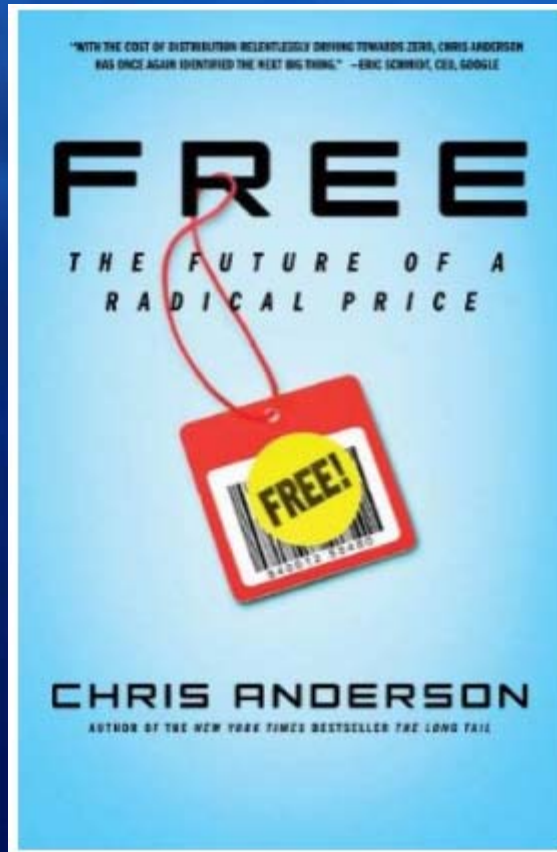


Free: Is \$0.00 the Future of Associations?

Thursday, April 8, 2010

Fantasia E/F

Chris Anderson's Concept of "Free"



- There is a huge difference between "cheap" and "free"
- In a competitive market, price falls to marginal cost

Chris Anderson's Concept of Free (2)

- At a certain point, marginal costs get close enough to zero that you can round down
- The digital age is exerting an inexorable downward pressure on the prices of all things "made of ideas."
- Markets no longer defined by connecting two parties

Chris Anderson's Taxonomy of Free

- Freemium
- Advertising
- Cross Subsidies
- Zero Marginal Cost
- Labor Exchange
- Gift Economy

Fremium

- Free sample to entice future purchase.

“For every person who pays for the premium version of the site, 99 others get the basic version for free.”

“The reason this works is that the [marginal] cost of serving the 99% is close enough to zero to call it nothing.”

Fremium

- **What's Free**
 - Web software and services
 - Some content
- **Free to Whom:**
 - Users of the basic version
- **Association Examples from Panel**
 - Actual
 - Potential

Advertising

- Google pay-per-click text ads
- Amazon pay-per transaction “affiliate ads”
- Paid inclusion in search results

"All of these approaches are based on the principle that free offerings build audiences with distinct interests and expressed needs that advertisers will pay to reach."

Advertising

- **What's Free:**
 - Content
 - Service
 - Software
 - And more
- **Free to Whom:**
 - Everyone
- **Association Examples from Panel**
 - Actual
 - Potential

Cross Subsidies

- The razor is free to get you to buy the blades.
- Cell phone is free to get you to buy the service plan.

Cross Subsidies

- **What's Free:**
 - Any product that entices you to buy something else
- **Free to Whom:**
 - Everyone willing to pay eventually, one way or the other.
- **Association Examples from Panel**
 - Actual
 - Potential

Zero Marginal Cost

- Digital Content variant of the free sample approach

"Some artists give away their music online as a way of marketing concerts, merchandise, licensing, and other paid fare."

Zero Marginal Cost

- **What's Free:**
 - Things that can be distributed without an appreciable cost to anyone.
- **Free to Whom:**
 - Everyone
- **Association Examples from Panel**
 - Actual
 - Potential

Labor Exchange

- Wikipedia
- Rating stories on Digg
- Voting on Yahoo answers
- Google 411

"The act of using the service creates something of value, either improving the service or creating information that can be useful somewhere else."

Labor Exchange

- **What's Free:**
 - Web sites and services
- **Free to Whom:**
 - All users, since the act of using these sites and services actually creates something of value.
- **Association Examples from Panel**
 - Actual
 - Potential

Gift Economy

- Sharing without expectation of reward.
- Individuals contribute because they like the fact that actions of individuals have impact.

Gift Economy

- **What's Free:**
 - The full, "premium" version of the software or content.
 - Open source software.
 - User-generated content (e.g.; Wikipedia)
 - Freecycle: free second hand goods to whoever will take them away)
- **Free to Whom:**
 - Everyone
- **Association Examples from Panel**
 - Actual
 - Potential

Contrarian Views

Malcolm Gladwell

- Looks free to the user but ...
 - Marginal cost of bandwidth may be “close enough to zero” to look free, but YouTube spent \$360M in bandwidth costs in 2009
- Ignores infrastructure and system costs
 - Even if the cost of producing power was “too cheap to meter,” distributing energy requires enormously expensive transmission system
- The only hard fast rule is there are no hard fast rules

"Apple may soon be making more money selling iPhone downloads (ideas) than it does from the iPhone itself (stuff). The company could one day give away the iPhone to boost downloads; it could give away downloads to boost iPhone sales; or it could continue to do what it does now, and charge for both."

Contrarian Views

Association Perspective

- Content creation can be expensive, even if distribution costs are zero
- Associations lack the scale that makes free work for Google/Wikipedia

Digital References

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Thank You!