determines whether the game continues, with what reframing (carrots of premium/added features, or sticks of probation of revocation of FairPay privileges and return to a paywall).

FairPay can also apply to per-article offerings, including aggregators like Blendle (Reisman, Richard, 2016b). But instead of conventional micropayment models that suffer from a "ticking meter" with fixed charges per article, a FairPay offering can soften that with participative setting of volume discounts at levels that compare to subscription pricing. Here, the consumer is offered some number of items before a pricing request is made, again with a recap of usage and a suggested price. The consumer is free to adjust the price, and based on that, the seller determines whether and how to make offers to continue the game. (As a partial step in this direction, such discounted pricing can also be done unilaterally by the seller, much like the TV/video post-bundling strategy described below.)

An interesting issue in journalism is whether publishers should require minimum fairness levels and limit services to those who fall short, or should choose to make payments purely voluntary. Most major publishers do the former, but some (like the *Guardian*) want their journalism to reach the entire public, as a public good, and are satisfied with voluntary payments. FairPay provides a structure that can enable policies across a continuous range, from strict minimum fairness levels, to unrestricted exhortations. But in any case, it provides a rich, ongoing framework for nudging consumers toward fair payment levels, whether strictly enforced, or merely suggested – by applying highly individualized value-based nudges.

Use case 2: Music

Very similar issues apply to recorded music, perhaps the first industry to suffer digital disruption. Again major cases include subscriptions, such as for streaming services like Spotify, or per-item download services like from iTunes.

A major difference is that while journalism subscriptions are usually from a publisher who creates the journalism directly and thus controls the creation process, music is often distributed by intermediary services. That introduces a value chain of creation and the issue of fair compensation down that chain. Part of the challenge for music distributors is justifying consumer payments as being supportive of continuing creation. Vociferous complaints from musicians that the distributors and labels fail to compensate them properly adds to consumer reluctance to pay. FairPay provides a structure to bring more transparency to that (Reisman, Richard, 2015a), and to give consumers more participatory control over how much of their revenue support goes directly to the musicians, thus justifying the consumer's payments.

Use case 3: Costly real products

While the most obvious applications of FairPay are for digital (virtual) products/services, because of their near-zero marginal cost, it can be adapted to real products that are costly by setting a price floor (Reisman, Richard, 2015g). Simple analogs are in 'pay what you want' offerings that set a minimum price floor. The special sales by fashion e-tailer Everlane are a prominent example. The idea is to use the minimum to cover the basic cost of the sale, but add a discretionary bonus to provide a profit margin and sustain ongoing development of more products.

Use case 4: Non-profits

Because FairPay enables gradations of enforcement of fairness levels in a context of nudging toward fairness, it applies equally well to non-profits (Reisman, Richard, 2016c). This is much as noted above for

journalism. Services such as museums can offer memberships that work for whatever level of engagement and usage a member chooses, and at whatever level of generosity (fairness) the institution and patron converge on. Instead of menus of membership tiers and perks, the offering can be open and adaptive in a dynamic way.

Use case 5 (non-participative): TV/video bundling

Here we consider an easy step up the ladder of value, applying a strategy with some simple elements of FairPay (post-pricing, after usage) but keeping the business in unilateral control of the pricing schedule.

The TV/video business is suffering disruption from Internet services that have challenged the model of channel bundles offered by cable or satellite aggregator/distributors. Both aggregators and program providers are offering "skinny bundles" of fewer channels. Either way, this is a notable example of a model that poorly tracks to value, as consumers are forced to decide well in advance what channels they expect to watch, at what levels.

The full form of FairPay would apply well to this, but even a much less radical variant might make a big difference. What I have suggested as "post-bundling" could offer post-pricing, even without any participative pricing (Reisman, Richard, 2015e). Viewers could have run of the house access to whatever they want each month, and then be charged for what they watched, but at discounted rates that were comparable to a personalized bundle price. Unlike "a la carte" pay per view pricing, which offers no discounts, and quickly becomes exorbitant for more than a few programs or movies, post-bundling plans could be economical for light/moderate or diverse viewing (and still be capped to work for heavier viewers).

Concluding Remarks

The digital era is in its early days, but we already see how dramatically it undoes our old logics and brings a new age of abundance and a new power to commercial relationships that apply continuous ongoing connections to the collaborative co-creation of value. We see the power of free, in freemium, and we see the power of service-dominant logic to move us to new levels in cooperation, trust, transparency and dynamic adaptivity in our commercial relationships. But we are only edging toward the realization of how deeply this transforms economics and business, and of how our old logic prevents the level of value discrimination that is now feasible and necessary to reach our full economic potential.

We seem ready to accept that businesses need to be 'customer value' first, and to focus on customer lifetime value. FairPay points to simple ways to make commerce more value-focused, more cooperative and more equitable – and to provide economic efficiency in ways that are more broadly beneficial to businesses, consumers and society (at least in some important contexts). FairPay is well founded in behavioral economics and game theory, and returns us to traditional norms of human commerce. It is an architecture that can take many forms with a wide range of policies. Only time, testing and ingenuity will tell just which forms apply well in which business and market contexts – and whether variations on its themes will emerge as more effective.

But in any case, it seems clear that moving up the ladder of value in the directions FairPay points will lead us to solutions that maximize this collaborative co-creation of a new abundance. Businesses that master this early will not only profit, but will take the lead in building customer relationships that are rewarding, strong and sustainable because they a based on an invisible handshake that commits both sides to finding real win-win value.

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The Long and Short of It: Do Public and Private Firms Invest Differently?

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