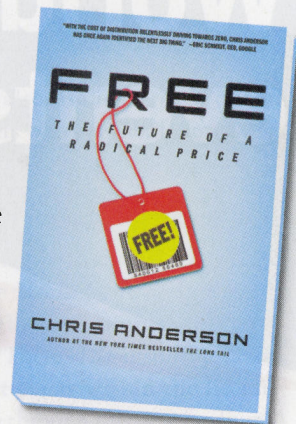


Rip My Book, Please

An interview with *The Long Tail*'s Chris Anderson on the meaning of free



BY ANDREW RICHARD ALBANESE

One day after News Corp. chairman Rupert Murdoch told reporters that his company is exploring how to charge for its online content, proclaiming that an “epochal” moment looms in Web history, *PW* asked *Wired* editor-in-chief Chris Anderson, bestselling author of *The Long Tail*, about the dire state of newspapers in the digital age. “With *The Long Tail*, people were like, okay, smart guy, fix the music industry,” Anderson quipped. “Now, it is going to be, okay, smart guy, fix the newspaper industry! I have to say, I do not have any answers.”

What Anderson does have is a new and timely book: *Free: The Future of a Radical Price*, and it comes with an experiment. In July, Hyperion will launch the book with a radical twist, offering free downloads of the book online as well as Amazon Kindle downloads for a limited time around publication. A fascinating treatise on Internet economics and culture [*PW* Reviews, April 27], *Free* probes a fundamental question for the digital age—a question, it would seem, opposite to the one Rupert Murdoch is now exploring: “How can so much stuff online be free?” As with all things Internet, the answer to that question is at once simple and complicated, and not altogether comforting.



Chris Anderson

“To authors and their publishers,” observed *New York Times* reporter Motoko Rich in a May 11 article on book piracy, the digital realm remains “new and frightening territory.” Understandably so: the music industry is now in its eighth straight year of decline since the public execution of the pioneering file-sharing service, Napster. Newspapers and magazines, meanwhile, are shuttering at an unprecedented rate.

So far, the book industry has avoided such disasters, and the e-book has fallen well short of the hype it generated at the turn of the millennium, when wild predictions flourished. Despite impressive growth rates, e-books currently make up about 1% of total book sales. The benefit of watching others blunder their way into the unfolding digital world, however, might just turn out to be a blessing for book publishers, girding them with more experience about a more mature medium. With a mix of Internet businesses now turning their attention to books—from Google’s book scanning program and settlement, to the Amazon Kindle and the Sony Reader, to upstart literary Web site Scribd—it’s clear that publishers’ turn has come. Books are moving online. Now what?

PW caught up with Anderson and found him upbeat about the publishing industry’s prospects. “With books, I think we are about 18 months into a path that looks like it just might be the right one,” he said. But one way or another, he notes, whether it means coming to grips with fears of piracy or finding new ways to compete with the explosion of user-created content, doing business online means recognizing a fundamental truth: “You have to compete with free.”

PW: Just as you’re about to come out with *Free*, Rupert Murdoch announces News Corp is preparing to charge for content online.

Chris Anderson: You would think that we are on opposite sides of the intellectual divide here. The truth is that we agree, 100%, on everything. What is the

bridge between me, the “free” guy, and Rupert Murdoch, the “paid” guy? The answer is freemium. We both believe in freemium. The *Wall Street Journal* is one of the greatest promoters of free content around. They are really clever in the way they make stories free to social media, free for a while, free to some people; their iPhone app is free. But they use free to market paid. That’s freemium. The biggest misunderstanding of my work is that I believe everything should be free. Not the case! Free should be a price point in the marketplace, but the free stuff should market the paid stuff. Murdoch is not talking about a walled garden where everything is paid. He is talking about using free to market something for which you can charge much more than we are currently charging today.

PW: *I was fascinated to learn that you work on a \$250 laptop, own few programs, run Linux and take advantage of what’s called cloud computing. The way you work says something about the digital future, doesn’t it?*

CA: Well, full disclosure, I have several computers. But I am moving more and more toward the “netbook” model, which has very little to do with the computer, and a lot to do with the “cloud.” I feel kind of mixed saying this, but my life is gravitating toward 100% Google: I use Google Docs, Google calendar, Google Mail, Picasa. With the exception of the engineering stuff I do for my side company, the only software I run on my machine is Word and PowerPoint. That’s what I’m down to. The cloud gives me portability. Just as the iPod allows you not to have to think about what music you want to listen to, because your whole library is with you, the cloud gives you the same thing. The cloud also gives me automatic backup. Once you get to the point of storing your whole life, it is the only thing that scales.

PW: *When did it dawn on you that “free” could become a book?*

CA: After *The Long Tail*, one thing that struck me was the less-articulated concept

of free. When you have infinite shelf space, you can put out everything and let the marketplace sort it out. You don’t have to try to predict what people want, filter things out, discriminate between bestsellers and niche; everything just gets out there. The only way you can have infinite shelf space is if the shelf space has zero cost, and that is what the Internet enabled: infinite capacity where the marginal cost was zero. That near-zero margin has given us the cultural revolution that is the explosion of variety that we see online today. And practically everything online is free. We have a good, country-size economy, a Germany-size economy, online—and yet, what is the model behind that? How did we build a country-size economy around the price of zero without an economic model? I went to lunch with my editor, Will Schwalbe, and told him I was thinking about a book on the economics of abundance—how can so much online be free? “Okay,” he said, “so the book is called *Free*.” The moment he said it, I knew he was right. What happened in the act of calling the book *Free*, was that it became about a word, not about abundance, or economics, but a word with economic, psychological, historical meaning, a word with incredible misunderstanding and paradoxical diversions in definition.

PW: *You write in the book that a model proposed by a French mathematician more than a century ago to ridicule another French mathematician is now “the law of pricing online.”*

CA: Historically, economists had to wrestle with some basic stuff—we didn’t have markets like we have today, we didn’t have competition like today, every market was unique, you didn’t have statistics, or data, or convertible currencies. Economics, basically, was thought experiments. In the late 19th century Antoine Cournot and Joseph Bertrand created imaginary worlds in which several companies made the same thing, and they asked what would happen to prices. In 1838, Cournot argued that producers wouldn’t flood the market, that they would conspire to produce the minimum volume needed to keep prices high. In his review, decades later, Bertrand hated this theory. Instead, he suggested companies would not compete on volume, but on price, and that they would keep lowering prices to gain market share, and that competition would ultimately lower the price to marginal cost. It would be a race to the bottom. These theories were mostly forgotten for the next 100 years or so because we didn’t have truly competitive markets. With the arrival of

The Conversation Continues at BEA

In 2000, the music industry was reportedly a handshake away from a billion-dollar deal with pioneering P2P music-sharing site Napster, a deal that would have kept nearly 40-million users downloading for a fee. Instead, Napster was shut down by the courts, kicking off eight straight years of decline for the major labels. “The record companies needed to jump off a cliff,” Hilary Rosen, then CEO of the Recording Industry Association of America, told *Rolling Stone* of that seminal moment in the industry’s history, “and they couldn’t bring themselves to jump.”

How does this relate to book publishing? Come find out on Friday, May 29, at the Javits Center, for a *PW*-sponsored BEA panel “Jumping Off a Cliff: How Publishers Can Succeed Online Where Others Failed.” The panelists—Chris Anderson; Scribd chief technology officer Jared Friedman; and *New York Times* journalist and technologist, Nick Bilton (with *PW*’s Mark Rotella moderating)—will address whether a similar cliff may be looming for publishers. What has changed since the days of Napster? What have we learned about the new Internet-based economy as well as consumer Web behavior and expectations? In the age of Google, Wikipedia, YouTube, iPhones, Blackberries and social networks, how can you position yourself to take advantage of—rather than be overtaken by—the digital future? Room 1E15, 3:30–4:30 p.m.

An excerpt from the forthcoming book, *Free*.

Free Books

BY CHRIS ANDERSON

THE BOOK INDUSTRY IS NOT IN COLLAPSE, thankfully, but that has not stopped hundreds of authors (and a few publishers) from conducting their own experiments with Free.

The big difference between books and music is that for most people, the superior version is still the one based on atoms, not bits. For all their cost disadvantages, dead trees smeared into sheets still have excellent battery life, screen resolution, and portability, to say nothing about looking lovely on shelves. But the market for digital books—audiobooks, ebooks, and Web downloads—is growing fast, mostly to satisfy demands that physical books cannot, from the need for something you can consume while driving to the need for something you can get instantaneously, wherever you are.

Most free book models are based on freemium, one way or another. Whether it's a limited-time free download of a few chapters, or the whole thing in a well-formatted PDF available forever, the digital form is a way to let the maximum number of people sample the book, in the hopes that some will buy.

For example, Neil Gaiman, the science fiction writer, gave away *American Gods* as a digital download for four weeks in 2008. The usual fears and objections were presented at first: that it would cannibalize sales in stores or, at

the other extreme, that a limited availability was counterproductive since by the time many people heard about it, it would be gone. The second worry is hard to check, but the first turned out to be mistaken. Not only did *American Gods* become a best seller, but sales of all of Gaiman's books in independent bookstores rose by 40 percent over the period the one title was available for free. Eighty-five thousand people sampled the book online, reading an average of forty-five pages each. More than half said they didn't like the experience of reading

are a second price, and then there's piracy. Radiohead said, let's add new products and explore pricing to its fullest. So they offered downloads, at name your price, which truly explores people's willingness to pay, then there was the box set, merchandise, concerts. If you were doing a report for Harvard Business School you would ask: how many skews did Radiohead create? Between licensing and other products, Radiohead came up with probably 30–40 different skews, as opposed to the old model where you have just three or four—you could buy the CD or not, or the CD and the concert, and maybe a T-shirt, for a fixed price. Now

there are skews ranging from free to very expensive—the box set is over \$100. That's how you change the narrative. That's how you change people's expectations of what things should cost, and also how you explore the high end of the market, where people will pay a lot, rather than just saying it's all free.

PW: How does piracy fit in with free, and can digital rights management (DRM) systems realistically work to enforce high prices?

CA: setting aside the moral or legal implications, piracy is the market imposing a price of zero. Can DRM work? Sure,

the Internet, however, came a kind of pure competition, because the barrier to entry online and marginal cost was close to zero. Bertrand's joke theory suddenly became like the law of physics, like gravity. The Internet created the reality that Bertrand's theoretical framework anticipated. That's actually the chapter I am most proud of because that's a story that's never really been told. Hal Varian, an economist at Google is the one who told me this was classic Bertrand vs. Cournot competition. He got me to do the research on that.

PW: The concept of free as a price still seems so counterintuitive to publishers and other content producers.

CA: That's what I love. I'm in San Francisco, the center of dot-com. Twitter is across the street, Google is down the block, all around me there are people that are like "free, um, duh. Is there anything left to be said?" My kids can't believe I actually wrote a whole book about free. Then you go to other places, and people are like, impossible! There is no such thing as a free lunch! The fact that you can have intelligent people who find the concept either self-evident or completely wrong is the sweet spot of the book. In that tension is all the misunderstanding, change and structural, institutional, industrial revolution that is worth writing about.

PW: You observe that products that are born free have an easier road than those that transition to free. What does that portend for today's publishers?

CA: The problem with the price/value equation is that once you establish a relationship, it's hard to change it. It's hard to raise prices and get people to change their impression of value, and hard to lower prices and not get some sense of devaluation. So what you have to do is create a new product. New products are born with a blank slate in terms of price and value. No one thinks less of Google because it is free.

The band Radiohead is another example. In the music industry, you had this world where the CD is one price, tracks

online, but that was just an incentive to buy the easier-to-read hardcover. Gaiman then gave away his next children's book, *The Graveyard*, as free online readings in streamed video, a chapter at a time, and that, too, became a best seller.

For nonfiction books, especially those on business topics, free books are often more closely modeled after free music. The low-marginal-cost digital book is really marketing for the high-marginal-cost speech or consulting gig, just as free music is marketing for concerts. You can have the abundant, one-size-fits-all version of the author's ideas for free, but if you want those ideas tailored for your own company, industry conference, or investors meeting, you'll have to pay for the author's scarce time. (Yes, that's my model, too. Speakers Bureau details are on my Web site!)

This can even work for physical books. Consultants often buy thousands of their own volumes of strategic wisdom to distribute for free to potential clients, a tactic so common that best-seller lists now have special methods to spot and ignore these bulk sales. In Europe, newspapers sometimes offer small paperback books, sometimes in serial form, free with their issues on the newsstand, which helps

for a while at least. In music it didn't work because the first digital products emerged without encryption—the horse was already out of the barn. DVDs didn't go out without encryption, and piracy has been less present—still present, but less so. DRM is a balancing act. You don't want punish customers with intrusive DRM, and you don't want to have none at all—although I personally favor none at all. You want just enough to make most people pay. For publishers, e-books are still so young and have so many formats and platforms, and with the arrival of the Kindle, it's just too soon to ask whether DRM is going to be effective.

drive newspaper sales. And authors increasingly offer free review copies to any blogger who wants one—the “Long Tail of book reviewers”—on the grounds that such word of mouth is well worth the few dollars each copy costs.

Like everything else in Free, this is not without controversy. Howard Hendrix, then vice president of the Science Fiction Writers of America, has called authors who give away their books “webscabs,” and there are publishers who still have their doubts that free books stimulate more demand than they satisfy (sometimes based on experience). But in a world of shrinking bookstore shelf space and disappearing newspaper book review sections, authors are keen to try anything that can help them build an audience. As publisher Tim O'Reilly puts it, “the enemy of the author is not piracy, but obscurity.” Free is the lowest-cost way to reach the largest number of people, and if the sample does its job, some will buy the “superior” version. As long as readers continue to want their books in atoms form, they'll continue to pay for them.

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My instinct is that for books, DRM will probably be like software and DVDs—it'll keep piracy to a dull roar. The music industry, on the other hand, went way too far. What is important is that publishers not make the same mistake and not impose so much DRM that just maintaining your licenses becomes a full-time job. I predict publishers will probably avoid the nightmare scenario of music industry.

PW: *You mention the music industry's nightmare scenario. What do you think was the big mistake there?*

CA: Well, I hate to say the mistake was

putting out the first CDs without DRM, because watching the music industry try to impose DRM has been such a complete nightmare that I think they probably would've screwed up DRM at the outset and just killed the industry earlier. They made a lot of mistakes: charging too much, forcing people to buy albums whether they wanted to or not, screwing artists. And once the music got out, they made a mistake by fighting it rather than embracing it.

But all this boils down to a fundamental definitional problem: when we talk about the music industry we're talking about the labels, and that is such a mistake. The music industry is bands, consumers, concerts, licensing, merchandise, endorsements, recordings—it's all these things. The music industry is also Apple—the device makers. I think I'm right in saying this: every part of the music industry, with the exception of selling of recorded music on silver discs, is up—tours, licenses, iPods, merchandise, the amount of music being made, ringtones, downloads. So when we say the music industry is in crisis, what are we really talking about? We're talking about the legacy model of selling discs. I don't want to seem craven or uncaring, but I don't really care that much about the survival of labels selling CDs. I care about all the other things—about artists, music, the relationship between the artist and the audience, the devices and the way we can enjoy music. And that seems vibrant and healthy and heading in right direction.

PW: *What do you think the digital future holds for books?*

CA: We will find out. I believe in physical books. I believe in 80,000 words. I believe in a deep dive into subject matter, a singular voice. Not that this is the only book I believe in, or that everyone feels like I do. But I see the value of the physical book. The physical book adds value to Internet. That is our job now, to add value to the Internet, to make the Internet better, or offer things the Internet can't do. ■