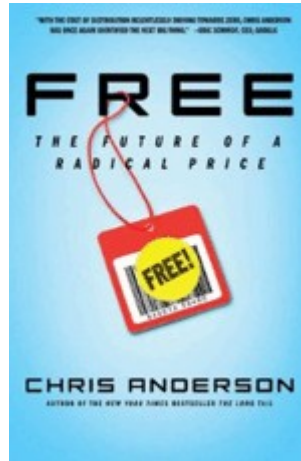


A Review of Chris Anderson's *Free*

By Paula Berinstein

Free: The Future of a Radical Price, Hyperion 2009



A few months ago, author Matthew Wayne Selznick offered me the chance to receive a free autographed copy of Chris Anderson's new book, *Free: The Future of a Radical Price*, if I'd do a different kind of review. Anderson is, of course, editor-in-chief of *Wired* magazine. Always up for an interesting challenge, I accepted. Here is the result.

In *Free*, Chris Anderson's central idea is that you can make money—sometimes a whole lot of money--by giving goods and services away, and that this phenomenon is new, different from yesterday's free (which was largely limited to samples and loss leaders), and permanent. What's made Free possible (and he does capitalize the word), at least in the digital world, is the now negligible cost of digital storage and distribution. Anything that's made of ideas and executed in bits gets cheaper and cheaper until it's essentially free to produce and sell. With cost barriers lowered or eliminated, just about anyone can make stuff, sell it cheaply, and make money. In this way, Free leads to a creative renaissance and a burgeoning of new products. Yes, this new paradigm is disruptive and causes pain, but overall it's to the good because it gives rise to opportunity, innovation, and abundance.

In the old days, free was different. Then, free either meant ad-supported, like TV and radio; loss leaders, like the low prices Amazon and Wal-Mart are offering to get people into their stores; or free samples, like you see in supermarkets. But now Free means you can get much more valuable stuff—and some not so valuable—and the cost to you is zip. Like Wikipedia. Like YouTube. Like Google Gmail.

Anderson says he got the idea for Free from a loose end in his book *The Long Tail*, which described how we can now choose from gazillions of consumer goods because the Internet provides limitless shelf space. He describes the Long Tail as the “first distribution system in history that is as well suited

for the niche as for the mass.” The result, he says, has been the “birth of a wildly diverse new culture and a threat to the institutions of the existing one....”

There’s only one way you can have unlimited shelf space: if that shelf space costs nothing. And that near-zero or zero cost of digital infrastructure allows us to be indiscriminate in what we use digital distribution for, which has resulted in not only an explosion of variety online, but also new pricing models. No longer is free a marketing gimmick; it has no strings attached.

In other words, there really is a free lunch.

Let me summarize so far. What Anderson is saying is that:

- You can make money giving stuff away.
- This Free is different from yesterday’s free.
- Free is made possible by the ever dropping price of digital infrastructure.
- This trend is disruptive, but it’s so enabling for creators and consumers that the pain is worth it.

Let’s look first at the idea that people are making lots of money charging nothing. That isn’t as weird as it sounds, Anderson says. Sure, you give some things away, but at the same time, you *sell* other stuff. He cites examples like Google, which gives away all sorts of services like Google Docs and Gmail but charges for advertising; the Linux ecosystem, supported by volunteers, which he says is a \$30 billion industry; and the coffee shop that sells \$3 lattes while giving away wi-fi. Not everything is being given away for nothing, of course, but enough goods and services are now free that we have essentially created an economy as big as a good-sized country around the price of zero. This phenomenon is a new *permanent* business model based on expending resources on products and services without expectation or receipt of a monetary return.

Let me stop here for a moment. None of this stuff comes at no cost, as Anderson implies. Someone somewhere is paying for it. In the case of Google, the advertisers who buy slots next to search engine results or on Web sites are subsidizing the development and maintenance of Google Docs. When you use one of Google’s applications, such as Docs, Gmail, or Analytics, you’re benefiting from the profit Google makes from selling those ads.

As far as Linux is concerned, the people who develop and maintain it are contributing their time--which could be spent actually earning money--to provide something to people who get it free. If you download, install, and use Linux on your computer, you’re benefiting from the donation of many people’s time. So Linux is paid for by developer time and potentially, their reduced earnings.

In the case of Starbucks, wi-fi is marketing. It functions in the same way as fancy décor in a restaurant or a \$50 reward for taking an American Express customer survey. It's a cost of doing business, and Starbucks is paying for it out of the profit they make on food and drink.

So none of these things is actually free. Someone is paying for all of it, and I contend the same is happening for every example Anderson cites in the book.

Let's look at one Anderson's more detailed examples. On page 155, he tells us that in 2007, Prince—or the artist formerly known as Prince—I can never remember what he's calling himself--gave away a new CD of his album "Planet Earth" by stuffing a copy into each of 2.8 million issues of the Sunday London *Daily Mail*. Anderson admits that Prince lost money on the deal, charging the paper a licensing fee of 36 cents per disk rather than his customary \$2. But, says Anderson, he more than made up the difference in ticket sales. He sold out 21 shows at London's O2 Arena in August. Further, he says, the *Daily Mail* boosted its brand. The freebie bumped up the newspaper's circulation 20% that day, which brought in extra revenue, although not enough to cover expenses. However, he says, *Daily Mail* executives consider the giveaway a success, saying, "Because we're pioneers, advertisers want to be with us."

Now I don't know if you noticed, but the advantages Anderson cites here are pretty mushy. He doesn't state how many shows Prince normally sells out at the same venue—or any venue—so we have no idea if what he did in London in 2007 was more, less, or about the same as usual. We also don't know what would have happened had he not given the disk away for free, and we don't know what doing that cost him vs. what his normal promotional methods cost. Further, just because one newspaper executive thinks—not measures, but thinks—the paper has generated extra good will, means nothing. Unfortunately, Anderson presents this same kind of non-proof for his theories throughout the book, so we can't really tell if his examples are valid.

Here's another of his examples. On page 19, Anderson touts low-cost Dublin-based airline Ryanair. Every year, about 1.3 million passengers fly from London to Barcelona, a figure Anderson never relates to the size of Ryanair's business, so I'm not sure why he even mentions it. A ticket on Ryanair is just \$20 even though it costs the company \$70 to provide the service. (By the way, they're planning on dropping that price to zero eventually.) It sounds like Ryanair is losing \$50 on each flight, but here's how it gets that money back:

- \$30 checking two bags
- \$20 ticket price
- \$1 ad revenue per passenger for a one-hour flight
- \$5.50 subsidy from more expensive flights
- \$3.50 one bottle of water
- \$4 priority boarding

- \$6 credit card handling fee
- Eventually, in-flight gambling, although they don't have that now.

Notice anything? This scheme is exactly the bait and switch Anderson says the new Free isn't. But also, look at all that handling! All this messing around with separate services and goods generates lots of overhead and increases the possibility for things to go wrong. Not only do you have to have more people to do this work—and train them—but you also create more opportunities for customer complaint! I don't know about you, but I don't like being nickled and dimed this way. I don't feel I'm getting a good deal, and I'm much more likely to grouse than if I were to get the various services as part of my overall ticket price. I don't want to have to think about whether I feel like spending \$3.50 for a bottle of water, and I don't want to have to worry about whether taking my hiking boots on a trip means I'll have to check another bag. Flying is stressful enough; I want the airline to make things easy for me. This free not only isn't free, it isn't particularly good for business.

Let me go back to Google for a moment. I said that Google and its advertisers are actually paying for your use of Google Docs, Gmail, and other services. And now this rob Peter to pay Paul scheme is starting to show. *The New Yorker* recently reported that as rich as it is, Google is starting to realize that it isn't going to be able to subsidize all its free services anymore. In the magazine's October 12, 2009 issue, communications writer Ken Auletta explains that although Google used to have so much money that it could throw resources around without regard to profitability, the new CFO, Patrick Pichette, is forcing the company to scale back businesses that aren't making good returns, which is most of them. Even YouTube, which in early 2008 accounted for one of every three videos viewed online, has made no money. In fact, YouTube is projected to lose half a billion dollars in 2009, while spending \$360 million on bandwidth alone. (So much for digital infrastructure costing essentially zero.) Founders Sergey Brin and Larry Page as well as CEO Eric Schmidt are now realizing that they have to pay attention to cost-effectiveness, and some of the freewheeling development that has been the company's hallmark is going to have to go. Why? Because Gmail, Google Docs, and a variety of other offerings have no business model, a reality that Anderson glosses over!

The same is true for a variety of other so-called Free businesses Anderson cites. Look at Facebook, Twitter, and MySpace, all of which are making either no money or very little, even as they're spending huge amounts for the infrastructure Anderson claims is falling to a cost of zero. Even if the *unit* cost for computing power is low, it still costs a bundle to run these services. But what Anderson *really* overlooks—or knows but fails to acknowledge—is that these companies are still searching for business models that work; that eventually they will either have to find models that make sense or go out of business. The Free that Anderson sees as a permanent paradigm shift is really only a lull in the action while companies experiment. Only if they succeed will he be entitled to label the phenomenon permanent.

You may remember that Amazon took quite a long time to turn a profit. All the while, people were wondering whether the company would survive. Of course Amazon eventually did get into the black, and now they're doing very well. Yes, they did give things away to get there—especially free shipping—but had they continued to do so without offsetting the cost, they wouldn't have made it.

So let me repeat: free doesn't work forever. It has to be offset by profits or whoever is giving the stuff away becomes insolvent.

Let's look a little more closely at the idea that it costs virtually nothing to distribute digitally these days. Anderson says, "The near zero 'marginal costs' of digital distribution allow us to be indiscriminate in what we use it for." In fact, costs are so low and digital storage and bandwidth so abundant, that not only is it okay to waste network resources, it's our obligation to do so!

On page 86 he says:

If transistors are becoming too cheap to meter, then we should stop metering them and otherwise cease thinking about their cost. We should switch from conserving them on the assumption that they are a scarce commodity to treating them like the abundant commodity they are. In other words, we should literally start "wasting" them. "Waste" is a dirty word, and that was especially true in the IT world of the 1970s. An entire generation of computer professionals had been taught that their job was to dole out expensive computer resources sparingly... Today's Web is all about scale, finding ways to attract the most users for centralized resources, spreading those costs over larger and larger audiences as the technology gets more and more capable. It's not about the cost of the equipment in the racks at the data center; it's about what that equipment can do... transistors (or storage, or bandwidth) don't have to be completely free to invoke this effect. At a certain point, they're cheap enough to be safely disregarded.

I'm sure Anderson doesn't literally mean that we should waste transistors. What he does mean is that we should stop focusing on efficiencies and start concentrating on what we can do with computers. I can see his point there, although as I've said, I don't agree that computing resources are too cheap to meter. It costs a lot of money to build new data centers, keep them running, and upgrade them, and let's not forget about the environmental costs of manufacturing, running, and disposal of all that hardware.

On page 122, Anderson attempts to dodge this reality by saying that as data centers get more and more powerful, they can do more work for the same amount of money, so the unit cost falls:

Google keeps building these data centers at the cost of hundreds of millions of dollars, but because the traffic each handles grows even faster than the infrastructure spending on a per-byte basis, the cost to the company of serving your needs falls every day.

But again, his argument is only valid if the company is actually making money on their investment. At some point, hope and promise have to turn into reality.

So far, my examples have been digital ones: Google, Facebook, Twitter, and so on. So let me explain that Anderson does distinguish between the digital economy and what he calls “the atoms economy.” The way things *used* to work, he says, was the atoms economy--the physical economy. The way things work *now* is the digital economy.

Anderson does acknowledge my point that everything must be paid for, whether or not it’s obvious who’s doing so, but only for the *atoms* economy. He says:

Anything free in the atoms economy must be paid for by something else, which is why so much traditional free feels like bait and switch—it’s you paying, one way or another. But free in the bits economy can be *really* free, with money often taken out of the equation altogether. People are rightly suspicious of free in the atoms economy, and rightly trusting of free in the bits economy.

Leaving aside for the moment Anderson’s assertion that you can rightly be trusting of anything without proof, let me say this: some of the so-called “free” in the digital economy is actually theft! Music piracy, for example. Music didn’t end up free because of the falling cost of distribution. It lost its pricing power because people were stealing it! Shouldn’t we be suspicious of that? That’s Mr. Anderson’s digital economy at work too.

And here’s another example of something we shouldn’t trust: predatory pricing. Take Craigslist and newspapers, for example. When Craigslist started giving away classified ads, newspapers couldn’t compete, and their revenues began to drop precipitously. That’s not because the digital economy is inherently free: it’s because Craigslist undercut newspapers. What’s happening to newspapers and music is what *always* happens when one competitor with a lot of power starts buying market share, both in the atoms and digital worlds. So what else is new?

But let’s actually talk about piracy for a moment. On page 71, Anderson attempts to explain why piracy isn’t so bad after all. It’s the idea of loss vs. lesser gain.

Piracy is a special form of theft, one that is often considered by pirates and consumers of pirated goods alike to be a relatively victimless crime... The argument is that a pirated good rarely substitutes for the authentic original. Instead, it allows the product to reach populations that can’t afford the original or otherwise wouldn’t have bought it.

The reason piracy is a special class of theft is that the costs to the rightful owner are intangible. If you make a music album that is then pirated, the pirates haven’t taken something you own, they have *reproduced* something you own. This is an important distinction, which boils down to the reality that you don’t suffer a loss but rather a lesser gain. The costs are, at most, the opportunity costs of sales not made because the original was competing with pirated versions in the marketplace.

I'm sure the record stores would be happy to hear this argument. Something tells me they weren't forced out of business because of a lesser gain. Anderson is way too glib here: costs to the rightful owner *can* be tangible.

Anderson says, and I agree, "Piracy is a form of imposed Free. You may not have intended your product to be free, but the marketplace thrust Free upon you."

Exactly. Free has been thrust upon you. What you may have once considered your living is suddenly gone! That's because your work no longer has monetary value. Someone has either been stealing it or undercutting you, and you have no pricing power anymore. This is something we should rightly trust?

Anderson attempts to minimize the adverse effects of piracy by saying that the people who steal your stuff wouldn't have bought it in the first place, so piracy isn't unethical: it just is. I disagree. Sure it's unethical. Why do consumers now feel that it's okay to steal? Is that because it's easy to do so? How is that a justification? This black hat hackers' culture has somehow seeped into the mainstream, and I don't think it's okay. What I *do* think is that we all have to deal with the reality of piracy, which is another issue. But no, it isn't okay, it does do harm, and I wish Mr. Anderson wouldn't be so dismissive.

Now I know Chris Anderson is a sophisticated guy or he wouldn't be where he is. But sometimes he seems to be living in some alternate universe. For example, he seems to believe that people don't need money to live on. On page 120 he talks about a venture capitalist named Paul Graham who gives entrepreneurs \$5000 to fund their businesses, which *he* thinks is enough because the founders use open source tools and hosted services and work from home. Anderson says:

Most use Free to test whether the ideas work and resonate with customers. If they do, then the next question is what consumers might actually pay for or how else to make money. Years can go by before that day comes (and sometimes it never does), but because the cost of launching the services in the first place is so low, there's rarely huge amounts of capital at risk."

Oh, come on! How do these entrepreneurs live? Doesn't he realize they're subsidizing the company by paying their own costs? And, by the way, where are they getting this money? The truth is that either they have day jobs, which take up most of their time, or someone is supporting them. In either case, that venture capitalist is getting a lot more value than he's paying for. Now if he's not taking much of the company for his \$5000 that might be all right. But if he is, the founders are being exploited. Why would they put up with that? It's pretty easy to borrow a small sum like \$5000. Why would anyone give away a huge percentage of their company for such a pittance? This is exploitation, and Anderson shouldn't be condoning it.

And speaking of exploitation, I'd like to look at Anderson's ideas about free as they affect people like us: writers and other creatives. On page 29, he tells us why we should accept free even if we don't like it:

Some artists give away their music online as a way of marketing concerts, merchandise, licensing, and other paid fare. But others have simply accepted that, for them, music is not a moneymaking business. It's something they do for other reasons, from fun to creative expression. Which, of course, has always been true for most musicians anyway.

What Anderson is saying is that it's likely musicians aren't going to be able to make money from their music anymore. We're talking about the death of an entire industry here, but it seems that Anderson has become an apologist for music pirates: it's okay that people who steal music have taken your living away from you, so get over it and just have fun.

One of the things Anderson does over and over in *Free* is contradict himself. First he tells musicians that they should face the reality that they're going to have to turn their profession into a hobby. At the same time, he tells us what a great competitive advantage you have if you give your stuff away for nothing. How can both be true?

On page 61, he says:

After examining mental transaction costs, Clay Shirky, a writer and NYU lecturer, concluded that content creators would be wise to give up on dreams of charging for their offerings:

For a creator more interested in attention than income, free makes sense. In a regime where most of the participants are charging, freeing your content gives you a competitive advantage....

Free content is thus what biologists call an evolutionary stable strategy. It is a strategy that works well when no one else is using it—it's good to be the only person offering free content. It's also a strategy that continues to work if everyone is using it, because in such an environment, anyone who begins charging for their work will be at a disadvantage.

What Shirky is saying is that on a psychological basis, if there's a way to take the whole "is it worth it?" question off the table, it pays to do so. But let me take these points one by one.

He says: "For a creator more interested in attention than income, free makes sense. In a regime where most of the participants are charging, freeing your content gives you a competitive advantage...."

Except that more and more people are giving stuff away these days, so the competitive advantage of free is diminishing.

He says: “It is a strategy that works well when no one else is using it.”

But they are.

He says: “It’s also a strategy that continues to work if everyone is using it, because in such an environment, anyone who begins charging for their work will be at a disadvantage.”

Not necessarily. Look at the *Wall Street Journal*, which charges a subscription fee for its Web content and seems to be doing just fine. But look. If he’s right that if everyone who begins charging for their work is at a disadvantage, then any creative is pretty much going to have to do what everyone else is doing, whether or not it works.

Yes, for a creator who’s more interested in attention than income, free makes sense. But what if you *are* interested in income? Then those who are giving their stuff away are setting customers’ expectations, and you’re stuck. You have to do the same, and now you’re competing with all the other creators who are using extreme tactics to try to get attention. Sure, you had to compete with them anyway, but at least you were making *something* for your efforts. Now you’ve got to spend more and more time working for nothing just to stay even, if you can even manage to do that. And you *will* work more. Otherwise, how will you have enough stuff to give away?

But here’s another point to ponder: do we really want to make commodities out of creative endeavors like books, films, music, etc.? Because by affording those things no economic value, that’s what we’re doing. Look at what’s happening to book prices: they’re sinking further and further, and it’s not just because of the recession. The real reason is that Amazon and Wal-Mart are treating them like they’re laundry detergent.

Fortunately, Anderson does acknowledge some of my points on page 67, where he talks about the downsides of Free:

One of the negative implications of Free is that people often don’t care as much about things they don’t pay for, and as a result they don’t think as much about how they consume them. Free can encourage gluttony, hoarding, thoughtless consumption, waste, guilt, and greed. We take stuff because it’s there, not necessarily because we want it. Charging a price, even a very low price, can encourage much more responsible behavior.

But then he says:

...the imposition of a price, no matter how low, typically decreases participation, often radically... That is the trade-off of Free: Free is the best way to maximize the reach of some product or service, but if that's not what you're ultimately trying to do, it can have counterproductive effects. Like every powerful tool, Free must be used carefully lest it cause more harm than good.

Sometimes Anderson contradicts himself so much that it's hard for me to follow him, let alone accept his arguments. He keeps saying, "Such and such is the case--except when it isn't."

Here's another example of how he talks out of both sides of his mouth. On page 114, he explains that when Google started its free Gmail service, Yahoo's existing email service was threatened:

The problem is a classic one in Free. It's easier for the newcomers than for incumbents. That's not just because incumbents have a revenue stream they're in danger of cannibalizing. It's also that they have a lot more users, and the costs of serving millions of customers can be astronomical.

Incumbents have huge costs. But Anderson just said that the cost of serving millions of customers is approaching zero because digital distribution infrastructure is so cheap. Which one is it? Either it's so cheap that we shouldn't be metering it, or it's astronomical; it can't be both at the same time. Anyway, his argument that Google's Gmail startup costs were nothing doesn't make sense. There are all sorts of costs in business even if you have zero or few customers: infrastructure; personnel; marketing; the cost of money. If there aren't any costs until you have customers, why does any company need startup capital?

Here's another example of something he does that makes me crazy. On page 131, he talks about the redistribution of wealth:

This is what Free does: It turns billion-dollar industries into million-dollar industries. But typically the wealth doesn't vaporize, as it appears. Instead, it's redistributed in ways that are hard to measure.

In the case of classifieds, newspaper owners, employees, and shareholders lost a lot while the rest of us gained a little (he's talking about Craigslist here). But there are a lot more of us than there are of them. And it's entirely possible that the lost \$30 billion in newspaper market capitalization will eventually show up as far more than that in increased GDP, although we'll never be able to make that connection explicitly.

Again Anderson is valuing the wrong thing! Is the ability for people to save a few dollars on classified advertising—which isn't that expensive in the first place--really justification for the death of an entire industry? I don't see how saving each of us—and not even each of us because most of us don't buy classified advertising--a little money is worth the loss of thousands of jobs and the countless benefits newspapers offer.

Notice something else Anderson is doing in that quote: he again makes a sweeping generalization and offers no proof for it. He says, "It's entirely possible that the lost \$130 billion in newspaper market capitalization will eventually show up as far more than that in increased GDP, although we'll never be able to make that connection explicitly." In other words, "*Maybe* this will do this, therefore we should applaud it." No figures. No proof. No logic. Just wishful thinking.

Here's another of his sweeping pronouncements:

Companies that embrace this strategy aren't necessarily calculating the totals of winners and losers. Instead, they're just doing what's easiest: giving people what they want for free and dealing with a business model only when they have to... You see this all around you. Cell phones, with their free national long distances, have de-monetized the long-distance business. Do you see anyone (other than long-distance providers) complaining? Expedia de-monetized the travel agent business, and ETrade de-monetized the stockbroker business... In each case, the winners far outnumber the losers.

Really? Where's the quantitative proof? How does he know the winners outnumber the losers? Everything he says here is just his opinion as far as I can tell. Yet he names one specific industry after another and says it's a good thing we've got rid of people's jobs. First it's the long-distance companies, which I grant you, few people will mourn. Then it's travel agents, stockbrokers, etc. etc. And he doesn't mention writers explicitly, but we're in there too.

He continues:

Free is disruptive, to be sure, but it tends to leave more efficient markets in its wake. The trick is to ensure you've bet on the winning side. But what if it's not quite as equal as that? What if the wealth is not neatly transferred from the few to the many... What if it really just disappears, or even worse, leads to even fewer winners than before? This is what Google's Schmidt worries about.

Now we know just what Anderson is about: it's all a game. You just have to make sure you're on the winning side, but don't worry, Eric Schmidt has got you covered, so you'll be all right.

The problem with Anderson is that he thinks everyone is like him: smart, innovative, resilient, outgoing, and well-connected. On page 233, he says:

Free is not a magic bullet... You have to think creatively about how to convert the reputation and attention you can get from Free into cash. Every person and every project will require a different answer to that challenge, and sometimes it won't work at all. This is just like everything else in life—the only mystery is why people blame Free for their own poverty of imagination and intolerance for possible failure.

The only mystery as far as I see it is why he thinks everyone is or should be like him. Free forces everyone to become an entrepreneur; to find ways to bounce back from financial devastation should you not be so lucky as to be on the winning side; to be so versatile and intelligent that you can pick up new skills virtually overnight if you have to. It forces you to, except what if you don't have the capacity?

The flaws in Anderson's ideas are many, but let me just highlight a few of them:

- When you give away valuable goods and services for free, or when you condone piracy, you prime people to expect not to pay. Therefore, when it comes time to monetize, you face potential consumers who don't think they should have to pay for anything. Then what?
- When you give your stuff away or ask for "tips" (which Anderson calls "neo-patronage"), you're saying, "I don't respect myself enough to command payment for my work, and I don't expect you to respect or value me either." You make yourself vulnerable. You wouldn't do that with an employer. Why would you do that with your creative work? Free leads to the exploitation of desperate people who will give too much away because they want recognition so much.
- It takes resources to make free stuff, and even more to flounder around looking for business models. Using up your time and money and getting little or no return is inefficient and lowers your standard of living.

Chris Anderson is obviously a smart, thoughtful guy, and I applaud him for raising important questions. But he comes off as a person who's incapable of sympathy—let alone empathy—and as someone to whom everything comes easily. But that's not the worst thing about the book: what's really troubling is that with the possible exception of open source software, "Free" is neither a business model nor sustainable but it's being forced on us anyway.

-- Paula Berinstein, November 2009