

Modularity: Catalyst of Innovation

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Abstract

We use a simple stylized model to show that if a monopolist experiences increasing cost of innovation, it makes higher profit by selling a base product and its innovation simultaneously as long as innovation is cost efficient. Further, we show that if the cost differential of modularizing the product is not too high, the monopolist makes even higher profits by modularizing the products using a common interface between models in both the products. We thus argue that modularization stimulates innovation.