

Free

- The Future of a Radical Price
- by Chris Anderson - 2009 - Hyperion: New York, NY
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The Central Question

- How did we create an economy as big as a good-sized country around the price of \$0.00? It has a lot to do with the creation of today's Web, the greatest accumulation of human knowledge, experience, and expression the world has ever seen. Examples of free services people use every day are Google, Facebook, and Wikipedia. Twenty-first century Free is different because we have made the transition from atoms to bits for delivery of much of our media. Those who understand the new Free will command tomorrow's markets as they have disrupted today's markets. (Doug: I believe that this is an important understanding for today's educators.)

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From Razor Blades to Online Advertising

- Free got started in the twentieth century by companies giving away something that spurred purchases of related goods. Recipe books for Jello, Gillette razors, cell phones, and office coffee makers are examples. Free in the bits economy, however, can be really Free. In every industrial revolution, some key factor of production is drastically reduced in cost. Steam power, for example allowed people to do things that could not be done before. The rise of “freeconomics” is being driven by the technologies of the digital age as the price of bandwidth and storage continue to drop.

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My Blog, For Example

- Even though bloggers don't post ads, they hope to enhance their reputation and by doing so get more paying work. Sometimes reputation credits can turn into cash, but it is hard to predict the exact path. Anderson explains the many ways that Free can enter into the economy. Examples include: men who pay to get into nightclubs where women get in free, loss leaders at stores and restaurants who make up for it when customers purchase high profit items, advertisers who pay some or all of the cost of publications, free versions of services that sell premium versions, and bands who give away music to get paying gigs.

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The Psychology of Free

- In 1996 the *Village Voice* became a free newspaper. Since it no longer charged, people perceived that it had a lesser quality. Another paper, *The Onion*, started Free and stayed Free, and is a much bigger success. This shows that our feelings about Free are relative, not absolute. The most difficult part of a new adventure is to get your users to pay you anything at all. The enemy of Free is waste. You are less likely to waste something you pay for. In this sense, Free can cause more harm than good. If you have more time than money, you would rather pay than do it yourself. This explains the success of iTunes. Prices come with guarantees, Free typically doesn't. Sooner or later, most producers in the digital realm will find themselves competing with Free.

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Too Cheap to Matter

- Today, three technologies are getting too cheap to matter. They are computer processing power, which doubles every 18 months, digital storage, which doubles every year, and bandwidth or the capacity to transfer data, which doubles every nine months. Never in human history have the primary inputs to an industrial economy fallen in price so fast for so long. This is the engine behind Free. This allows people to try pricing schemes that would otherwise seem insane. In economic terms, the inputs are mostly intellectual rather than material. This allows ideas to propagate virtually without limit and without cost.

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It's What's Cool Rather Than Money

- At places like Google, new services start with questions like “Would it be cool?”, “Do people want it?” or “Does it use technology well?” rather than “Will it make money?” Setting out to build a huge audience before you have a business model is not as silly today as it was in the dot-com era of the late 1990’s. In Google’s case, they first invented a way to do search that gets better as the Web gets bigger. They then allowed advertisers to create ads that matched keywords or content and bid against each other for the most prominent positions. They then created other products to extend their reach and only attached ads when it made sense.

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Information Wants to be Free.

- Google wants information to be free because as the cost of information falls it makes more money. The lower prices are disruptive, however. Craigslist, the free classified site, has taken \$30 billion out of America's newspaper companies since its founding in 1996. In technology, the notion of *scale* can make a difference. If only one out of ten thousand Wikipedia visitors decide to create an entry, you get the greatest treasure trove of information the world has seen. In the process it put Microsoft's Encarta CD encyclopedia out of business, which put physical encyclopedias out of business. In the same way, cell phones de-monitized the long-distance business while Expedia did the same for travel agents, and E*TRADE did the same for stockbrokers.

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The End of Paid Content

- Facebook pages can't compare to the *New York Times* - unless that Facebook page is your friend's, in which case it may be far more interesting than the *Times* (for you). There are also a lot more Facebook pages than there are *Times* pages, and they're created with no expectation of pay. The generation that has grown up in this environment intuitively understands the idea of "near-zero marginal cost." In response to online activity, the ad business has changed. Today there are at least fifty different models that seem to change day by day. (See pages 251-254 for the 50 models.)

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Games Join Free Space.

- The world of video gaming is just starting to move from atoms to bits. Current business models involve Free downloads of basic games with payment for premium versions that get you to higher levels, greater power, virtual real estate, and more credits. In some cases credits can be sold in an after market so Chinese workers can mine credits for rich Americans. Online games also allow gamers to play with lots of people they never met via massive multiplayer online games.

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Free Music and Books

- The classic Free music example belongs to Radiohead. In 2007 they released their *Rainbows* album as a free online download, which people could pay for or not. The average person paid \$6 and when the physical album was released it topped the charts in the US and UK. Their resulting tour was their biggest ever. As Free music enlarges the fan base, the concert business is thriving. As for books, most people still prefer books made of atoms. Free online samples or copies serve to promote sales and follow up consulting and paid speaking. The enemy of the author is obscurity not piracy. Free is the lowest cost way to reach the largest audience.

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A Wealth of Information Creates a Poverty of Attention.

- One of the oldest rules in economics is the “every abundance creates a new scarcity.” In the Free economy, attention and reputation become the important signals. According to Adam Smith (1723-1790), “Enlightened self-interest is the most powerful force in humanity.” People do things for free mostly for their own reasons: for fun, because they have something to say, because they want people to pay attention, because they want their own views to catch on, and other personal reasons. We find ourselves with a surplus of cognitive energy not fully tapped by our jobs. Our Free labor grants us respect, attention, expression, and an audience.

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Crap is in the Eye of the Beholder.

- People argue that YouTube is no threat to television because it's "full of crap." The problem is, we can't agree on just what crap is. Even the most popular YouTube videos fail the standard Hollywood definition of production quality. We always choose to watch a low-quality video of something we want over a high-quality video of something we don't. This is why so many low quality Free videos on YouTube exist. Nobody gets fired because your YouTube video was only seen by your mom.

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Learning from China and Brazil

- China is a country where piracy has won. Piracy is a form of zero-cost marketing, which brings one's work to the largest possible audience. In China, copying the work of others is a gesture of respect and an essential part of education. Chinese students have a hard time understanding that plagiarism is wrong. Copying allows things like music and fashion to move quickly from early adopters to the masses, forcing the early adopters to adopt something new. Real and knockoff products target different market segments and each feeds the other. In Brazil, 90% of the bands have no record contract. They don't need one. They make their own and their audience copies them for free. Brazil was the first country to build an ATM network based on the Free Linux operating system.

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What I Left Out

- In order to promote sales of this book, I have left out summaries of many compelling stories and details. The book starts with the story of how Monty Python got tired of being ripped off and started giving their work away. Anderson then presents an interesting history of Free and an excellent explanation of how abundance and scarcity drive economics. This includes the history of the free lunch and free music on the radio. There are also many other stories and details, which include much of the history of computing along with cool stories about major companies like Microsoft, Google, and Yahoo.
- At the end of the book you get the Free Rules: Ten Principals of Abundance Thinking. You also get Fermium Tactics, which explains ways to give away a Free version of something and then go on to make money on premium versions. Finally there are 50 business models built on Free with examples of companies that use each model.

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