Free But Fragile

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In my previous Last Word article (August 19), I developed the idea that groups of individual elements — be they ants in an ant-hill, radio engineers in the broadcast industry, or teenagers on their social network sites — are social systems that have a life cycle.

Such groups can be large, as with major religions, or small, as with a nuclear family. Like living organisms, social systems have a life cycle that begins with conception and then proceeds through the stages of infancy, childhood, adult, maturity and finally death. Along the way, they spawn "children," who themselves progress through the stages.

When the life cycle of an industry is longer than the professional life cycle of an individual, it is hard to see the patterns. We seldom remember earlier stages other than with an occasional reference to the "good old days." The radio industry in 1949 was at a different point in its life cycle than in 2009 because the social, political, economic and technical context of the larger culture has changed during this half century. The life cycle of radio, however, can only be understood by examining the life cycle of the culture within which it is embedded.

At the end of the previous article, I challenged my readers to analyze how life in the broadcast industry has been changed by the evolving social system that we inhabit in our personal and professional lives. This article is my view of an answer.

Variations in Payment Paradigms

Let's look at one component of the life-cycle within our social systems: the payment process for goods and services. Over the centuries, the relationship between the market price of goods and the cost of producing them has evolved from simple, direct, and reliable to complex, indirect, and fragile.

A 19th century shoemaker would price his shoes based on the cost of leather and the time required to make the shoes. Because of the simplicity of direct pricing, small businesses still use this relationship. I can remember my how my first radio equipment invention in 1965 was priced using a formula based on the cost of components. In these cases, the market pricing and production costs are tightly linked.

With the advent of large powerful commercial organizations in the 19th and early 20th century, monopolies could dominate a market with prices that could be dramatically higher than the cost of producing goods. In these cases, there was no coupling between price and cost.

From the experience with monopolies, now limited by anti-trust laws, all modern businesses of the 21st century learned to distinguish market price, which reflects the value to buyers, from production cost, which reflects the effort for creating goods. Today, a manufacturer of DVD players may have 10 models with different features and prices, but the production and distribution costs may be identical for all of them. In fact, the low priced models may simply have advanced features disabled with software flags. Price and cost are decoupled.

In a later stage of our economic life cycle, manufacturers discovered the economic power of "free." In the 19th century, oil lamps could be given away as long as a company could make money selling oil. In the 21st century, the cost of an ink jet printer is essentially free because the profit is in selling cartridges at very high margins. Cell phone companies will give you the phone for free, if you sign up for a long term subscription with high prices. The model of free is now well established: Google started with everything free and without advertising, Craigslist is the same, and there are YouTube, Mapquest, OnLine news, and so on.

But "free" is never actually free; rather it is actually an indirect payment process that occurs long after the goods or services have been received.

In the early 20th century, radio broadcasting and newspapers were some of the first industries to embrace the model of free using a payment process that was delayed and indirect through advertising and sponsorship. Listeners and readers receive news and entertainment at no cost but they pay for those services when they buy brand named food, beer, or automobiles at a higher cost. The price of an automobile includes the payment for receiving news and entertainment.

Analogously, the time-line for investors has been progressing through stages. Once, a financier might be content for the return on an investment to be realized over generations. Companies like Microsoft were content to see returns over a decade or more. In the 21st century, returns are expected in few years. The shortening time-line reflects the uncertainty about changes in properties of the social system.

In the last decade, we have seen an evolution that now combines marketing and investment: collecting larger quantities of eyeballs and earlids (harvested heads) that are expected to be manipulated into buying goods and services through advertising. Captured heads are by themselves the investment.

Google, Twitter, YouTube, and dozens of other companies around the world are rapidly increasing the quantity of eyes and ears in their herds. The radio industry is now in a deadly competition with these more recent head space farmers. There is only a finite number of heads to be harvested.

Monetizing Head Space Farms

But because there are no so many players in the fight for eyes and ears, the risk in managing the time line has become very complicated. Successful headspace farmers struggle with the task of how to monetize their collection of heads. Investors are finding it more difficult to profit from investments that can take years if not decades to be realized. Head-space farms are being raided by new farmers, making the long interval between investment and profit very risky. The cattle farmer of the 19^{th} century went bankrupt if he could not protect his herd.

My first experience being a harvesting target occurred in the early 1990s. I was a passionate consumer of Microsoft products and services because, compared to their competitors, their products were high quality, low cost, and with excellent technical support. Investors supported this company because they knew that eventually Microsoft would own the software industry. I, and everyone else, would eventually pay for what we received years earlier. I was surprised to discover the hidden debt that I was paying years later: expensive and low-quality software with no competitive alternative.

But like all cultural shifts, there are both defensive reactions and successful adaptations to paying for something that I thought was free. At least for me, I do not like selling my head-space. Rather than being captive in a cinema theater with loud penetrating advertising while waiting for the movie to begin, I have installed a home theater where I can control access to my head. My Internet browser has software to block and filter unwanted advertising pop-up windows. Kids use iPods to disconnect from airport lounge farmers.

When I buy a new computer, I discover that it has dozens of pre-installed trial software that is “free” for three months but then requires me to pay for a subscription. These software farmers pay the computer manufacturers to install their head-space capturing programs. Such payments allow the computer manufacturers to charge less, effectively an advertising subsidy. Since I routinely invest many hours to remove those head-space programs, I actually pay by investing my time, rather than paying directly to the computer manufacturer.

From the social system perspective of commercial entities using free as a currency, I am violating a hidden contract. I receive immediate goods and services but find ways of avoiding the final payment. This disruption undermines the model that has been evolving over the last few decades, and commercial radio is also one of the victims.

Unlike commercial radio, public broadcasting began with a different model, being paid out of the pool of money collected through taxes. Although equally indirect, this model was actually a prepaid payment for services to be rendered in the future. The model was stable but limited. To augment their resources, public radio also collects payments from listeners and underwriters. They contribute to acquire brand awareness with benevolent overtones. They too are now buying access to head space.

What Does it Mean for Radio?

Successful broadcast professionals now understand that their survival depends on adjusting the connection between services and payment. Farms of captured listeners are being raided, which breaks the payment system.

From my personal perspective, the current attitude towards free cannot be salvaged because it is too complicated and fragile. Some companies have experimented with a subscription model, which is a form of direct payment, while others have been expanding free. Nothing appears to be working.

While we need to return to a more direct payment model, the culture has become addicted to “free” without either an initial or final payment. I, like many others, expect free to be really free, and that assumption is not sustainable on a large scale. While this may be a temporary state, the transformation to a more stable compromise is likely to be very painful because it will not happen quickly. Patience may be the final answer: waiting until this phase of the life-cycle progresses into the next stage.