

FREE: THE PAST AND FUTURE OF A RADICAL PRICE

Chris Anderson, Wired

The Future, circa 1954



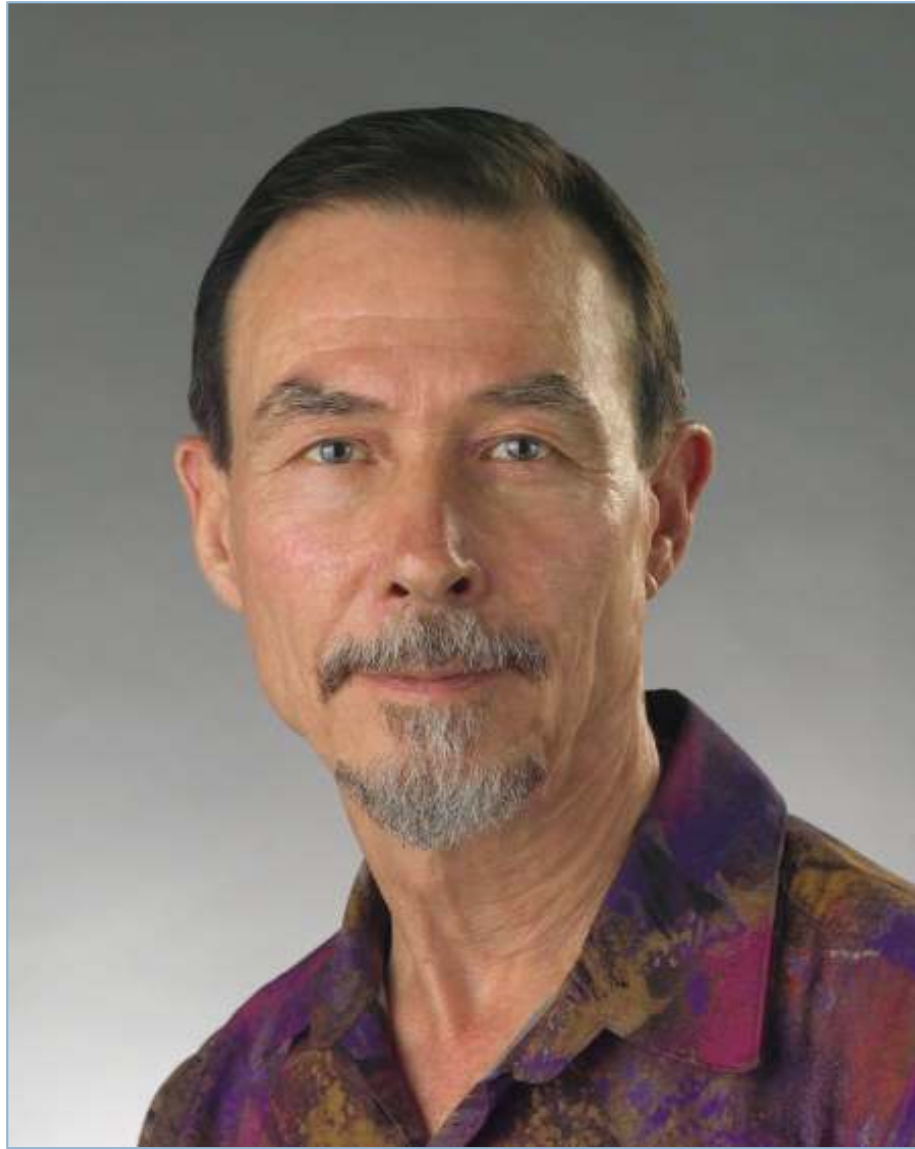
*Signing ceremony
of Trojan nuclear
plant, Portland,
Oregon.*

“It is not too much to expect that our children will enjoy electrical energy in their homes **too cheap to meter.”**

--Admiral Lewis L. Strauss, then Chairman of the U.S. Atomic Energy Commission



What happens when things get free?



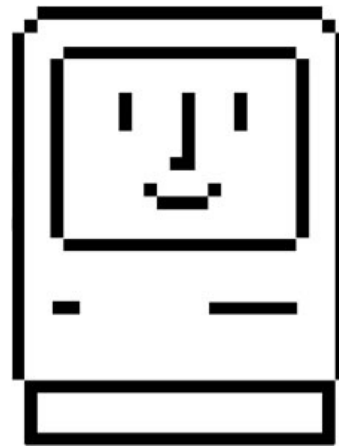
“Waste is Good”



Alan Kay, Xerox PARC
(1972)

“Waste Transistors”

C:\>



“Waste Storage”

TechCrunch

March 27 2007

Yahoo Mail Announces Unlimited Storage

Michael Arrington

Yahoo is **announcing** that all Yahoo Mail users will have free unlimited email storage starting in May 2007. The current storage limit is 1 GB per account (2 GB for \$20/year

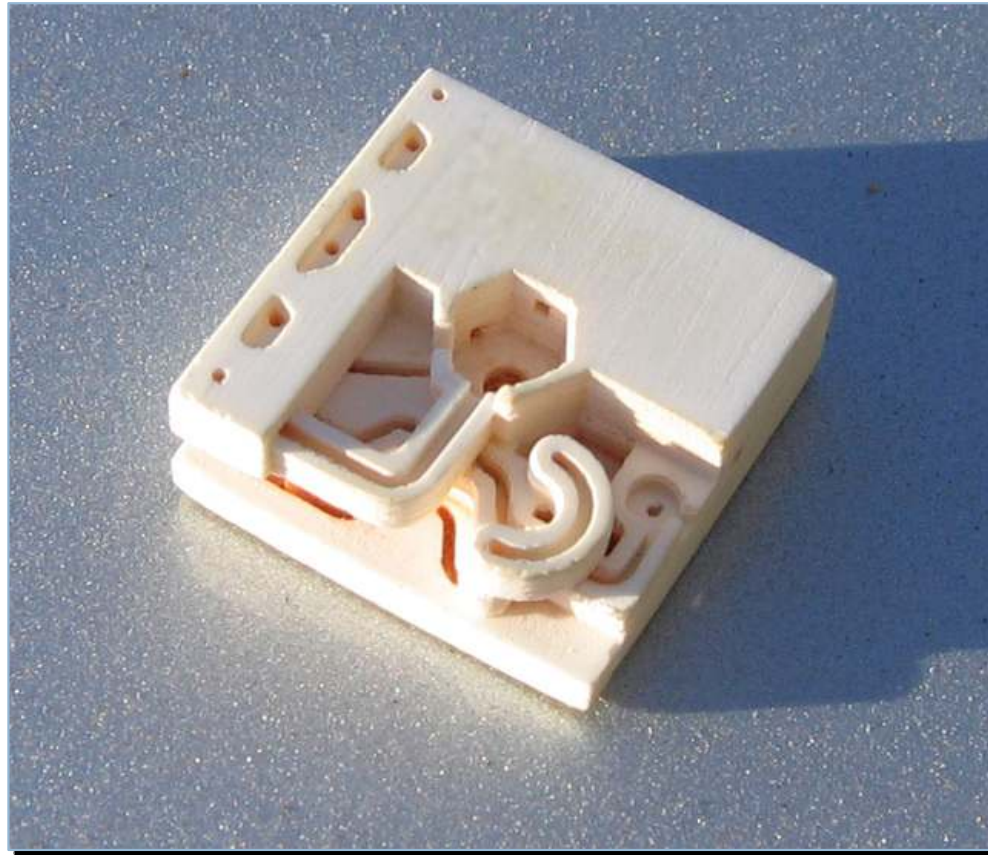
The logo for Yahoo! Mail, featuring the word "YAHOO!" in red with a registered trademark symbol, followed by "MAIL" in black.

(Remember “Your mailbox is full”? What was *that* about?)

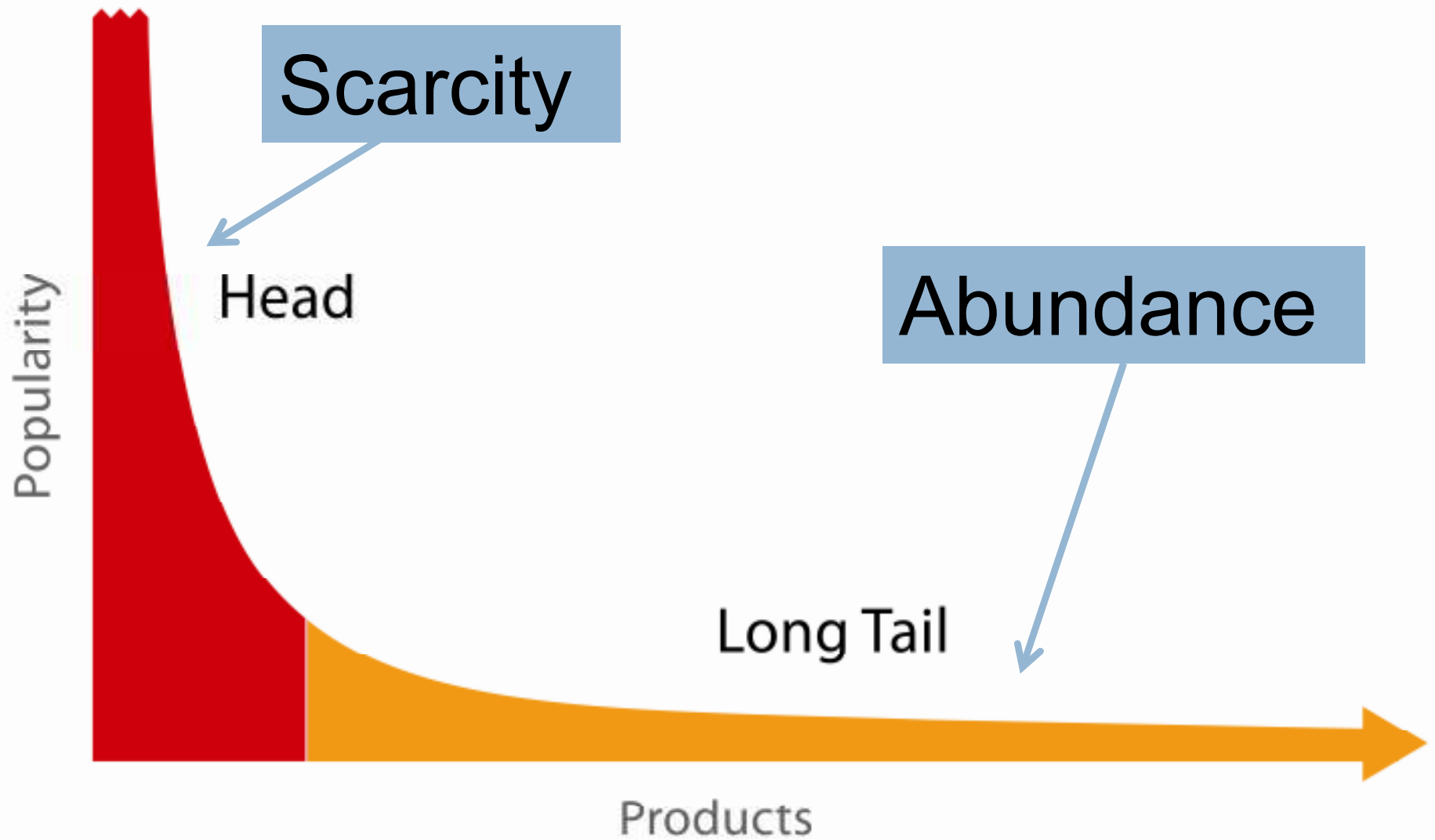
“Waste Bandwidth”



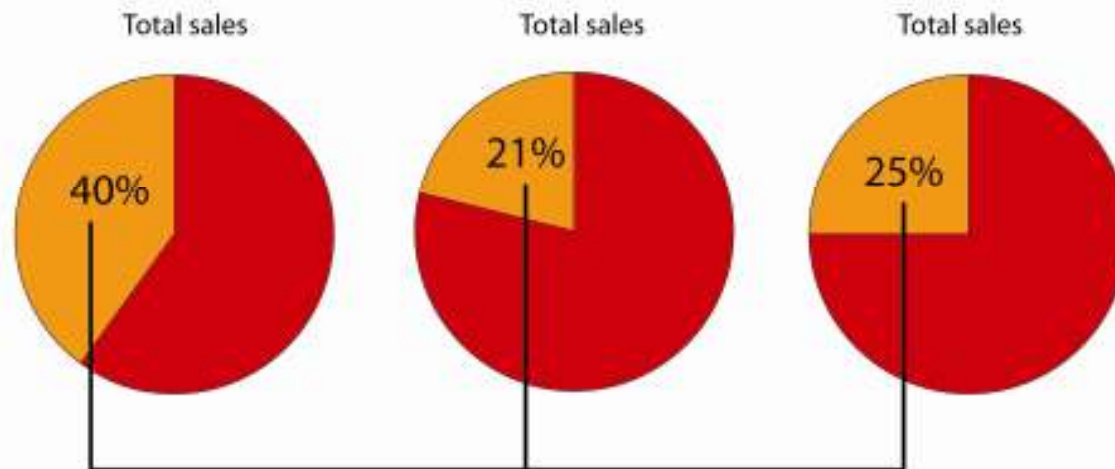
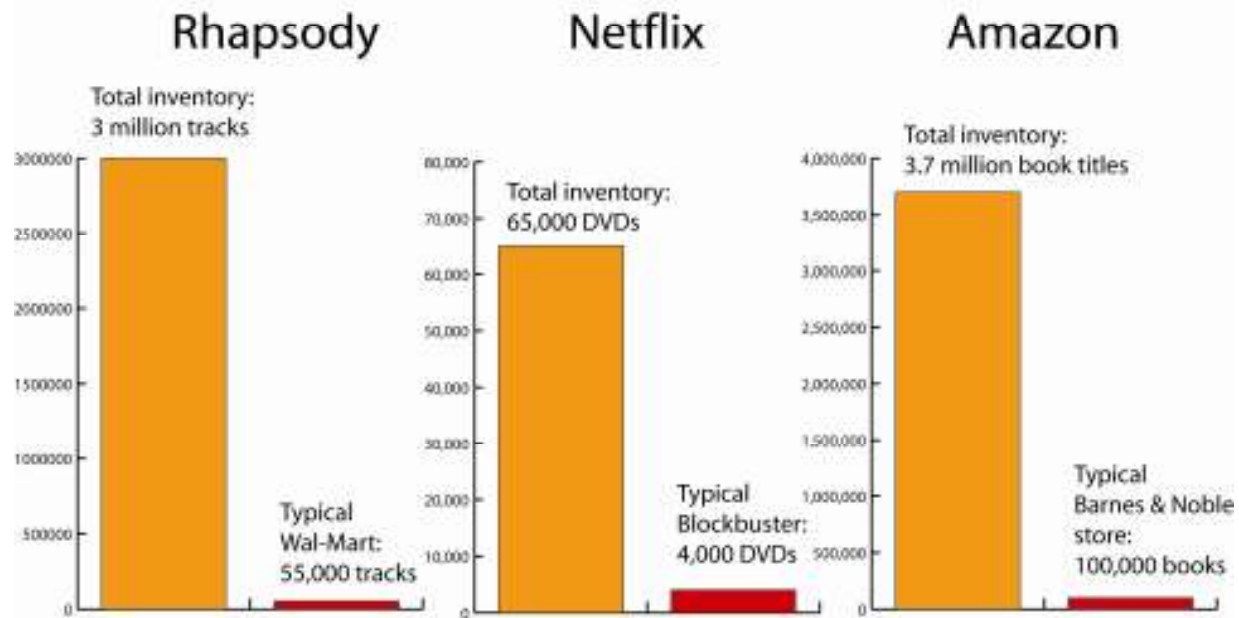
For the first time in history, complexity is free



The New Marketplace



The New Growth Market: Products you can't find anywhere but online

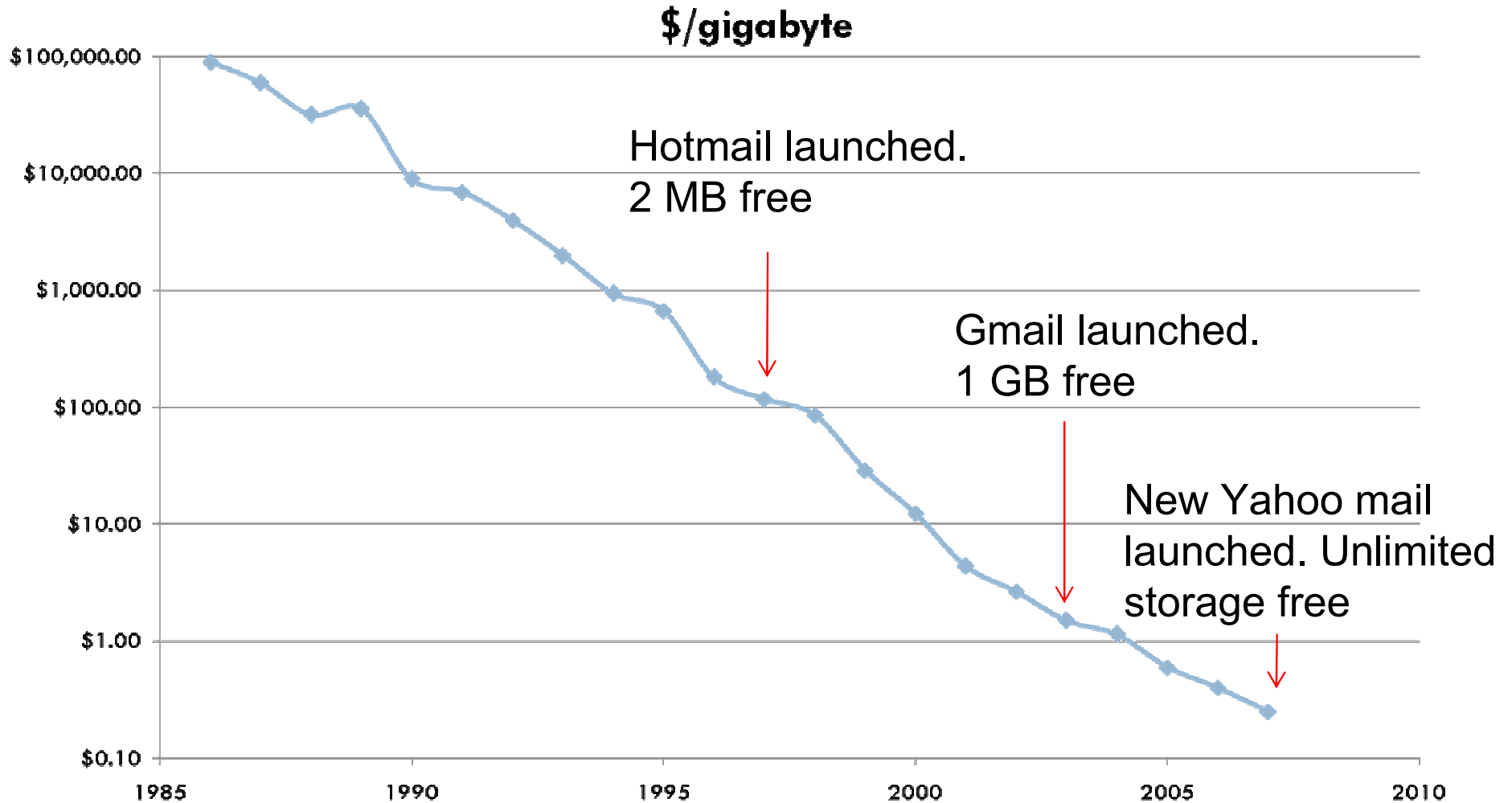


Products not available in offline retail stores

The Three Rules of the Long Tail

1. If you can lower the cost of distribution, you can offer more stuff/variety
2. “More variety” means the ability to satisfy more minority taste, and address more granular markets
3. There’s a lot of “room at the bottom” and all the most interesting things come from the most unexpected places

Web mail market



Econ 101



**“In a competitive market
price falls to the
marginal cost”**

“Round down”

If the unitary cost of something is approaching zero, **treat it as zero** and sell something else.

A taxonomy of “free”

- **Cross-subsidy** (razors and blades/cellphones)
- **Ad-supported** (media)
- **"Freemium"** (upselling. Old model: give away 1% to sell 99%; new model: give away 99% to sell 1%)
- **Digital economics** (Underlying cost of manufacturing and distribution dropped near zero, as in music)
- **Marketing** (free samples to generate word of mouth, multiplied by web's viral power)
- **Gift Economy** (Wikipedia)

The New Scarcities



Time + Money + ...

Reputation

The New Economies

	Currency	Conversion mechanism
Attention	Traffic	Ads
Reputation	Links > PageRank	Traffic > Ads

Redefine the business you're in



Redefine the business you're in



Redefine the business you're in



Intel: “1 + 1”? How about “0+2”?



Mobile Phones

Cross-subsidy models already in place:

Model	Effect on consumers
“Give away” the phones and sell minutes and services.	Carriers only subsidize technology that they can monetize, and limit all other uses. Radically limited innovation and high prices. “Bob”
Free long distance	Fantastic! Effect on the rest of long distance market: Catastrophic!
Free off-peak minutes	Mixed. Encourages additional use, but results in pricing confusion.

What else could be free?

Mobile Constraints:

- Storage, processing—less free than the rest of IT (networks costs + small device costs)
- Bandwidth—much less free than the rest of IT (but WiFi can change the game)

Future: Web model?

Separation of carriage and services

(aka “dumb pipe”):

Carriage: commodity pricing

Services: free

- Google 411
- Full-featured browser, web-based apps
- Local VM management
- Twitter/other SMS-based services



Blog: longtail.com

How Endless Choice Is Creating Unlimited Demand

The Long Tail



Why the Future of Business
Is Selling Less of More

CHRIS ANDERSON

"Anderson's insights influence Google's strategic thinking in a profound way.

READ THIS BRILLIANT AND TIMELY BOOK."

—ERIC SCHMIDT, CEO, GOOGLE