

TrendMarker

A brief for executives that highlights, explains, and discusses an idea, media innovation, market trend or invention that offers marketing and communications opportunities.

July 2008

Welcome
to the
'Free'
WORLD



Universal McCANN

NEXT
THING
NOW



Over the last decade we've become increasingly used to getting something for nothing. Massive advances in the technologies that underpin the internet, in particular processing power, digital storage and broadband have provided the means to develop and distribute rich content and complex services to anyone for virtually zero cost.

These factors have created a new business model based on free access, which has been tagged "**Free World**" by the author of the longtail Chris Anderson. Today you can make a phone call to the other side of the world with Skype, you can watch the world's best TV clips on YouTube and you can upload and share your photos on Flickr; all for the price of an internet connection. It has also inspired consumers to create and share content in their hundreds of millions as the barriers to entry fall to zero.

The world's collective thinking, knowledge and information is now available at the click of a mouse. The consequence is that we are now exposed to an unprecedented volume of content and services that provide unlimited choice and distraction.

This has resulted in a culture of free access, that is becoming even more entrenched as younger web users grow up and the desire for free access to content, services and experiences increases. These factors will increasingly permeate offline and into product categories where the impact of falling technology costs are not as immediate.

Why is this important? It means the future of content, web services and increasingly wider business will be advertising supported to allow the free access that has become essential to compete.

Additionally the desire for free means that the environment for branded content, entertainment and services is extremely positive and the opportunities are huge.

Lastly there are significant impacts of the "**Freeworld**" for brands and advertisers due to the avalanche of content and services it has created, both in terms of business opportunities and continuing to deliver the most effective and efficient marketing communications.

NEW!

New Economics: Free World

Massive advances in technology mean the cost of producing web content and services has been pushed so low that the provision of access and usage for free is now a viable business model. It has fundamentally changed the basic economic rules of production and supply and the impact is huge for any category impacted by the web.

The following factors are most important in driving down costs:

Processing power is infinitely cheaper than it used to be. Moore's law states that processing power doubles every two years and it has been proved correct since the dawn of computing. This means the super computer you would have paid millions of dollars for back in the early 80s will now be out performed hundreds of times over by the average desktop computer. Complex processing, web development and powerful applications are now in the hands of every PC user and the costs of production and development of content and web services have plummeted. The tools to create have been democratised.

The cost of broadband has slumped. This means that the costs to distribute and access rich content or operate a complex web-based service have fallen to virtually nothing. You can move information globally in seconds for no charge. Compare this to the old information networks, such as cable TV and radio, which were either owned by one company, very expensive to develop and access or very heavily regulated.

Digital storage is now so cheap it is possible to store an infinite amount of content. This means data-rich services are becoming cheaper and cheaper to deliver, while new data-heavy offerings that would have been impossible such as photo-sharing sites that holding billions of high resolution photos have become viable.

Geographical location and proximity are no longer restrictions or costs. This means the scale of audience needed to provide free access is much easier to find for both mass and niche products. It also means labour and skills from anywhere in the world can be employed.

As technology advances and digitisation impacts more categories the power of Free World will multiply. The new business model will also spread offline as technology and globalisation drive down the cost of real world goods like clothing, televisions, MP3 players and airline tickets.

The new business model: Find the many and charge the few

Free access is simple. It basically involves creating the largest user base possible and then seeking to monetise it in different ways:

Advertising support: The cornerstone of any web start-up. All websites and services now pursue advertising as revenue, trying to convert their eyeballs into dollars. The result is a plethora of innovative advertising solutions and new platforms to support advertising

Additional services: Websites are increasingly trying to sell additional services. If you can convert just 2% of your user base it can be significant revenue stream. For example, photo-sharing site Flickr, is free to use but if you want to increase the number of photos you can upload you need to pay an annual fee, while Basecamp – an online project management tool – allows free access, but charges for a premium account.

Retail: Some sites have taken to selling other people's product or their own branded product to drive revenue.

Affiliate schemes: Many sites recommend products and services. They are likely to belong to affiliate schemes that mean they get a cut of any sales they generate through links or advertisements.

Syndication: If you have good content you can sell it to other sites or media companies. The same goes for services such as music retail sites, which can be rebranded as white label products.

Micro-payments: Very small payments are impractical to be paid by conventional payment systems such as credit or debit card. Although these amounts are tiny, millions of transactions add up. Micro-payments are often used by free to use virtual games, massively multiplayer games and social networks, with users buying with credits that can be paid for by SMS, credit card or systems like Pay Pal.

Expect it to become increasing used for paying for additional content particularly as universal micro-payment schemes that work across the web emerge. **Contd>**



There are too many examples to list – literally millions. The following have made a global impact and become household names:



YouTube: Rapidly evolving into the free to access global TV platform. Makes its money from advertising, sponsorship or partnerships.



Gmail: One of many free to use email platforms. It was unique when it launched because it offered near unlimited storage for free and makes money through sponsored links.

facebook

Facebook: Global social utility completely free of charge to use. Makes money from advertising.



Skype: Make phone calls over broadband. Makes its money made from Skype Out calls when consumers call landlines.



Photobucket: Photosharing site, with 5.5bn photos uploaded by mid 2008 - makes money from charging users an annual fee for a pro account to upload larger numbers of photos. Also supports sponsorship and advertising.



Habbo Hotel: Free to use Teen virtual world with 100m avatars by June 2008 - makes its money from charging micropayments for credits which can be exchanged for virtual clothing, furniture and accessories.



**Free News
Read all
about it!**

Moving offline

The success of the free to access model online and the falling costs of production in the real world mean the concept is moving offline. Of course, giving stuff away as a loss leader has long been a sales practice and marketing tool; mobile operators give their phones away, satellite companies give you a free PVR and now broadband operators will even give you a free laptop. But these things come saddled with a contract – you pay for it in the end.

The difference with applying Free World is that you can create a genuinely free to access service or product for consumers as the culture of free pervades all aspects of life. The following are all examples of real-life Free World:

Free newspapers: In every major city worldwide and has worked wonders for encouraging youngsters to read newspapers again. They are entirely funded by advertising. For example, London now has two morning freesheets, two evening freesheets and two weekly magazines that are distributed across the city.

Prince: Despite his rather negative views on his videos appearing on YouTube, the pop star gave away his latest album on the front of the UK Daily Mail. He made his money by selling concert tickets and merchandise.

Radiohead: In October 2007 the album Rainbows was released for digital download with consumers allowed to dictate the price paid. Amazingly a large majority still paid for it. PR stunt or pure Free World? You decide.

Blyk Mobile: Launched in Europe in 2007, Blyk is a completely free mobile service for 16-24s as long as they watch and receive a certain number video and text advertisements on their handset.

Battlefield Heroes: Electronic Arts produced online multi-

player game that's free to download and makes its money from micro-payments for character upgrades and in-game advertising.

Applying Free World to the offline world

It's easy to see that these new business principles can also be applicable to other business sectors, particularly as the costs of producing goods falls. We've identified a few possible models that you might see in the future.

Hotel rooms: Free hotel rooms paid for by sampling, gambling on the TV set, product placement and retailing the interiors. Hotel rooms are a captive market.

Flights: In many cases, budget airlines have almost made flights free – but they could become completely free of charge, covering their costs via in-air shopping, gambling, duty free and food sales.

Hollywood Blockbuster: Download for free and then paid for by merchandising, limited edition boxsets and product placement.

Free Clothing: Get free basic clothing – t-shirts, tops – and when you wear them you actively promote them and you speak about them to friends. Revenue is made by selling premium versions.

The consumer: "We're not paying anymore"

The direct result of the Free World and the expansion of the internet into all aspects of our lives is exposure to an unprecedented volume of web-based content, information and services. The following factors are driving a continual march towards the land of the free.

Unlimited choice

Faced with an infinite number of options we are extremely unlikely to choose the one that charges for access – do you think YouTube would have been the success it has if you had to pay to use it? Due to the complete open and democratic nature of the web there is simply too much competition to justify charges.

Distraction planet

With hundreds of millions of websites, countless friend profiles, RSS feeds by the minute, three-way Instant Messenger conversations and never-ending email, we live in a world of constant and increasing distraction. It's not just online, TV, radio or newspapers, technology like games consoles and iPods are all competing for attention.

This directly erodes the time and focus we can give to a particular piece of content or service and indirectly the value and price we are willing to pay for it.

Browsing Culture

Faced with a constant distraction, we seek content that is increasingly byte sized, hence the growing popularity of video clips and blogging. The shorter content gets, the less likely we want to pay for it.

We're All Content Generators Now

The rise of social media and in particular blogs, photo sharing and video sharing sites have given all of us the means to create and share content. The result is hundreds of millions of amateur publishers, producers and composers and a massive ecosystem of free content, which users have no intention of charging for. This wealth of content populates free to access web services and provides viable alternatives to paid for and professional media.

Universal McCann's global social media tracker estimates that by 2008 248m internet users worldwide have uploaded photos, 184m have started a blog and 183m have uploaded video clips. YouTube now receives 10 hours of content every minute and Flickr receives more than five million photos a day. This impacts the ability to charge for content and services due to the huge choice.

Platformisation

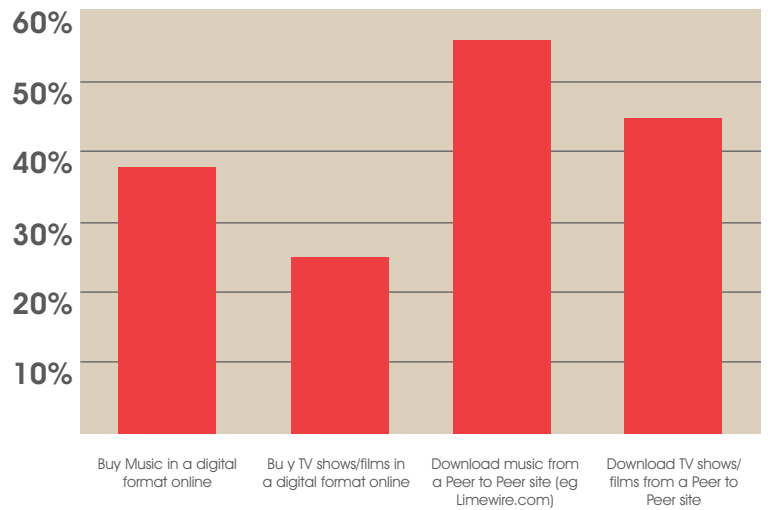
With such a wealth of content to organise and sort through, we increasingly gravitate to the services that provide us with the tools to organise, sift and manage it. These are the platforms – the social networks, personalised home pages, photo-sharing sites and video-sharing sites of the web. They help us organise, sort and prioritise the complex world of the content freeconomy.

The Pirates Rule Ok

Digitisation of entertainment and the drivers of "Free World" have meant that it's increasingly easy to reproduce content for nothing and on any scale you like.

Back in the analogue era, you had to manually copy a programme VHS tape by VHS tape, now you can produce and distribute hundreds of copies at the click of the button. As broadband has expanded file-sharing sites like Bit Torrent, Limewire and Emule, which allow you to search for content on other users machines and download it have become commonplace and music, films and TV have been downloaded illegally in their billions.

Universal McCann research demonstrates as shown in the graph below that this is not a niche activity, globally peer to peer sites outperform legal paid-for digital content.

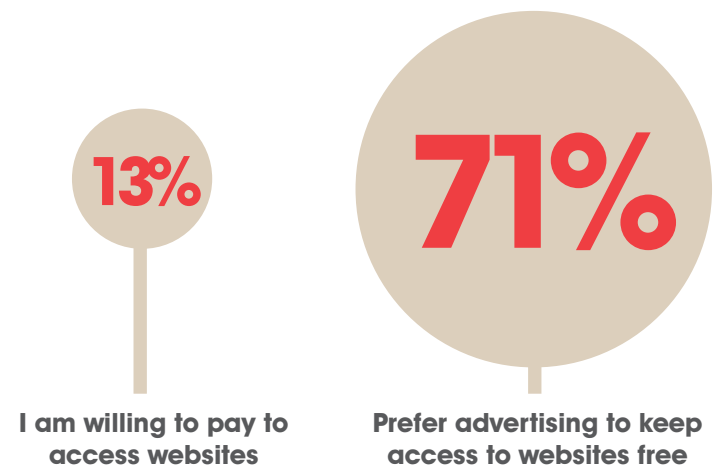


Source: Wave 3 Power to the People Social Media Tracker – activities 'Ever Done' online

The impact of this has been to remove the association of payment with entertainment content, particularly among younger age groups. It has also commoditised music and film due to the wealth of material we can now download and store easily and we are less willing to pay for it. Even if we are not actively downloading illegal content, the culture of non-payment permeates.

I'm not paying

Consumers faced with unprecedented volumes of content legal and illegal simply aren't paying any more. Research from the Universal McCann Waves project demonstrates that there is no appetite for paying for content and services online – advertising support is always preferred. The graph below shows that consumer demand is for free to access ad supported.





Advertising in the Free World 101

Advertising in the free world 101

The future is increasingly ad supported – embrace it

All new websites and services depend on advertising support for their revenue. This means that advertising has a huge role to play in underpinning the future economy.

There are a mass of new opportunities for advertisers and brands from the wealth of new an inventive media owners. Get involved.

Embrace the new formats being developed as sites seek more advertising revenue. For example, Facebook are creating ultra-targeted advertising and ads revolving around social actions – which means an advertiser pays when a user recommends or interacts with a paid for message.

Go to the consumer

The wealth of content now available means that web users increasingly gravitate towards platforms or applications that organise their web experience such as video sharing sites, personalised homepages and photo sharing sites.

Content and advertising needs to be taken to these platforms rather than hidden away on a siloed website. Web users should be encouraged to share branded content.

Free content and services is driving more time online

The more free content and services are available online, the more time we spend there and the less time we spend watching TV, listening to radio. Consequently more budget should go there.

Stand out in the world of distraction

Forget fragmentation – this is distraction. The free world has created such a massive wealth of on-demand content that competing for attention or engagement becomes increasingly difficult.

This means the strength of the creative idea, multi-media executions, user input and content focus are increasingly important.

Brands need to create

The future of marketing is about doing not showing and branded content is increasingly important, online and real life.

An economy driven by free access is the perfect environment for branded content, services or events

Free is now the most important thing, whether that has been made free by branded support or investment is now irrelevant.

The experience must be positive, useful, entertaining and genuinely beneficial to stand out in the crowd of content.

Example of brands navigating the Free World



Intel Powers Music MySpace Initiative:

Intel Powers Music was a Pan European, multi-lingual environment within MySpace. The site had a distinct non corporate look to build affinity with the key target audience; digital musicians who spend most of their time online. Intel launched a competition to find Europe's new SuperGroup via a MySpace page. MySpace members were asked to vote for the best musician, best song and best album cover. MySpace also provided members with a way to upgrade their own music player and unique other content on making music. The deal was brokered by Universal McCann.

Why is it Free World friendly?:

It was built in the platform that users go to – it went to them, it provided exclusive content free of charge and it enabled a unique shared experience.

How Successful:

Over 6 million + profile views; 60,000 Intel friends / new advocates in just 13 weeks; 25,981 submissions for myspace bands.



Xbox 360 Messenger Tab:

A partnership between Xbox and MSN Live Messenger in France to create an area inside Messenger to deliver rich video content on games and movies designed to reach key hard to reach gaming audiences. The deal was brokered by Universal McCann.

Why is it Free World friendly?

It was built inside instant messenger, therefore taking content to users and out of the normal web environment, thus cutting through the avalanche of content. It also provides users with unique video content that's not available elsewhere.

How Successful:

Recently it had a click through rate of 4%. Xbox 360 recently renewed the deal to stay on Messenger for another 12 months.

Example of brands navigating the Free World ...continued

The screenshot shows the VideoJug website interface. At the top, there is a search bar and navigation links for Home, Discussions, Help, My Jug, Upload, Login, Sign Up, and Edition: UK. Below this is a horizontal menu with categories: Food & Drink, Love & Sex, Beauty & Style, Sports & Fitness, Health, Leisure & Hobbies, Technology, DIY & Home, Pets, Parenting, Jobs & Careers, and More. The main content area is titled 'Home > Jobs & Careers > Office Life' and features a video player for 'What To Do If You Send A Kamikaze Email'. The video player shows a woman at a computer with the text 'Email Delivery Issues? PowerMTA, Leading MTA Software Maximizes Delivery. Learn More. www.pcm.com'. Below the video player is a rating section with five stars and a 'Click stars to rate this film' prompt. To the right of the video player are sections for 'Related Topics' (Office Life | How To Be A Great Communicator | Microsoft Outlook), 'More' (with links to 'Write A PowerPoint Presentation In Five Minutes', 'Use Office 2007 To Write A Great Essay', 'Seduce Your Boss', and 'Stop Being Horny'), and 'Most Viewed in Jobs & Careers' (with links to 'How To Seduce Your Boss', 'How Can I Make A Good First Impression?', 'How To Stop Being Horny', 'How To Have A Secret Affair At Work', 'What To Do If You Send A Kamikaze Email', and 'How To Be Lazy In The Office And Get Away With It'). At the bottom right, there is a 'Latest Discussions in Office Life' section.

Microsoft Office Video Jug Branded Content:

A partnership between Microsoft Office and VideoJug (an instructional video site) to convey the benefits of Office 2007 in an entertaining way. The instructional videos covered a series of themes such as 'What To Do If You Send A Kamikaze Email' and 'How To Write A PowerPoint Presentation In Five Minutes'. The deal was brokered by Universal McCann.

Why is it Free World friendly?

It reached users who were engaged and actively seeking information about MS Office, and bought them genuinely interesting and relevant content.

How Successful:

By mid 2008 they had collectively received 220K views with each viewer spending on average 2.5 minutes engaging with the MS Office Brand.

The Future

The consumers desire for free is only going to increase over time. As increasingly volume of content and services gravitate to the web then the demand will become multiplied. The core factors of Free World; processing power, storage and broadband are only going to get cheaper and become available to larger numbers of people. This increased demand for free to access will increasingly move offline and a larger number of industries will have to adapt and evolve their business and pricing models.

The future role for advertising and marketing is rosy as an increasing number of businesses depend on commercial support; advertising, sponsorship and partnerships. This means marketing communications has a crucial role to play as we move into the future.



Essential Links

Free World Explained:

The seminal Chris Anderson Wired article
www.wired.com/techbiz/it/magazine/16-03/ff_free

Inception of a theory:

The original blog post on the subject
http://www.longtail.com/the_long_tail/2006/11/the_rise_of_fre.html

Some healthy scepticism:

The blog Read write web gives their verdict
www.readwriteweb.com/archives/beware_of_free_world.php

The Trendwatching version:

They call it Free Love, which sounds a lot more pleasant
www.trendwatching.com/trends/freelove.htm

Free
things we
like



Battlefield Heroes: Electronic Arts new free to play game www.battlefield-heroes.com

Basecamp: Online project management tool
www.basecampHQ.com

Blyk: Free to access mobile phones for 16-24s www.blyk.co.uk

Craigslist: The original free classifieds site that has had a massive impact of local newspaper revenue in the US.
www.craigslist.org

Grandcentral: Recently acquired by Google, a service that centralises all of your phone services and numbers into one online account, offering loads of phone services that would have traditionally cost you cash. Currently Beta and US.
www.grandcentral.com

Habbo Hotel: Teen hangout working on the free model.
www.habbo.co.uk

Freeconomy Movement: A return to the barter economies of old, have a skill? Swap it for something else.
www.justfortheLoveofit.org

Freeload Press: Free text books for US college students that contain advertising.
www.freeloadpress.com

Medicafe: Vending machines in Japan that give you a free drink if you watch a 30 second advert while you wait
www.inventorspot.com/medicafe_vending_machine

Metro: The worlds biggest newspaper, free to read every morning in over 100 cities world-wide
www.metro.lu

Movable Type: Blogging software, free to download and install but costs if you want a commercial licence or user support.
www.movabletype.org

MSN Live Messenger: Its kind of given that Instant Messenger comes for free, but if you think about it, its pretty cool – you can chat to anyone all over the world for nothing.
www.get.live.com/messenger/overview

Photobucket: One of the largest photo sharing sites in the world – free to access, extra money for premium account
www.photobucket.com

Photoshop Express: The free to use trimmed down online version of the desktop image software – a response to free to use online rivals.
www.photoshop.com/express/landing.html

Picnik.com: Web based photo editing tool, as good as any desktop software.
www.picnik.com

Skype: Strikes fear into the hearts of any telecoms company. Make phone calls over broadband and now from a wi-fi enabled mobile phone. Makes its money made from Skype Out calls when consumers call landlines.
www.skype.com

Spiralfrog: One of the many free ad supported music downloads. This one has a good library, but is US only and it remains to be seen whether ad supported music can be popular.
www.spiralfrog.com

Sport Magazine: Free weekly sports magazine distributed in Paris and London.
www.myfreesport.co.uk

Videojug: Instructional video site. More than just mindless entertainment, although there is nothing wrong with that.
www.videojug.com

Wikipedia: The worlds biggest encyclopaedia. Free access thanks to charitable donations, free web hosting from the likes of Yahoo and user generate and maintained entries. Would be an impossibility in the world before the web.
www.wikipedia.org

Zoho: Online office applications and productivity, such as word processors, project management systems and database tools. Not yet Microsoft Office, but shows a trend.
www.zoho.com



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