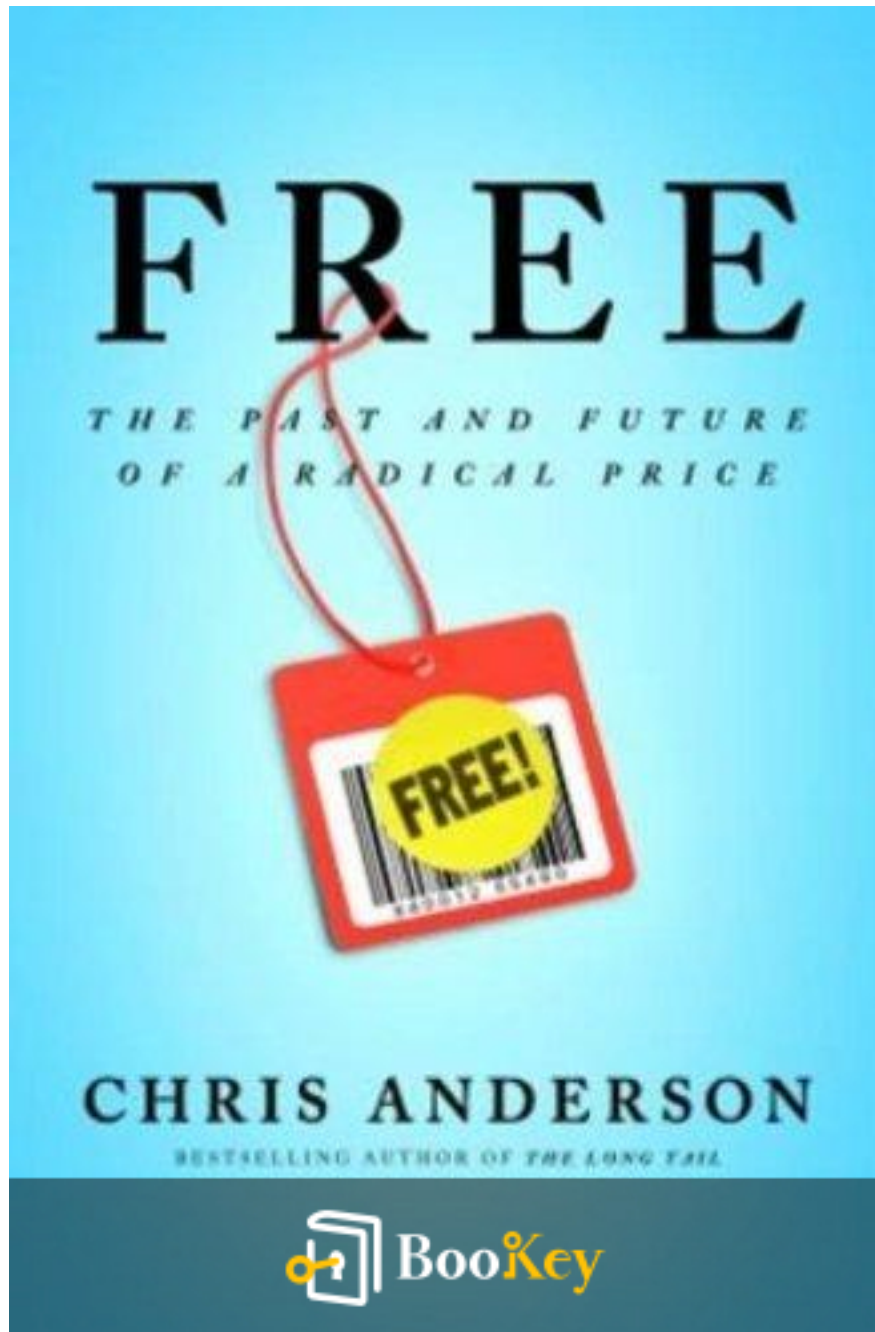


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## **Free Summary**

Unlocking Profitability in a Free Online Marketplace.

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## About the book

In "Free," Chris Anderson delves into the dynamics of successfully operating an online business in an era dominated by the Internet's culture of free access. He identifies the key principles of a "priceless economy," categorizing them into six main areas, including advertising, labor exchange, and premium offerings. This insightful guide provides entrepreneurs with a roadmap for thriving in a time when conventional pricing models are being questioned, highlighting strategies to creatively and sustainably capitalize on the value of free.

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## About the author

Chris Anderson is an influential author and journalist who gained recognition in 2007 when Time magazine named him one of the 100 most transformative individuals in the world. Since 2001, he has served as Editor-in-Chief of Wired magazine, guiding the publication to win the National Magazine Award for General Excellence twice. Anderson is best known for his New York Times best-seller, *The Long Tail*, which expands on concepts he introduced in a groundbreaking article for Wired in 2004. His rich background includes a significant role at The Economist, where he helped shape its Internet coverage and web strategy. He began his career in editorial roles at prestigious scientific journals, Nature and Science, and before that, he conducted physics research at Los Alamos National Lab.

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# **Chapter 1 Summary: THE BIRTH OF FREE**

## **THE BIRTH OF FREE**

### **Origins of Gelatin and Jell-O**

Gelatin, made from animal parts, was transformed in the late 1800s by Pearle Wait, who introduced Jell-O by incorporating flavors and colors to make it appealing to consumers. However, initial sales attempts floundered due to a lack of familiarity among the public.

### **Marketing Struggles and Success**

After encountering disinterest, Wait sold the trademark for Jell-O to Orator Frank Woodward. Woodward implemented innovative marketing techniques, creating a guidebook for usage and distributing recipe pamphlets for free. This educational approach helped consumers understand how to enjoy Jell-O and ultimately led to its success in the market.

### **Introduction of "Free" as a Marketing Tool**

Woodward's strategy highlighted the power of providing free information to generate demand. This method, known as a "loss leader," effectively turned

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Jell-O into a staple in many households.

## **King Gillette and Disposable Razors**

Similarly, King Gillette faced challenges in marketing his invention of the disposable razor blade. Like Jell-O, he utilized promotional giveaways, fostering strong consumer loyalty to his blades, which proved effective over time.

## **The Rise of Freeconomics**

The early 20th century saw "Free" emerge as a significant marketing strategy. As we moved into the 21st century, digital technology gave rise to a new model of Free, characterized by drastically reduced costs, diverging from traditional marketing approaches.

## **The Digital Age and Economic Shifts**

Today, the economic landscape is often defined by digital goods that are free or nearly costless. As technology continues to advance, businesses are under increasing pressure to adapt their strategies to harness the power of Free, shifting from mere marketing tactics to core economic principles.

## **What This Book Will Address**

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This book will delve into the history of Free, examining its evolution driven by digital economics, the development of new business models, and the principles of freeconomics, while addressing common misconceptions and concerns associated with Free.

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# Chapter 2 Summary: WHAT IS FREE

## WHAT IS FREE?

### FREE 101

The term "free" carries various meanings that have evolved over time, often stirring curiosity while also inviting skepticism. Grasping the concept of "free" is crucial, as it holds significant importance in today's economy, particularly in the context of its dual interpretations: "freedom" and "no cost." Unlike in Latinate languages, English does not have a clear distinction for the term, leading to subtle nuances in its interpretation. In the tech and open-source communities, the distinction is made between "free as in beer" (no cost) and "free as in speech" (freedom).

### A MILLION KINDS OF FREE

In commerce, the idea of free spans a wide spectrum. Often, what is presented as free may not be entirely so; promotions like "buy one, get one free" illustrate this. Other examples, such as free samples or trials, serve as marketing strategies aimed at attracting consumers. The rise of ad-supported media further complicates the concept of free. This book primarily delves into the economic implications of free, focusing on cross-subsidies, which

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emphasize that nothing is truly free; someone invariably pays for it.

## **ALL THE WORLD'S A CROSS-SUBSIDY**

Cross-subsidies embody the principle behind the saying “there’s no such thing as a free lunch.” For example, advertisements fund free newspapers, while free parking is often offset by increased product prices. In the digital realm, cross-subsidies manifest in several ways:

- **Paid products subsidizing free products** (e.g., loss leaders).
- **Paying later subsidizing free now** (e.g., a free cell phone offered with a subscription).
- **Paying individuals subsidizing free experiences** (e.g., nightclubs or family events).

Within the framework of cross-subsidies, Free models can be categorized into four distinct types.

### **FREE 1: DIRECT CROSS-SUBSIDIES**

This model uses free products to entice consumers to spend on something else, as seen with loss leaders and various pricing strategies in different industries.



## **FREE 2: THE THREE-PARTY MARKET**

In this model, a third party covers the costs, allowing products or content to be available at no charge to consumers. This is often observed in traditional media, where advertisers fund consumer engagement.

## **FREE 3: FREEMIUM**

Common in the digital world, this model provides a basic version of a product for free, along with the option for paid premium features, where many users access free content while a small percentage financially support the service.

## **FREE 4: NONMONETARY MARKETS**

This category includes voluntary exchanges with no expectation of payment, such as the gift economy, where people give away items or services, often facilitated by online platforms.

## **A TEST OF FREE IN DAILY LIFE**

The concept of "free" can be applied to our daily experiences, highlighting the complexities of how we perceive offerings labeled as free.

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## THE THREE PRICES

The discussion expands to three pricing categories: something, nothing, and less than nothing (negative pricing), where consumers may even receive payments or rewards for engaging with a product or service. This reflects psychological factors at play and showcases innovative business strategies that invert traditional financial flows.

In conclusion, the intricacies and various interpretations of "free" shed light on modern economic models and consumer behavior, emphasizing that what seems free often carries hidden costs, borne by other entities or through indirect means.

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# **Chapter 3 Summary: THE HISTORY OF FREE**

## **THE HISTORY OF FREE**

### **ZERO, LUNCH, AND THE ENEMIES OF CAPITALISM**

#### **The Problem of Nothing**

Grasping the concept of "Free" can be difficult since it signifies an absence rather than a concrete value. Around 3000 B.C., the Babylonians faced a similar challenge. They needed a way to represent empty values in their sexagesimal counting system, ultimately inventing a symbol for zero. This groundbreaking development took various civilizations, including the Greeks, considerable time to acknowledge, as they prioritized tangible mathematics.

#### **The Problem of Free**

By A.D. 900, the placeholder for nothing was well established, but the economic notion of Free had already emerged in tightly-knit communities, where transactions often occurred without any monetary exchange. As nation-states began to form, services funded by taxes highlighted the

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availability of Free government services. Additionally, charity, communal labor, and a growing trend toward volunteerism underscored Free's importance, even within monetized economies.

## **Capitalism and Its Enemies**

The 17th century marked the acceptance of market economies, propelling the belief that everything should come with a price. As capitalism thrived, alternative perspectives began to surface. Prominent figures like Karl Marx and Peter Kropotkin championed communal living and mutual aid as healthier societal structures. Despite the challenges faced by these collectivist viewpoints, modern online communities reveal their potential to thrive within larger networks.

## **The First Free Lunch**

The late 19th century saw the commercialization of Free as a marketing strategy. The tradition of “free lunches” began in saloons, enticing patrons to spend money while enjoying complimentary food. At the same time, brands started offering free samples to build consumer loyalty and gain market share.

## **Samples, Gifts, and Tasters**

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As advertising and branding evolved in the early 20th century, Free re-emerged as a sales tactic. Innovators like Benjamin Babbitt popularized the use of free samples, shaping consumer habits and leading to successful businesses that relied on Free offerings.

## **Free as a Weapon**

The idea of Free also emerged as a transformative force within traditional business models, especially in the music industry. By offering music for free, broadcasters created new marketing avenues for artists, ultimately boosting the profitability of their work despite initial concerns that Free would diminish the industry.

## **The Age of Abundance**

The 20th century marked a transition from scarcity to abundance, especially in agriculture. Innovations made food more plentiful and accessible, drastically altering consumption patterns. This newfound abundance changed how society values resources, giving rise to concepts like the corn economy, which influenced consumer behavior and industrial applications.

## **Piling Corn Upon Corn**

Corn became a versatile and abundant crop that fostered agricultural and

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industrial advancements. Its prevalence in contemporary diets and products highlights the shift toward abundant resources, shaping dietary habits and manufacturing processes.

## **Ehrlich's Bad Bet**

A key debate about resource management, exemplified by the wager between Paul Ehrlich and Julian Simon, illustrated that human creativity can often create resource abundance rather than scarcity. Trends in commodity pricing supported Simon's optimistic viewpoint.

## **Cornucopia Blindness**

Our society's emphasis on scarcity has overshadowed numerous examples of abundance. As resources such as food and materials have become abundant, value has shifted towards other economic facets, reflecting a complex relationship between human behavior and resource availability.

## **Abundance Wins**

The narrative of the 20th century showcases remarkable social and economic transformations spurred by newfound abundance. As basic commodities became widely available, industries evolved, shifting value toward intangible assets and innovative services rather than raw materials, in

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alignment with the ongoing pursuit of efficiency and profitability in an ever-changing economic landscape.

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# Chapter 4: THE PSYCHOLOGY OF FREE

## 4 THE PSYCHOLOGY OF FREE

### IT FEELS GOOD. TOO GOOD?

In 1996, the \*Village Voice\* eliminated its cover price and shifted to a free distribution model, which contributed to its decline in significance. In contrast, \*The Onion\*, which began as a free publication in 1988, thrived and expanded into multiple media formats. This contrast highlights the complexities of how "free" influences perception and quality. Consumers often associate a decrease in quality with products that shift from paid to free, while those that have always been free do not carry the same negative implications.

### THE PENNY GAP

Even charging a nominal fee, such as a penny, can deter consumers due to what is known as a “mental transaction cost.” This means that even low prices compel consumers to deliberate over their decision, whereas anything offered for free removes this hurdle, spurring greater participation and

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experimentation.

## **THE COST OF ZERO COST**

Behavioral economics shows that the concept of "free" can trigger irrational enthusiasm. For example, experiments that offered Lindt truffles at a price while providing Hershey's Kisses for free revealed that consumers often gravitate toward the free option, even if its perceived quality is lower. This preference is driven by a fear of loss; opting for a paid item introduces the risk of a poor decision.

Amazon's strategy of providing free shipping effectively prompts customers to make larger purchases, as evidenced by different consumer behaviors across various countries. Similarly, Zappos' free return shipping diminishes the perceived risks associated with buying shoes online, although some customers may experience guilt over returning items, complicating the notion of "free."

## **NO COST, NO COMMITMENT**

Offering products for free can lead to careless consumption, as individuals tend to undervalue what they aren't paying for. For instance, a charity

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discovered that charging \$1 for bus tickets significantly reduced ticket loss, suggesting that clients valued the tickets more once they had made a small payment.

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# Chapter 5 Summary: TOO CHEAP TO MATTER

## 5 TOO CHEAP TO MATTER

### Introduction to Digital Free

This chapter delves into how technological advancements, particularly in the digital sphere, are leading to a trend where costs are steadily declining, rendering certain items and services "too cheap to matter." It kicks off by revisiting a 1954 prediction that electricity would become so affordable it would be "too cheap to meter," hinting at potential transformations in societal and economic landscapes.

### The Impact of Technological Economies

Although the expectation of "electricity too cheap to meter" never quite materialized due to high initial capital and safety challenges related to nuclear energy, today's technologies—especially computer processing power, digital storage, and bandwidth—are witnessing rapid and substantial price drops. Moore's Law, which notes that processing power roughly doubles every two years, is just one aspect of this trend. Storage and bandwidth capacities are improving even more quickly, causing significant shifts in cost structures across various industries.

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## **Anticipating the Cheap**

The chapter introduces the concept of “anticipating the cheap,” where companies can strategically set prices based on projected future costs rather than current production expenses. Historical cases, like Fairchild Semiconductor's innovative pricing of transistors, demonstrate how businesses can leverage anticipated cost reductions to stimulate demand and gain a competitive edge.

## **The Compound Learning Curve**

The underlying principle driving these rapid cost declines is the "compound learning curve." This concept suggests that as production increases and processes improve, technological advancements lead to exponential drops in costs. This contrasts with industries focused on physical materials, where enhancements typically occur at a slower pace. In contrast, information-heavy sectors, such as technology and digital services, can experience striking reductions toward zero costs.

## **Mead's Law and Technological Waste**

Caltech professor Carver Mead offers valuable insights into semiconductor production economics, prompting us to rethink costs in an age of abundance.

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Mead advocates for viewing technological resources as plentiful, which can foster greater efficiency and innovation by overcoming the traditional scarcity mindset.

## **Real-World Applications and Examples**

The chapter showcases how these principles are turning industries upside down, from software development to digital storage solutions like Gmail. Companies that embrace the notion of “wasting” resources constructively can drive deeper innovations, leading to widespread adoption and enhanced consumer empowerment.

## **Convergence of Technologies**

The convergence of processing, storage, and bandwidth fuels new possibilities that were once unimaginable. As these technologies become increasingly affordable, they unlock various applications—from digital entertainment to advanced medical technologies—essentially reshaping economic environments.

## **Implications for Future Economies**

The long-term ramifications of these trends point toward a future where digital resources are nearly free, fundamentally changing the fabric of

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society. While supply and demand will always influence market prices, the overarching trend in technology suggests that many facets of our economy are on a path toward zero costs.

## **Conclusion: The Larger Picture of Digital Abundance**

In conclusion, the author argues that the expansion of digital technologies signifies a broader economic shift toward abundance. The ongoing pursuit of innovation, efficiency, and accessibility will continue to reshape societies as we tap into the full potential of costs nearing zero, reminiscent of the historical transformations seen with electricity.

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# Chapter 6 Summary: “INFORMATION WANTS TO BE FREE”

## 6. "INFORMATION WANTS TO BE FREE"

### Overview

This chapter delves into the origins of the phrase "information wants to be free" and its significance in the digital era. It traces the development of hacker culture, spotlighting key figures and pivotal events that underscore the tension between the intrinsic value of information and its accessibility.

### The Hacker Ethic

#### 1. Access to Knowledge

- Acknowledging that unrestricted access to computers and information is vital for truly understanding the world.

#### 2. Hands-on Learning

- A strong focus on practical engagement with technology.

#### 3. Free Information

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- The belief that all information should be free, a principle that can be traced back to 1959 and is attributed to Peter Samson.

#### 4. Decentralization

- A healthy skepticism of authority accompanied by a drive for decentralized systems.

#### 5. Merit-Based Evaluation

- Hackers ought to be assessed based on their skills rather than personal traits.

#### 6. Creativity and Technology

- Recognizing computers as tools for creating art and beauty.

#### 7. Positive Transformation

- A conviction in the life-enhancing potential of computers.

### Historical Context and Influence

- **Steven Levy's Book:** Levy's groundbreaking 1984 book, \*Hackers\*, introduced these principles and encapsulated the spirit of early computer enthusiasts.

- **Key Figures:** The chapter refers to Kevin Kelly and Stewart Brand, who aimed to unite various hackers to discuss and refine the hacker ethic at



a 1984 conference.

- **Brand's Reinterpretation:** Stewart Brand's reiteration of the idea that "information wants to be free" helped shape the understanding of how the value of information can shift between being plentiful and scarce.

## The Dual Nature of Information

- Brand's well-known assertion highlights the paradox of information: it is both valuable (and often costly) and increasingly accessible (and therefore potentially free).
- The distinction is made between:
  - **Abundant Information:** Easily replicable and distributable, leading to a tendency toward being free.
  - **Scarce Information:** Unique and valuable content that justifies a higher price.

## The Economic Perspective

- Brand points out that the move towards free information is propelled more by technology lowering distribution costs than by purely ideological motives.
- He calls for a transformative shift in perspective—viewing information not just as something to be owned or controlled but as a phenomenon influenced by economic conditions.

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## Cultural Implications

- The chapter explores how the concept of "free" has been interpreted and, at times, misinterpreted over the years, often zeroing in on the idea of no cost.
- Brand is quoted on the evolving nature of memes and phrases, observing that the most effective version of a statement tends to gain prominence, regardless of its original intent.

## Conclusion

The chapter concludes by reflecting on the broader significance of the phrase "information wants to be free," highlighting the complexities of the digital economy and the continuous balancing act between value and accessibility in our information-driven age.



# **Chapter 7 Summary: COMPETING WITH FREE**

## **7. COMPETING WITH FREE**

### **Introduction**

Microsoft's lengthy journey in adjusting to the concept of free software stands in stark contrast to Yahoo's swift reaction to Google's free offerings. This chapter examines how both companies tackled the challenges posed by free software and services.

### **Microsoft's Battle with Piracy and Free Products**

In 1975, Bill Gates issued an open letter that emphasized the risks of software piracy. As personal computers gained traction, the expectation that users should pay for software became increasingly accepted, facilitating Microsoft's growth. However, with the rise of CD piracy, particularly in developing nations like China, Microsoft adopted a pragmatic stance. While recognizing that piracy was harmful, they believed it could foster future market expansion. Gates predicted that as the Chinese economy matured, users would eventually begin to pay for software.

### **Responding to Competition with Free Trials**

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During the 1990s, Microsoft faced stiff competition from companies like WordPerfect and Lotus, which offered software bundles at low prices. In response, Microsoft launched Microsoft Works for just \$10 to retain user loyalty. As the internet gained prominence, Netscape's free web browser posed a challenge, prompting Microsoft to release Internet Explorer for free, which eventually led to antitrust scrutiny.

## The Open Source Challenge

Open source software started to gain momentum, particularly after Netscape publicly released its code and Linux emerged. Initially, Microsoft dismissed Linux as an insignificant player; however, they soon recognized its growing threat as Linux captured market share. Consequently, Microsoft shifted its approach, ultimately recognizing the necessity of cooperating with and competing against open source solutions.

## Stages of Microsoft's Response to Open Source

1. **Denial:** At first, Microsoft downplayed the threat posed by Linux, hoping it would not disrupt its market.
2. **Anger:** The company launched criticisms against the feasibility of Linux while promoting its proprietary model.
3. **Bargaining:** Acknowledging a shift was necessary, Microsoft sought



independent studies to back its claims regarding the total costs associated with Linux.

4. **Depression:** Microsoft faced considerable internal resistance to adopting open source practices.

5. **Acceptance:** Ultimately, Microsoft embraced open source, focusing on interoperability and acknowledging its significance in the market.

### **Case Study: Yahoo vs. Google**

In 2004, Google introduced Gmail, offering one gigabyte of free storage, which directly challenged Yahoo's established email services. Yahoo executives grappled with the potential loss of market share and the costs required to match Google's offering. In the end, Yahoo opted to significantly enhance its email service, increasing storage capacity to remain competitive. Surprisingly, users did not overwhelmingly abandon their premium packages, enabling Yahoo to maintain profitability while holding the top position in email services.

### **Conclusion**

Microsoft and Yahoo showcase different timelines and strategies for adapting to the free model. Microsoft learned to coexist with free products, while Yahoo swiftly responded to competitive offerings, illustrating the varied dynamics in navigating the free landscape within technology and



software markets.

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# Chapter 8: DE-MONETIZATION

## 8. DE-MONETIZATION

### Introduction to Google's Economic Model

The Googleplex represents a groundbreaking economic model that focuses on providing free products. Google operates nearly a hundred services at no cost to users, primarily funded through advertising associated with its core offerings. This approach allows Google to build a large user base before solidifying its business model, thanks to lower operational costs made possible by digital infrastructure.

### Google's Historical Evolution

Google's growth can be divided into three key phases:

1. Innovating search technology during the internet's expansion (1999–2001)
2. Launching a self-service ad platform (2001–2003)
3. Diversifying its offerings with various free services while prioritizing user experience (2003–Present)

### Infrastructure and Cost Reduction

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Google's vast network of data centers enables the company to deliver services at continually reduced costs. These state-of-the-art facilities maximize operational efficiency, significantly lowering expenses over time.

## **Max Strategies for Greater Reach**

Google utilizes a "max strategy," distributing its products widely to enhance market reach. This strategy involves developing complementary offerings that foster user engagement and indirectly increase advertising revenue. Initiatives like providing free Wi-Fi or offering complimentary storage help enhance overall internet usage, ultimately benefiting Google's main services.

## **The Dynamics of Free**

Although Google promotes free services to engage users, this model does not necessarily harm its profitability. In fact, it can redistribute economic value; for example, Craigslist disrupted print newspapers by providing a more efficient marketplace. As a result, free platforms often improve market liquidity, benefiting consumers overall.

## **Challenges of De-Monetization**

The trend of "de-monetization" poses risks by destabilizing traditional

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revenue models and industries. This shift can lead to challenges for certain sectors, like journalism, while others adapt and prosper. The potential decline of high-quality professional content may impact the reliability of information available online.

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# **Chapter 9 Summary: THE NEW MEDIA MODELS**

## **9 THE NEW MEDIA MODELS**

### **FREE MEDIA IS NOTHING NEW. WHAT IS NEW IS THE EXPANSION OF THAT MODEL TO EVERYTHING ELSE ONLINE**

In 1925, commercial radio made its debut, capturing the interest of listeners even though it lacked a sustainable funding model. Various payment strategies were proposed, including taxes or listener contributions, but advertising faced skepticism. The landscape changed with the rise of national radio networks, leading to an advertising-supported media model in which advertisers subsidized content, allowing audiences to access it for free.

### **ADS BEYOND MEDIA**

The transition to online advertising transformed traditional practices. While conventional media kept content and advertising separate to maintain audience trust, online platforms like Google began matching ads with relevant content, thereby enhancing user experience. This shift altered the

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dynamics of trust as audiences adapted to the new model.

## **HOW NEW MEDIA CHANGES OLD MEDIA**

As the Internet grew, traditional advertising started to decline. Newspapers and television began to diversify their revenue streams as audiences developed an expectation for free content. The rise of free newspapers and online videos compelled traditional media to adjust to this trend or face irrelevance.

## **THE END OF PAID CONTENT**

Evolving economic models have led to a devaluation of content across various sectors, driven largely by the demand for free access. Six major factors contribute to this trend, including the sheer volume of available content, the shift to digital platforms, and the influence of a generation that has grown up with free access.

## **THE TRIUMPH OF THE MEDIA MODEL**

Advertising-driven models have extended beyond traditional media into a

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variety of sectors. Google serves as a prime example, linking user intent with advertising to create an ever-expanding model. New online advertising formats, including CPC, lead generation, and product placements, reflect a rapidly evolving landscape.

## **THE ORC ECONOMY**

Media encompasses all types of content, but video games have emerged as strong competitors to traditional media. The gaming industry is quickly adopting free-to-play models, transitioning from a retail-based approach to an online format. Various monetization strategies, such as selling virtual goods and offering subscriptions, illustrate this significant shift.

## **FREE MUSIC**

The music industry is shifting towards more open models, as seen in successes like Radiohead's "name-your-own-price" distribution strategy. Smaller labels are creatively using free music to broaden their audience reach. Furthermore, live performances have increasingly become a key revenue source, showcasing the effectiveness of the Free model in expanding market presence.

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## FREE BOOKS

Although physical books remain popular, digital book consumption is on the rise. Authors are using free digital versions to offer samples of their work, with the hope of boosting physical book sales. Strategies like distributing free copies to attract an audience align with the broader Free approach, prioritizing reach over immediate profit.

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# Chapter 10 Summary: HOW BIG IS THE FREE ECONOMY

## 10 HOW BIG IS THE FREE ECONOMY?

### Overview

Understanding the size of the Free economy is a complex task. It includes a diverse range of activities, from formal business operations to informal volunteer contributions. The challenge lies in differentiating between economic activities that are marketed as "free"—often as part of promotional strategies—and those that are genuinely free exchanges, which complicates measurement.

### Forms of Free Economy

- **Marketing Gimmicks:** Frequently utilized across various industries, these "free" offerings are often subsidies rather than unique economic models.
- **Nonmonetary Economies:** Markets based on reputation and attention are emerging, allowing for innovative measurements, though not in straightforward monetary terms.

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## Case Study: Burger King's Whopper Sacrifice

Burger King's campaign encouraged Facebook users to "unfriend" others in exchange for free hamburgers. This initiative highlights the concept of reputational currency while showcasing attempts to value interactions on social media.

### Challenges in Valuation

Determining the value of attention and reputation is often difficult, resulting in ongoing debates surrounding social network valuations. While there are efforts to quantify these nonmonetary economies, establishing definitive metrics remains a challenge.

### Key Economic Metrics

1. **Advertising-Supported Media:** An estimated \$80 to \$100 billion encompasses both offline and online ad-driven content.
2. **Freemium Model:** Conservative estimates suggest the total freemium market is around \$36 billion.
3. **Gift Economy:** Although difficult to quantify, examples show that free contributions enhance existing products and services.

### Global Economic Impact

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A rough estimate places the total size of the Free economy in the U.S. at approximately \$300 billion, factoring in established advertising-supported media and freemium models. This figure likely fails to capture the full extent of free activities.

## **Labor Contributions**

There is a significant amount of unpaid labor in the open source community and in online content creation. A hypothetical calculation indicates that this could exceed \$260 billion in unpaid contributions annually, representing a substantial economic force.

## **Conclusion**

The Free economy is vast, akin to a large national economy in both scale and relevance, with considerable contributions that reach far beyond simple monetary measures.

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# Chapter 11 Summary: ECON 000

## FREE ECONOMICS AND THE FREE WORLD

### ECON 000

#### Historical Context of Competition Models

In 1838, Antoine Cournot introduced competition models in his work *\*Recherches\**, suggesting that firms limit production to maintain higher prices. Initially, his ideas went unnoticed, but after his death, they were revisited and challenged by Joseph Bertrand. Bertrand argued that firms typically lower prices to capture market share, leading to the concept of “marginal cost pricing.” This insight laid the groundwork for the understanding that in competitive markets, prices tend to align with marginal costs.

#### Impact of Digital Economics

The principles of Bertrand Competition are becoming increasingly relevant in today's digital market, which is characterized by nearly zero marginal costs. In this environment, "free" is not just an option; it is emerging as the

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default price point. However, there are notable exceptions, such as monopolies, where companies like Microsoft exploit network effects to sustain higher prices.

## **Challenges of Monopolies in the Digital Age**

While traditional monopolies often thrived on high profit margins through patents and trademarks, the internet has disrupted this model. The rise of piracy and online distribution channels has made it challenging for companies to maintain pricing power. Despite their dominant market positions, firms like Google and Facebook frequently offer free services or minimal charges, driven by scale rather than conventional profit models.

## **Understanding Free Pricing Strategies**

Pricing theories, such as versioning and near-zero marginal prices, shed light on how businesses can remain profitable while offering free options. For example, Netflix employs a flat fee structure that encourages consumption without invoking the negative psychology associated with per-usage fees. This approach aligns the interests of producers with those of consumers.

## **The Free-Rider Phenomenon**

Traditionally seen as a drawback, the free-rider problem takes on a different

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significance in the online realm. Here, a small percentage of contributors can sustain large communities, as seen with platforms like Wikipedia. The expansive nature of internet participation fosters a motivating environment for further contributions, demonstrating how free can effectively function in modern economies.

## **Conclusion**

The evolving landscape of digital economics is transforming traditional economic theories related to competition, pricing, and contribution. The subsequent sections will delve into nonmonetary markets, the concept of waste management, and the global implications of free economic principles.

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# Chapter 12: NONMONETARY ECONOMIES

## 12 NONMONETARY ECONOMIES

### Where Money Doesn't Rule, What Does?

In our information-rich world, an abundance of information leads to limited attention—a fundamental economic principle where plenty creates new scarcities. As consumers, the availability of basic goods drives us to seek out higher-quality alternatives, prompting a demand for premium products.

Abraham Maslow's pyramid of needs illustrates that as basic necessities are satisfied, individuals begin to pursue higher-level desires. This transition from consumer to producer is fueled by personal fulfillment.

The online marketplace disrupts conventional monetary constraints, giving rise to two types of nonmonetary value: the attention economy and the reputation economy. Although these concepts existed before the digital age, the online environment now allows for measurable tracking, paving the way for a new branch of economic study.

Attention is increasingly recognized as a quantifiable economic resource,

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with online platforms enabling users to trade it. The advent of hyperlinks has created a formal mechanism for exchanging both attention and reputation, fundamentally altering our understanding of value on the internet.

Google's PageRank algorithm exemplifies the reputation economy, likening incoming links to votes that enhance search visibility and drive traffic—both of which can be monetized. In this system, Google and its algorithm function like a central bank, regulating this digital currency and ensuring the value of reputation mirrors traditional economic systems.

Other online platforms, such as Facebook and eBay, introduce their own unique currencies of reputation, demonstrating how various nonmonetary economies coexist within the larger web economy.

## **The Gift Economy**

Lewis Hyde's examination of gift economies uncovers an age-old practice where non-monetary exchanges foster social connections. Many cultures rely on gifting rituals, which generate a social obligation to reciprocate.

In the present day, the rise of online platforms has created an expansive landscape of unpaid contributions, where amateurs often compete alongside professionals. This democratization of content creation is reshaping

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traditional notions of value.

The motivations behind these contributions usually arise from self-interest, community involvement, and personal development rather than mere altruism. Surveys suggest that individuals are inclined to share knowledge to

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# **Chapter 13 Summary: WASTE IS (SOMETIMES) GOOD**

## **WASTE IS (SOMETIMES) GOOD**

### **THE BEST WAY TO EXPLOIT ABUNDANCE IS TO RELINQUISH CONTROL**

The narrative begins by examining the paradox between perceived scarcity and actual abundance in the context of managing digital storage at work. The IT department frequently encourages employees to delete unnecessary files, often citing concerns about "running out" of storage space, even as digital storage costs continue to decrease significantly. This phenomenon underscores a common issue: we often confuse abundance with scarcity, resulting in inefficient practices.

### **THE INVERSION OF SCARCITY AND ABUNDANCE**

The author notes that many service providers, including phone companies, artificially create a sense of scarcity—such as limiting voicemail storage—to manage costs. This approach ultimately wastes customers' time and

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goodwill. This observation imparts a broader lesson: waste can be beneficial if we learn to embrace abundance rather than hoard it.

## **NATURE WASTES LIFE**

Unlike the human tendency to resist waste, nature has a different approach. Mammals tend to have fewer offspring, which fosters a developed moral response to waste. In contrast, many species, like the bluefin tuna, produce countless offspring, accepting a high mortality rate in the hopes of ensuring evolution and the survival of the fittest. This illustrates that life itself can be wasteful in the quest for greater life.

## **STRATEGIES OF WASTE IN NATURE**

The author uses the analogy of plant reproductive strategies to illustrate that risk and wastefulness can open doors to new opportunities and ecological niches. By dispersing seeds widely, a plant enhances its chances of thriving in a more favorable environment.

## **MAKING THE WORLD SAFE FOR CAT VIDEOS**

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YouTube serves as a prime example of embracing waste. It democratizes content creation, giving users the freedom to upload a wide array of videos, regardless of quality. This extensive collection of content caters to diverse interests and demonstrates that relevance can be more important than traditional ideas of production quality. The platform signifies a shift towards a broader interpretation of "value."

## **THE COMPARISON OF YOUTUBE AND HULU**

Despite the wealth of free content available on YouTube, the platform struggles to monetize effectively when compared to Hulu, which offers well-known, commercialized content. This contrast highlights the tension between unrestricted access and the need for some artificial scarcity to ensure business sustainability.

## **SCARCITY MANAGEMENT IN PUBLISHING**

As a magazine editor, the author contrasts the scarcity inherent in print publishing—where each page incurs significant costs—with the abundance found in online content. The digital landscape presents opportunities for experimentation and a variety of voices, promoting a new kind of creativity and competition that is more adaptable than traditional, hierarchical

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structures allow.

## **EMBRACING BOTH SCARCITY AND ABUNDANCE**

The chapter concludes with an acknowledgment of the necessity for organizations to adapt to both scarcity and abundance models. Effectively navigating the complexities of both systems in our changing world requires a balanced approach that leverages the strengths of each, ultimately paving the way for innovative opportunities and greater success.

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# Chapter 14 Summary: FREE WORLD

## 14. FREE WORLD

### Overview of Free Economies in China and Brazil

China and Brazil serve as emerging examples of how industries can adapt to the challenges of piracy and free distribution. Both countries showcase innovative strategies for achieving success and market viability in the face of copyright issues and traditional business structures.

### Chinese Music Industry Innovations

In China, musicians have turned piracy into a marketing tool, enabling them to connect with large audiences without relying on conventional revenue streams. Artists like Xiang Xiang have gained recognition through pirated music, which, in turn, enhances their earnings from live performances and endorsements. As a result, record labels are evolving into talent agencies that prioritize live events and corporate sponsorships.

### Ringtone Revenue

Despite the prevalence of piracy, opportunities for revenue still exist within

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the ringtone market, yielding considerable profits for companies like China Mobile. New business models are emerging that allow artists to secure brand sponsorships instead of depending solely on music sales.

### **Cultural Perspective on Piracy in China**

Piracy in China spans beyond music, affecting the fashion industry and other sectors. Surveys reveal that although many consumers favor original products, they often opt for pirated versions due to their affordability. This paradox enhances brand recognition while facilitating market segmentation, where high-end originals coexist alongside budget-friendly knockoffs.

### **The Brazilian "Tecnobrega" Movement**

In Brazil, street vendors effectively use low-cost CDs to promote local bands, creating a vibrant music scene that operates independently of major record labels. The success of groups like Banda Calypso illustrates how community-driven marketing and performance-focused business models can thrive without conventional music rights ownership.

### **Governmental Innovations in Brazil**

Brazil's public health strategies, particularly in AIDS treatment, demonstrate its commitment to challenging pharmaceutical patents to ensure

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accessibility. This push for royalty-free solutions has contributed to the expansion of a robust generic drug industry and fostered the adoption of free software across various government entities.

## **Conclusion**

In both China and Brazil, the tactics employed by artists and entrepreneurs reflect a significant shift toward more inclusive, creative, and sustainable economic models. These models prioritize community engagement and access over traditional ideas of ownership and exclusivity.

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# Chapter 15 Summary: IMAGINING ABUNDANCE

## 15 IMAGINING ABUNDANCE

### THOUGHT EXPERIMENTS IN “POST-SCARCITY” SOCIETIES, FROM SCIENCE FICTION TO RELIGION

Science fiction frequently delves into the idea of “post-scarcity economics,” envisioning societies where essential resources are plentiful thanks to technological advancements. Authors utilize thought experiments to explore how humanity might respond to altered resource availability, often reflecting on themes of love, time, and purpose.

A common motif in sci-fi is the creation of machines that transform scarce resources into abundant ones, as seen with the replicators in *\*Star Trek\** and the transformed world in *\*WALL-E\**. Classic works like E. M. Forster’s *\*The Machine Stops\** portray a society that becomes overly dependent on a Machine supplying everything, leading to social isolation and a loss of meaning. When the Machine fails, humanity struggles to survive, highlighting the potential dangers of unfettered abundance.

Conversely, later narratives, such as Arthur C. Clarke’s *\*The City and the Stars\**, offer a more optimistic perspective, suggesting that abundance can

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inspire philosophical exploration and a quest for meaning beyond the limitations of a controlled environment. The digital age has further reshaped perceptions of abundance through the Internet, altering our understanding of resource scarcity.

Nevertheless, many stories examine both the benefits and drawbacks of abundance. In *\*Down and Out in the Magic Kingdom\**, Cory Doctorow illustrates how technological progress can lead to boredom and apathy, shifting the focus from physical needs to social capital. Neal Stephenson's *\*The Diamond Age\** investigates the implications of providing abundance to an idle populace.

## **AFTERLIFE**

Religious beliefs often envision the ultimate abundance, portraying Heaven as a realm devoid of physical needs. However, satirical representations raise concerns about the potential monotony of eternity and the risk of losing ambition in the absence of challenges.

Historical examples, such as Athens and Sparta, shed light on how diverse civilizations find purpose amidst abundance. While Athenians pursued artistic and philosophical endeavors, Spartans focused on military supremacy, demonstrating that material wealth can sometimes create a



scarcity of meaning rather than fulfill a sense of purpose.

Ultimately, the human brain is naturally inclined to perceive scarcity, which fuels ambition and innovation. The allure of abundance serves as a motivating force, encouraging individuals to strive for their goals and reminding us of the human condition, even in prosperous circumstances. The story of the Iron Bridge stands as a metaphor for humanity's struggle to recognize and adapt to abundance, illustrating that understanding and utilizing new resources often requires time and insight.

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# Chapter 16: “YOU GET WHAT YOU PAY FOR”

## 16. “YOU GET WHAT YOU PAY FOR”

### Introduction

In late 2007, Andrew Rosenthal from the \*New York Times\* voiced his regret about removing the paywall for their content, arguing that free information lacks value. This resonates with the widely held belief that if something is free, it holds no worth, and that everything online carries an unspoken cost.

### Common Objections to Free

This chapter outlines fourteen common objections to the idea of Free, accompanied by responses that address these concerns:

#### 1. **There Ain’t No Such Thing as a Free Lunch.**

- While everything has a cost, the expenses associated with digital content are often concealed or spread out, making them less perceptible to users.

#### 2. **Free Always Has Hidden Costs/Free is a Trick.**

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- Despite the fact that Free can come with hidden strings attached, the current digital landscape offers truly free services without deception, challenging previous notions about Free.

### **3. The Internet Isn't Really Free Because You're Paying for Access.**

- Users pay for internet access, not for the content itself. The economics of content creation and delivery operate independently.

### **4. Free is Just About Advertising (and there's a Limit to That).**

- An increasing number of online businesses utilize freemium models, enabling some users to pay while others access features at no cost, thereby reducing dependency on advertising alone.

### **5. Free Means More Ads, and That Means Less Privacy.**

- Although there are valid concerns regarding privacy in ad-supported models, most platforms implement policies to safeguard user data, indicating that paid services aren't the only means to protect privacy.

### **6. No Cost = No Value.**

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- Value can manifest in non-monetary forms such as attention and reputation, which can benefit greatly from Free content and services.

## **7. Free Undermines Innovation.**

- Free can actually stimulate sharing and remixing, which fosters innovation rather than hindering it, leading to varied revenue models.

## **8. Depleted Oceans, Filthy Toilets, and Global Warming are the Real Cost of Free.**

- While concerns like the "tragedy of the commons" matter, the economics of digital goods differ significantly from the physical world, allowing for healthier consumption models.

## **9. Free Encourages Piracy.**

- Piracy often results from artificially high prices, and the opportunity for Free arises when the costs of reproduction are low—not the other way around.

## **10. Free is Breeding a Generation that Doesn't Value Anything.**

- Changes in how values are perceived across generations occur, but this

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doesn't imply a decline in overall values; rather, they evolve based on experiences.

### **11. You Can't Compete with Free.**

- Competing with Free requires differentiation—providing better quality, service, or features rather than just lowering prices.

### **12. I Gave Away My Stuff and Didn't Make Much Money.**

- Early experiments with Free do not guarantee success; effective models demand creativity in monetizing the attention and reputation earned.

### **13. Free is Only Good if Someone Else is Paying for It.**

- The success of freemium models demonstrates that Free can hold its own value, regardless of direct payments from users.

### **14. Free Drives Out Professionals in Favor of Amateurs, at a Cost to Quality.**

- While competition may increase, this also presents chances for professionals to adapt and innovate within a vast information landscape.

### **Coda: Free in a Time of Economic Crisis**

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The chapter highlights that Free models often thrive during economic downturns, as consumers seek more affordable solutions. However, businesses must create effective monetization strategies alongside Free offerings to sustain growth.

### **FREE RULES: The Ten Principles of Abundance Thinking**

- 1. If it's digital, sooner or later it's going to be free.**
- 2. Atoms would like to be free, too, but they're not so pushy about it.**
- 3. You can't stop Free.**
- 4. You can make money from Free.**
- 5. Redefine your market.**
- 6. Round down.**
- 7. Sooner or later you will compete with Free.**
- 8. Embrace waste.**

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**9. Free makes other things more valuable.**

**10. Manage for abundance, not scarcity.**

These principles indicate a shift in paradigm where companies can innovate their business models around Free while providing genuine value, stability, and profitability.

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