



FREE

by Chris Anderson



Overview

These days, more and more consumers are demanding that things are Free. Companies may be struggling to figure out how to monetize this growing trend, and this book outlines how. From Free video games which make money with in-game features, to using direct cross-subsidies to make a Free product which entices customers to purchase paid products. The history of Free, the psychological basis of Free, and specific methods to monetize, are all presented here.

Preface

“Free” is the second-most notorious four-letter “F” word in the English Language. We are simultaneously drawn yet suspicious of the promise of something-for-nothing. Free is about capitalizing on the near-zero marginal costs of digital products as the best marketing strategy. Free, above all, is here to stay.

Prologue

Free is full of contradictions— you make money *giving* things away. There really *is* a free lunch. Sometimes you get *more* than you pay for. When he wasn’t writing, Chris Anderson talked to people about Free. He found two sets of critics. Older critics, who grew up with 20th century Free, were suspicious. They believed nothing is free, that they’d pay eventually. Younger critics grew up online assuming that everything digital is free. Free isn’t new, but it *is* changing; we must reevaluate our knowledge of human behavior and economic incentives.

The Birth of Free

When Jell-O first entered the market, it was too foreign for turn-of-the-century consumers. The product struggled for years, being sold and resold to various companies. Consumers didn’t understand the product or its uses, and without consumer demand, merchants wouldn’t stock it. To remedy this, in 1902, the Genesee

Pure Food Company (Jell-O’s owner) printed pamphlets with Jell-O recipes and gave them away for free. They couldn’t afford to give out free samples of Jell-O, so they did the next best thing: free recipes that could only be used if consumers bought the product.

Free does not equal profitless. It means that the route to revenue is indirect. Free fueled a revolution that defined the next century. As consumer psychology became a science, Free became the tool of choice, and consumers never failed to respond.

Twenty-First-Century Free

Twenty-first-century free is driven by an ability to lower the costs of products close to zero. The rise of “freeconomics” is driven by technologies of the digital age. This century’s free is based on the economics of bits, not atoms. The economy of atoms is inflationary, while bits are deflationary. Today’s most interesting business models are in finding ways to make money around Free. Eventually, each company must either learn how to use Free or compete against it.

What is Free?

There are four kinds of free, all variations of the same thing: shifting money from product to product, from person to person, between now and later, or in and out of nonmonetary markets. Economists call these “cross-subsidies,” meaning that one way or another, something must be paid for, sometimes indirectly. Cross-subsidies work in several ways:

- **Paid products subsidizing free products.**
- **Paying later subsidizing free now.**
- **Paying people subsidizing free people.**

Within the world of cross-subsidies, Free models usually fall into several categories. The **3-party market** is most common, as costs are sufficiently dispersed to *feel* free. In **nonmonetary markets**, motives to share can range from reputation and attention to factors such as expression, pleasure, good karma, and self-interest. For

