Our Take:

OG's Point-of-View On Best-Seller Business Books

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In This Edition We Review

FREE

The Future of a Radical Price

Chris Anderson
Hyperion, 2009

A Little Background

Chris Anderson is the Editor in Chief of Wired Magazine and has been the U.S. Business Editor for The Economist. His experience in economics, science and technology provides unique insights into the emerging business trends of our increasingly connected world.

His first book, The Long Tail: Why the Future of Business Is Selling Less of More, became a bestseller. It details the shift from volume sales (selling large quantities of a few items at low margins to large groups of consumers) to niche sales (selling small quantities of numerous items at high margins to small groups of consumers). Anderson argues that this shift is due, in part, to the internet's ability to provide a virtually unlimited selection of products to meet consumers individual interests for relatively low cost.

In Free, Anderson looks at how the internet has disrupted traditional pricing models. In introducing the book to the marketplace, Anderson's has applied some of the principles he outlines in his book. When the book was first made available, Free could be downloaded at no cost for a limited time via Anderson's website http://www.thelongtail.com/. While this version of the book is no longer available, an audio book version is still available for free. It is interesting to note that this strategy seems to have paid off for Anderson. In July of 09, Free appeared on the New York Times bestseller list.

The Basic Premise

Anderson contends that, sooner or later, every company is going to have to make money by providing, or at least competing with, Free.

He supports this idea by first detailing a history of how Free has been utilized successfully as a marketing strategy from the beginning of the 20th century. He provides an overview of how cross-subsidies have evolved from simple "buy-one-get-one-free" promotions and advertising to include "freemiums" (offering a no-cost basic option along with low-cost premium option) and "nonmonetary markets" that offer services for free or for an investment of time (think Craigslist).

From this foundation, Anderson describes how "digital economics" have elevated Free from a marketing tactic to an "economic force." He begins by reviewing the importance of converting measures of "attention" and "reputation" into dollars. Anderson then suggests that today's market leaders are shifting from "scarcity thinking" (managing limited resources) to identifying and capitalizing on abundances (taking chances with abundant resources where the cost of failure is low) available because of the internet.

Finally, Anderson outlines what he calls the ten "Principles of Freeconomics." Anderson even provides "freemium" tactics and business models built on Free.

Where We Agree

We agree with Anderson on the importance of quantifying previously "soft" factors such as attention and reputation. Our experience in measuring these factors has proven that these are quantifiable and can be predictive of success.

We have found that customers, whether consumers or businesses, give attention to those things that they value. To define value, it is critical to understand what is both relevant and important to customers. Optimization Group employs a set of tools that does just that; quantify those factors that are most relevant and important to customers to create value. When high value factors are met, a high level of satisfaction (and resulting reputation) can be achieved.

Our Top 10 Quotes from The Black Swan

"The web is built mostly on two monetary units – attention (traffic) and reputation (links) – both of which benefit greatly from free content. And it's a pretty simple matter to convert either of those two currencies into cash, as a glance at Google's balance sheets makes clear." P.224

"…what if we could treat attention and reputation as quantitatively as we do money?To do so, we'd need attention and reputation to exhibit the same characteristics of other traditional currencies: to be measureable, finite and convertible." P.182

"…it's easy to compete with Free: simply offer something better or at least different from the free version." P.231

"From a consumer prospective, Free is far more attractive in a down economy. After all, when you have no money, $0.00 is a very good price." P. 237

"The problem is a classic one in Free. It's easier for newcomers than for incumbents." P. 114

"Although consumers may prefer 100 percent free, a little artificial scarcity is the best way to make money." P.196

"'Although 3 million computers get sold each year in China, people don't pay for our software,' (Bill) Gates said in 1998…'Someday they will, though, and as long as they're going to steal it, we want them to steal ours. They'll get sort of addicted, and then we'll somehow figure out how to collect sometime in the next decade'…Piracy created dependency and helped lower the cost of adoption when it mattered. Today, after a few decades of piracy, you've got a huge paid market in China…" P.102

"If you charge a price, any price (even a penny), we are forced to ask ourselves if we really want to open our wallets. But if the price is zero, that flag never goes up and the decisions just got easier…so we tend to choose then things that require less thinking." P.59

"Prices come with guarantees while Free typically doesn't." p. 70

"The point is that the internet, by giving everybody free access to a market of hundreds of millions of people globally, is a liquidity machine. Because it reaches so many people, it can work at participation rates that would be a disaster in the traditional world…" P. 128

OG's 1-9 Rating

On a scale from 1-9, we give Free a 7.

While the book is timely and thought-provoking, it tends to be narrow in its focus. Anderson provides some interesting insights into the impact of "digital economics" on traditional economic models. Because of this, internet based businesses will find greater value in Anderson's viewpoint than "brick and mortar" industries. The investments required to produce goods makes it difficult to fully adopt an abundance outlook as resources are often scarce.

Overall, the point of view presented in Free seems valid and worth reading. Certainly, the internet has had an impact on traditional economic models. Whether "freeconomics" sub-plants the old models is yet to be seen.