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The price of freedom

Reinventing the online economy:

Gerd Leonhard explains why 'free' content can still pay in the long term

Free information, free music, free content and free media have been the promises of the internet (r)evolution since the humble beginnings of the World Wide Web and the Netscape IPO on 9 August 1995. What started out as the cumbersome sharing of simple text, grainy images and seriously compressed MP3s via online bulletin boards has now spread out to every single segment of the content industry – and even into 'meatspace' (real-life) services such as car rentals. Without a doubt, 'free' has become the default expectation of the young web-empowered digital natives and now the older generations are jumping in, too.

On top of the already disruptive force of the good old computer-based Web1.0, we are witnessing a global shift to mobile internet – a WWW that is, finally, so easy to use that even my grandmother can do it. While five years ago, we needed a 'real' computer tethered to a bunch of wires to port ourselves to this other place called 'online' and partake in global content swapping, now we just need a simple smart phone and a basic data connection. With a single click of a button, we're in business – or rather, in freeloading mode.

As users, we love 'free'; as creators, many of us have come to hate the very thought. When access is de facto ownership, how can we still sell copies of our creations? Will we be stuck playing gigs while our music circles the globe on social networks, or blogging (now: tweeting) our heart out without even a hint of real money coming our way?

Daunting as it may seem, we can no longer stick with the pillars of Content1.0, such as the so-called fixed mechanical rate that US music publishers are currently getting 'per copy' of a song ($0.091). Nobody knows what really defines a copy any longer when the web's equivalent of a copy (the on-demand play of that song on digital networks) may be occurring hundreds of millions of times per day. No advertiser, no ISP and not even Google has this kind of money to pay the composer (or rather, the publisher), at least not until the advertisers start bringing at least 30–50 per cent of their global US$1 trillion marketing and advertising budgets to the table.

"Don't start by asking who will pay for your content, but ask who will pay attention"

Traditional expectations and pre-internet licensing agreements are exactly what are holding up YouTube's deals with the music rights organisations such as PRS and GEMA: this is what the rights organisations used to get paid for the music that is being copied, and this is what they want to get paid now. This impasse is causing significant friction in our media industries worldwide. Yet, below the top-line issue of money, there lurks an even more significant paradigm shift: the excruciating switch from a centralised system of domination and control to a new ecosystem based on open and collaborative models. This is the shift from monopolies and cartels to interconnected platforms where partnership and revenue sharing are standard procedures. In most countries, copyright law gives creators complete and unfettered control to say yes or no to the use of their work. Rights-holders have been able to rule the ecosystem and, accordingly, 'my way or the highway' has been the quintessential operating paradigm of most large content companies for the past 50 years.

Enter the Internet: now the highway has become the road of choice for 95 per cent of the population, the attitude of increasing the price by playing hard to get is rendered utterly fruitless. Like it or not, a refusal to give permission for our content to be legally used because we just don't like the terms (or the entity asking for a licence) will just be treated as 'damage' on the digital networks, and the traffic will simply route around it. The internet and its millions of clever 'prosumers', inventors and armies of collaborators will find a way to use our creations, anyway. Yes, we can sue Napster, Kazaa or The PirateBay and we can whack ever more moles as we go along. We can pay hundreds of millions of dollars to our lawyers and industry lobbyists – but none of this will help us to monetise what we create. The solution is not a clever legal move, and it's not a technical trick (witness the disastrous use and now total demise of Digital Rights Management in digital music). The solution is in the creation of new business models and the adoption of a new economic logic that works for everyone; a logic that is based on collaboration, on co-engagement and on, dare we mention it, mutual trust – an ecosystem not an egosystem. Once we accept this, we can start to discover the tremendous possibilities that a networked content economy can bring to us.

Free, feels-like-free and freemium

Much has been written on the persistent trend towards free content on the net. It is crucial that we distinguish between the different terms so that we can develop new revenue models around all of them. ‘Free’ means nobody gets paid in hard currency – content is given away in return for other considerations, such as a larger audience, viral marketing velocity or increased word of mouth (or mouse). I may be receiving payment in the form of attention, but that isn’t going to be very useful when it’s time to pay my rent or buy dinner for my kids. Free is... well, unpaid, in real-life terms.

> **“Free has become the default expectation of the young digital natives”**

‘Feels-like-free’, on the other hand, means that real money is being generated for the creators while their content is being consumed – but the user considers it free. The payment may be made (ie sponsored or facilitated) by a third party (such as Google’s recently launched free music offering in China, Top100.cn); it may be bundled (such as in Nokia’s innovative ‘Comes With Music’ offering, which bundles the music fee into the actual handsets) or the payment may be part of an existing social, technological or cultural infrastructure (such as cable TV or European broadcast licence fees) and therefore absorbed without much further thought. Feels-like-free could therefore be understood as a smart way to re-package what people will pay for, so that the pain of parting with their money is removed or somewhat lessened – everyone pays, somehow, but the consumption itself feels like a good deal.

'Freemium' is a word concocted by VC Fred Wilson and Jarid Lukin, and popularised by Wired magazine’s Chris Anderson. Freemium combines ‘free’ and ‘premium’ business models into new forms that basically follow the old marketing principle of giving away something for free only to up-sell many of those happy users to the next, paid levels. The Freemium approach has been very successfully used by many Web2.0 companies such as the broadband video, call and messaging service, Skype (get hooked on free calls and then buy Skype-out credits or local calling plans) and the internet’s leading photo sharing site, Flickr (spend $29.99 for a bit more storage space and the cool FlickrPro badge). The bottom line is that all digital content (including books) is moving from paid hard-copies to free, feels-like-free or freemium services and bundled access – and there is serious money in all of these options. And while we creators struggle to come to terms with the challenges of ‘free’, let’s not forget that, in those good old days of paid copies, people mostly paid for the printing or pressing costs, the shipping or delivery, and the retail storage space. Consumers did not actually pay very much for the song, for the words, or for the genius of the scriptwriter; they mostly paid for the middlemen, the studios, the publishers, distributors and retailers. Therefore, when these costs are taken out – as they are in many internet-based delivery mechanisms – it may not necessarily hurt the actual creator, but those middlemen and the industries built around them.

However, because ‘free’ is such a strong meme in this economy, I believe that we will see a lot of redirected creative juices flow into that crucial conversion process from the initial attraction to the faithful ‘consumption’ of – and engagement with – our content. Now, the mission of record labels, managers and publishers is to invent and realise new streams of income that simply did not exist until we ceased our obsession with controlling distribution and selling copies. I therefore believe that the value of a given piece of content will depend greatly on what Wired’s inspirational co-founder Kevin Kelly calls ‘the New Generatives’ – those new embodiments of value.

Developing the New Generatives

The new means of content monetisation include elements such as:

- packaging and ‘alternate outputting’ – for example, selling a smart-phone application that provides access to all an artist’s music, videos and pictures, instead of just selling a simple download of a song
- immediacy – the option of getting the new song, the new book or film right away, without having to wait
- curation and filtering. The added value of having someone programme my playlists or recommend TV shows or films
- or added values such as higher definition (including 3D) or better sound or image quality.

Personalisation, customisation and various premium-like options will make very fruitful turf for up-selling, and are already widely used across the web, such as by the blogging service Typepad. We may well see a future where the basic services are entirely free, or bundled, or advertising supported. In the music industry, we have recently seen services such as Spotify emerge with a similar offering: the user can listen to any song on-demand for free, but can also pay to get rid of the audio advertisements or make use of better playlisting tools. My hunch is that, because of the increasing wealth of the available data and the much improved use of behavioural targeting functionalities, advertising will soon become valuable ‘content’ itself – thus eliminating consumers’ desire to get rid of it altogether. Again, if a global advertising and marketing budget of US$1 trillion can be partly diverted to pay for content, that should make a lot of content creators very happy. Virtual goods – products that are only sold and used in virtual environments (such as customisable avatars for my profile page) – are already big business and will grow to generate new revenue streams for all kinds of content creators. As an example, my avatar in my digital world may want to surround himself with the latest John Mayer track when he’s hanging out at the virtual beach – there’s another euro for the creators. Similar to the popular ring-back tones in Asia, this is a typical case of how I am using music to present myself in a different way; rather than for my own consumption, I buy music to have others hear it – another potential growth area for content sales.

Authenticity and the official stamp of approval will become a crucial and paid-for value: how would I know that Paulo Coelho is happy with a German translation of his latest book if I don't buy it from him or some other authorised source? Yes, I could download it for free, but I have no way of knowing if it's the real thing until I've already read the first chapter. Once e-books become more widespread (and duly Napster-ised) this will be crucial. I anticipate authors using digital authenticity watermarks and other embedded technologies to give each authorised digital copy that special stamp of approval that will make it worth the effort. Once the costs of digital books are brought down to a level where the payment is a no-brainer rather than a punishment (10 to 20 per cent of the dead-tree versions), and the buyer feels like he/she is part of the author's authentic fan network, these models will generate enormous new revenues at much lower cost.

Value redefined

The other increasingly relevant issue is what actual form remuneration may take. For creators, this may be derived in many ways other than with cash payments. Flickr now boasts more than 3.5 billion images uploaded by an estimated 12 million members, many of whom happily pay their $29 for the upgrade to 'Pro' level. Photographers gain viral exposure for photos that become popular on Flickr, often getting millions of viewers and hundreds of comments from the Flickr crowd around the world. While no content creator will sneer at real cash coming his/her way, one can still observe a strong trend that places increasing value on social capital, personal influence and what is sometime referred to as the 'reputation economy'. While these forms of remuneration may take longer to be converted into real cash (if at all), they are indeed becoming important currency in a world of hyper-connected individuals. We are about 18–24 months away from that crucial take-off point in the new content economy. The point at which it all falls into place and it finally becomes clear how creative output will be very nicely remunerated without having to go back to what I like to call Content1.0 – to control, force and friction, such as the paid-access+micro-payments model that NewsCorp's Rupert Murdoch has recently been hinting at, again. We are beyond the point of return, the only way is forward.

We as content creators and/or content industry professionals must now put our energies into investigating and constructing web-native and deeply collaborative revenue models based on open platforms and the total embrace of the sharing economy that has already taken hold in our society. Once we move from egosystem to ecosystem, from monopolies, cartels and walled gardens to partnerships and open systems, I am confident that we will discover dozens of new generatives that will allow us, the creators, to prosper in the future. Nothing can replace that unique human power of storytelling and creation – the more technology we employ to distribute and access content, the more we need those good stories. Ditch control for compensation, leave the monopolies behind, start trusting your users, viewers, listeners and fans, and see the value of your creative work rise above and beyond. Don't start by asking who will pay for your content, but ask who will pay attention, who will trust you, who will follow you – and then work with all involved parties to convert that attention into income.

Hooked on Google goodies

'Free' is the keyword to success for 2009 and probably 2010, not just because of the current economic crisis but because the last decade of technological advances has already made many previously paid things free, and the lure of free is a powerful tool. Google's Gmail has made cutting-edge and powerful email services available to everyone, entirely for free and, as a consequence, Microsoft's Outlook market share has shrunk considerably. Now, with its new offline Gmail client, Google is bound to wipe out those other email clients we used to pay for, such as Apple Mail and Outlook. Revenues that used to go elsewhere now have moved mostly inside the Google kingdom. I get Gmail for free, but I am paying a lot of cyber dollars with my attention. I am allowing Google to 'read' my emails and sell my data to advertisers. My use of Gmail and all Google services generates a huge amount of value for the company. All of us have become content providers for Google. It is the master of this kind of disruption: it makes great products, gives them away, we all come to love them and get hooked on the Google goodies – but the former middlemen crumble and fade away. Reinvent or die, brought to you by Google et al.