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## ICT AND 'FREE' CULTURE.

### AN ANALYSIS OF NEW BUSINESS MODELS FOR CULTURAL GOODS ON THE INTERNET

#### ABSTRACT

The technological breakthrough has induced fundamental changes in cultural industries, especially those producing informational goods, e.g. book and press publishing, television and radio production, film production, music recording or video games programming. As a consequence, the internet has seen a flooding of cultural goods accessible for free to nearly every internet user as well as a flourishing of new business models, where cultural products are distributed for free. The aim of the paper is to examine the economic effectiveness of 'free' business models proposed by Chris Anderson, in relation to the cultural industries mentioned above, as well as their possible influence on the 'traditional' part of these sectors.

KEY WORDS: cultural industries; cultural goods; gift economy; Chris Anderson; 'free' culture; 'free' business model; free economy; ICT

#### INTRODUCTION

The technological breakthrough has induced fundamental changes in cultural industries, especially those producing informational goods, e.g. book and press publishing, television and radio production, film production and music recording. As a consequence, the internet has seen a flooding of cultural goods accessible for free to nearly every internet user. A part of them is offered by producers, another one – produced outside the cultural institutions – by artists themselves. However, the major part is just informally exchanged by consumers, who previously bought them or acquired from other users. Some of these activities may be seen as a kind of altruistic act of giving.

These 'new' circulations of culture, called also 'free' or 'open' culture, have been since then analyzed from different perspectives. The term 'free culture' has been proposed by L. Lessig (Lessig, 2005), whose work, focusing on copyright and culture in the new digital environment, has completed but also triggered a number of studies on copyright and piracy on the internet, e.g. (Halbert, 1999), (Varian, 2000), (Latrive, 2004), (Liebowitz, 2004), (Liebowitz, 2005), (Oberholzer & Strumpf, 2007), (Karaganis, 2011), (Filiciak, Hofmohl, & Tarkowski, 2012). The issue of free culture has also been approached from the perspective of 'gift culture' and 'gift economy' continuing a long tradition of research in anthropology and sociology, e.g. (Mauss, 1923), (Malinowski, 1932), (Cheal, 1988),

(Carrier, 1991), (Pinchot, 1995), (Giesler & Pohlmann, 2003), (Chris Anderson, 2009), (Severson, 2012). This concept has evolved into a new research field of 'sharing', referring to 'openness', 'social production' and 'online collaboration', e.g. (Benkler, 2008), (Tapscott & Williams, 2008), (Tapscott & Williams, 2010), (Aigrain & Aigrain, 2012), as well as that of 'prosumption' and 'fan culture' (Toffler, 1980), (Jenkins, 2007), (Siuda, 2012).

The abundance of cultural goods offered online for free by artists or consumers pushed producers to revise the business model previously used, based on the scale effect, as well as a strict control of distribution channels and an intensive promotion. They started to develop new business strategies that have been since then widely analyzed in literature, e.g. (Jelassi & Lai, 1996), (Timmer, 1998), (Afuah & Tucci, 2003), (Rappa, 2004), (Chesbrough, 2007), (Cagnina & Poian, 2009). In 2009, C. Anderson wrote 'Free: The Future of a Radical Price' where he proposed four main business models for goods offered to customers online for free. This concept matches with that of the 'gift economy' and the idea of 'sharing'.

#### METHOD:

#### ANDERSON'S FREE BUSINESS MODELS

Cagnina and Poian (Cagnina & Poian, 2009, p. 51) highlight in their analysis of e-business models that their taxonomies fre-

quently 'focus on revenues and not on other sources of value'. This observation appears crucial for the present study where neither value nor profit should be understood in their strictly 'monetary' terms, which represents the key-element of the Anderson's approach. It is summarized in the table below.

offered with the following complementary paid products: text/e-book readers, tablets, smartphones as well as the access to the internet (broadband and mobile internet providers). The last one can complement as well such products as music files, film (video) files and digital tv and radio programmes

Table 1. Anderson's free business models

Model	Characteristics
Cross-subsidies	Any good (content, services, software) inviting the consumer to pay for another one is offered for free. The model is proposed to every consumer.
Tripartite transactions (advertising model)	Goods (content, services, software) are offered for free to every consumer. The third part of the transaction finances the production and/ or distribution of the good, paying for the consumer's attention. The model is proposed to every consumer.
Freemium	The basic version of the good (software, service, part of content) is offered for free. Costs are covered by the paid premium version of the good, borne by a slight minority of consumers. This model is proposed only to regular consumers.
Non-monetary model (gift economy, labor exchange, piracy)	Everything that users of the Internet decide to give away for free is offered free of charge. The model is proposed to every consumer. Anderson identifies three types of the model: Gift economy – (e.g. Wikipedia) users create content without expecting any pay for their work (good offered). They are motivated by such factors as satisfaction, interest, need to be valorized etc. Labor exchange – users have to complete some work to access the good, e.g. solve captcha or rate stories. By doing this, they 'create something of value'. Piracy – (e.g. online music). Users upload/ distribute for free the good produced by others.

Source: (C: Anderson, 2010, pp. 82–85) and (C. Anderson, 2011, pp. 33–39)

All the business models presented above, quite common in the real world, are extremely popular online. They range from sales of devices for music listening together with free online access to music, online platforms with tv series and programmes offered for free but accompanied by advertisement, free basic versions of applications and paid premium ones, to, finally, Wikipedia and open source software.

The purpose of the paper is to examine the economic effectiveness of Anderson's 'free' business models in relation to the cultural industries mentioned above, as well as their possible influence on the 'traditional' part of these sectors. The analysis is principally based on the method of scientific reasoning from the perspective of the meso-level in economics (sector analysis), as well as on the market observation and literature studies.

## THE EFFECTIVENESS OF ANDERSON'S BUSINESS MODELS IN CULTURAL INDUSTRIES

In the present section, five cultural industries mentioned above will be analyzed, in order to evaluate the effectiveness of 'free' business models in respective areas.

### Model of cross-subsidies

In this model consumers are offered for free cultural goods whose marginal production cost (copy cost) tends towards zero and whose function is to complement another product. Products of the book and press publishing such as e-books or electronic articles to be downloaded or read online may be

(e.g. tv series) that may be delivered with paid electronic devices: music and video players, smartphones, tablets, laptops, tv sets, DVD and blue-ray players and home video systems. Moreover, they may accompany merchandising products, concert tickets as well as special (lux) editions of CDs, LPs, DVDs and/ or blue-rays (e.g. for one special DVD bought, the consumer can receive access to the online catalogue).

The cultural industries, operating according to the present model, will be affected by a growing concentration, and thus dominated by big content producers, for whom bearing the management costs of paid products is relatively easy. Small producers, to distribute free content, could be impelled to associate with most important players or become parts of them. They also may fall into dependence of new intermediaries, such as Sony or Apple, distributors of different products (e.g. AV players, game consoles, e-book and press readers, as well as mobile phones and access to the internet), that will use the model to strengthen their position on the market by simultaneously offering cultural content. The internet access providers, being often large fix/ mobile telephony companies or cable TV providers, as other new intermediaries, will sell the internet connections combined with free access to platforms with cultural content. By that means, they will gain control over the content distributed via their networks, which may lead to limited diversity. Both groups of intermediaries will occupy the position of 'new gatekeepers' in the sector. Moreover, there is a concern that cultural products will lose part of their value and become either a complement to other goods or a promotional tool.

### Tripartite transactions (advertising) model

The model of tripartite transactions is known in such industries as TV and radio broadcasting as well as press publishing. It appears to be the most evident solution in terms of funding the production and distribution of content on the internet as well. It can be mainly applied in the case of goods accessed and used online or streamed.

Press publishing on the internet works in the same way as the traditional one: advertisement is just placed on journal webpage, next to the article or in it (online context advertisement). What is worth mentioning is that new advertisement tools (data analysis, programmatic advertising) increase the effectiveness of the message, matching it better with consumer tastes and needs. The traditional model in book publishing, on the contrary, was not based on adverts, although, in digital environment, they can accompany content accessible on online reader applications. Advertisement may also be added to e-book readers and tablets, to be active with the start of the device or on the bottom of the page when the text is read (e.g. OfficeSuite on Android). In film and AV online distribution ads are broadcasted before the film starts, as well as during the program (video ads, banners in video player, e.g. player.pl). However, if the consumer is invited to download the film, it is product placement that seems to be the most effective way to advertise products. As regards audio programmes, they are both broadcasted directly (at the same time as the terrestrial broadcasting and with the same advertisement) and put online as 'archive' version (e.g. TOK FM) to be listened in the similar way as music on streaming platforms (e.g. Spotify), accompanied with ads.

What is worth noticing is that consumers seem overwhelmed by advertisement since it is offered in every way (PageFair, 2013), which leads to an increasing usage of applications to block it on platforms with press articles and/or multimedia content. This tendency impels producers and distributors of content to constantly invest in both controlling ad-blockers, as well as developing algorithms to prevent ad-blocking.

Due to the overabundance of information online, platforms are constrained to compete for users. For that reason, only the greatest and the best known platforms are able to attract advertisers as investors (e.g. Spotify, YouTube). Fortunately, the Internet has seen a flooding of new kinds of ads, e.g. context advertisement, Google AdWords, facilitating small producers of content to find advertisers.

As regards the efficiency of this model, one should admit that sophisticated film production may seem problematic to fund due to important investments necessary to cover production costs. Even the most popular streaming platform, Spotify, experience difficulties in its business activity (Pająk, 2015), ("Wydawcy biorą 73% przychodów ze Spotify i mówią, że mają najmniejszy zysk", 2015). In this case, producers will be constrained to use various business models simultaneously and again, the market will be dominated by the greatest companies.

Nevertheless, by using this model, content producers obtain an additional advantage, such as personal data coming from consumers that use the online platforms with content, comprising information about habits and preferences. This kind of information is extremely useful for both advertisers as well as content producers since it allows them to follow trends on the market – a factor of major importance influencing potential market success of new cultural products.

### Freemium model

In the freemium model, some content is offered for free to regular consumers whereas the production is funded by premium versions of products. They encompass special editions of books for aficionados of not only certain authors but also of paper versions of books in the book publishing; full versions of articles and comments (e.g. Polish Piano system), as well as very professional articles sold to consumers particularly interested in specific news or high journalistic quality in the press publishing. In the music recording, limited, luxurious editions of products such as special editions of CDs, new editions of LPs which, after years, come in vogue, accompanied by special bonuses like photographs, posters, artists' autographs, artistic covers etc., may be sold at a high price to fans and collectors. The film sector can offer the same type of premium products as the previous one. As regards the AV production, what is proposed to more sophisticated and willing to pay consumers is the access to archived episodes of programmes or series, to programmes or series before their official release in traditional media and/or to special materials (interviews, pieces recorded in the backstage etc.).

According to this model, producers divide consumers into segments: casual, not involved consumers and niche, exceptional, involved consumers. The first group will use only free versions of products, whose value (quality) is basic and popular, while the second one will be satisfied solely with outstanding goods. In this manner, niche consumers will fund the production of the first, prototypical versions of cultural products and special, premium versions. Considering the fact that the production costs of certain cultural goods, such as films are frequently extremely high, one may admit that production expenditures in some cultural industries can be hardly covered by means of the freemium model. It is noteworthy that the market would be probably dominated by big players.

An additional question which should be answered is whether companies could assess additional immaterial value (Cagnina & Poian, 2009) that accompany cultural products. To do so, the content producers may rely on devoted fan communities (prosumers) emerging around the product that become involved in promotion by creating trials, writing reviews, comments and recommendations. The only producer investment is good relationships with these special consumers. In this case, it is the position of small actors that could become superior, due to their true proximity to the market, as is the case with small recording labels operating in niches in the offline world.

### Non-monetary model

The non-monetary model's essential trait may be illustrated by a particular activity of consumers who act as both consumers and producers (prosumers, mentioned in the previous model). What is offered for free in this model is every good that users of the Internet decide to give away for free by putting it online. Anderson identifies three distinctive sub-models in this category: gift economy, whose variation is social production (e.g. Wikipedia project); free content in exchange for work; and 'piracy', where consumers use content for free just to entertain themselves or sample new cultural products: new authors, singers or movies.

In fact, online activities classified as belonging to the present model are principally undertaken not by institutional producers whose major objective is to generate financial income, but by individual creators. They occur outside the traditional market system of exchange, their value being hard or even almost impossible to evaluate. For that reason considering them as a business model in its commonly adopted meaning is a slight overstatement.

It is noteworthy that the non-monetary model represents an outstanding opportunity to the cultural industries to assess additional value. The cultural industries can draw advantages from the network effect to ameliorate such elements as loyalty, the word of mouth or the long tail effect. In fact, by improving relationships with consumers, usually considered as 'pirates', they build upon the consumers loyalty, which is particularly valuable in risky sectors offering experience goods (Nelson, 1970). Moreover, they can benefit from the audience's resources to increase the income. Benkler (Benkler, 2008, p. 116) highlights that the informal circulations of cultural goods (Filiciak et al., 2012) should be perceived as a global network of free distribution and promotion of works, with users providing storage space for archiving files, paying for high-speed internet connections, as well as offering their time, energy and passion to promote cultural goods. The industries, if they wanted to develop a similar network within traditional model and under complete control, should certainly invest huge sums of money, non-monetary model being in this case one of tempting solutions to challenges of the new, digital universe. Finally, they could trigger positive externalities, e.g. increased diversity of cultural products, as well as greater cultural capital of the society. The latter, considered as a very long term activity and built in an favorable climate to enjoy culture and share it without restrictions, could turn into increased income coming from the public, willing to consume more cultural products.

### CONCLUSION

Thanks to the development of the ICT, we are participating in an unprecedented development of 'the gift economy' in its social, non-market as well as economic dimension. The major change for cultural industries operating in the new environ-

ment may be their shrinkage, since the principal, 'traditional' business model, based on the scale effect and the control of distribution channels by the dominant companies, will be impossible to sustain any longer. This model has been complemented by 'free' business models, operating on the boundary between the market and the gift economy. Their closer study allows us to conclude that, without yet being as effective as pre-digital business models of cultural industries, they may become sufficiently productive to ensure an income and, in consequence, a longlasting production of other cultural goods. There is no doubt that to increase their efficiency, they demand a rapid and reasonable implementation, preferably in combination with one another.

What is of particular interest in this analysis is the new phenomenon of informal circulations of cultural goods called by Anderson the 'non-monetary model'. Unfortunately, economics still lacks tools that could soundly explain this phenomenon, principally due to the fact that it has considered them as economically irrelevant. Nevertheless, these circulations have proved so powerful that they have been accused of having induced a deep crisis in cultural industries. Users (artists and consumers) of different internet features, ranging from p2p platforms, blogs, fora, to social services, guided by diverse motivations, intrinsic as well as extrinsic, have developed potent exchange networks to share cultural content. By that means, these new important actors in the sector have become capable of influencing strongly not only the cultural sector income, but also cultural diversity and quality of oeuvres.

Regrettably, the cultural sector, used to its old model generating great revenues, still underestimate diverse positive effects of the new phenomenon. Although 'non-monetary', this model fits perfectly in the market, since free cultural goods provided by the industries are exchanged for such free goods offered by consumers as work, e.g. comments or recommendations promoting products; user's passion to share cultural items, to create derivative works, e.g. remixes, translations, film trailers; and information about user's tastes, preferences, which is of major value in the cultural sector. This observation should raise doubts over 'free' culture, which in fact ceases being for 'free'.

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## TYTUŁ PO POLSKU? .....

### ABSTRAKT

Przełom technologiczny spowodował, że przemysł kultury, bądź szerzej – kreatywne, takie jak przemysł wydawniczy, prasowy, produkcji telewizyjnej i radiowej, muzyczny, filmowy i gier komputerowych, wytwarzające dobra informacyjne, zaczęły się gwałtownie zmieniać. W efekcie wiele dóbr kultury zaczęło być dostępnych dla użytkowników internetu całkowicie za darmo. Co więcej, zaczęły również powstawać nowe modele biznesowe, umożliwiające darmową dystrybucję tych dóbr. Celem niniejszego artykułu jest przeanalizowanie ekonomicznej efektywności „darmowych” modeli biznesowych, których typologię zaproponował Chris Anderson, w odniesieniu do wspomnianych wyżej przemysłów, a także możliwy wpływ tych modeli na „tradycyjną” część przemysłów kultury.

SŁOWA KLUCZOWE: przemysł kultury; dobra kultury; ekonomia daru; Chris Anderson; „darmowa/wolna” kultura; „darmowe” modele biznesowe; freekonomia; ICT