

FREE

The Future of a Radical Price

CHRIS ANDERSON

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MAIN IDEA

At one time, giving away free stuff was an attention grabbing sales gimmick. That’s now changed dramatically. In today’s business environment, companies can profit more by giving things away than they can by charging for them. Notably this isn’t just a digital economy phenomena. It applies right across the global economy. In more and more industries, abundance thinking is becoming a far more powerful engine for commerce than scarcity thinking ever has been. Free is becoming a business strategy which might just end up being essential for any company to survive.

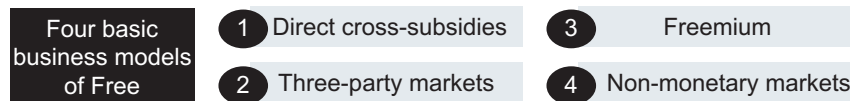
The online economy’s costs continue to go down dramatically. This has created the unique situation where the primary inputs of the entire industrial economy are falling faster today than at any other time in recorded history. To take a case in point in 1960, a single transistor sold for \$10. Today, when you buy Intel’s latest microprocessor chip, you’re in effect purchasing two billion transistors for \$300 – which works out to around 0.000015 cents a transistor. These and other similar cost decreases are generating a tremendous reduction in costs for all three of the basic building blocks of online commerce – processing power, bandwidth and hard-drive storage.

“At the beginning of the twentieth century, Free fueled a consumer revolution that defined the next hundred years. The rise of Madison Avenue and the arrival of the supermarket made consumer psychology a science and Free the tool of choice. Free-to-air radio and television united a nation and created the mass market. Free was the rallying cry of the modern marketer and the consumer never failed to respond. Now, at the beginning of the twenty-first century, we’re inventing a new form of Free, and this one will define the next era just as profoundly. Today, the most interesting business models are in finding ways to make money around Free. Sooner or later, every company is going to have to figure out how to use Free or compete with Free, one way or another.”

– Chris Anderson

1. The history of free – and why it has such power Pages 2 - 3

The word “free” can mean lots of different things but these all boil down to variations of the same thing: shifting the cost of a product or service from person to person, between now and the future or into nonmonetary markets and back out again. There are four basic business models by which things can be made available for free:



2. How digital electronics has revolutionized free Pages 4 - 5

The obvious reason most products are not free is because their production costs are not zero – it costs money to make things and that cost must be met. Digital markets are an exception to the rule. For almost all digital products, the marginal cost of reproduction is zero. Therefore, sooner or later, it is almost inevitable producers in the digital realm will find themselves competing against products which are free. Accepting this fact, the smart thing to do is to try and figure out how to use a zero price point profitably yourself and get there first.

3. Freeconomics – how and why free works and what it does Pages 6 - 8

Economists have known for hundreds of years one fact: “In a competitive marketplace, price always falls to the marginal cost.” This was of academic interest only until everyone joined hands to build the world’s first truly competitive marketplace – the Internet. In this, the most competitive marketplace the world has ever seen, free is not just an option. Rather, free is the inevitable endpoint which is generated by the forces of economic gravity. You will be far better off acknowledging this reality and becoming one of the first in your industry to figure out how to build a business model based around free that still makes you money. This will take creative thinking and ongoing experimentation to get right but by being an early-mover in finding ways to exploit free, you can position yourself advantageously. That head start just may be enough to give you a sustainable competitive advantage.

Above all, swap scarcity thinking for abundance thinking – because sooner or later, that’s where every industry is heading.

Scarcity		Abundance
You have to get permission	Rules	Anything goes
“We know what’s best”	Social Model	“You know what’s best”
Business model	Profit Plan	Figure it out as we go
Top-down	Decision Process	Bottom-up
Command and control	Management	Out of control

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