THE INTERNET PRESSURE ON THE GLOBAL ECONOMY

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Abstract

This paper tries to highlight the pressure created by the Internet on the global economy and new economic models that are created for financing or for new merchant models. One of the new models developed globally by the Internet is based on the freemium concept and on the cross subsidies model (moving the cost from one side to another, from a product to another).Quarter of a century ago the online experiment was developed and it changed even businesses like the biggest and oldest newspaper worldwide, The New York Times, which somehow became almost free. This research highlights also the idea of 1 to 99 ratio, 1 percent pays and 99 percent received complementary the product from the other 1 percent.

Key words: Internet, globalization, economy, externality

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1. INTRODUCTION

In the last decade, another model of gratuity appeared. The new model is based not on cross subsidies – shifting the cost from a product to another – but on the idea of using the product cost as a last starting point. It is known that the price of steel decreased to near zero and that Gillette could offer for free the blades and even the razor, and the fact that it can make money from something else (Bhide, 2006).

This strange land of free is the Internet. The Internet is the channel that erased boundaries; boundaries of goods and services market that now create the global economy and the global distribution of welfare through globalization. Twenty five years ago the great online experiment was born; today the last unknown is the battle between free systems versus paid ones.

2. THE INTERNET – MARKET OR MARKETING?

Once considered a marketing trick, free became a standalone economic model. Offering free music proved to be a success for some bands addressed to niches and raised the number of bands that created pages on MySpace (today being almost defunct), building high audiences from zero (Bodislav, 2011). The component with the biggest growth from the gaming industry was the online gaming industry and daily online games sustained through ads systems (FarmVille, CityVille, Mafia Wars, Café World, and Zynga Poker) and free MMO (Massively Multiplayer Online) games. Virtually, everything that Google creates is free to the consumer, from Gmail to Picasa.

The rise of "freeconomics" is led by subs-layer Internet technologies. Like Gordon Moore's law which dictates the fact that one power processing unit halves at every 18 months, but the price of bandwidth and storage fells much faster. What makes us sustain the

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idea that the trend what underlines the cost of online business has only one end: tends to zero (Rock, 2006).

The technology isn't free at all, especially when you buy bulk, but if we visualize this thing from the other end of the line, the economic system changes. That sum of hard drives (the fixed cost) can serve thousands of users (the marginal cost). The Internet is scaled, finding new ways of attracting most users for central resources, dividing the costs between the huge audience and the technology which becomes more and more sophisticated. It isn't about the cost of the necessary equipment for the data center of a big online company; it is about what that equipment can do. And every year, like a Swiss watch, the equipments do more and more operations for less and less money, driving the marginal cost for technology per individuals to near zero (Branson, et al., 2010, p. A4).

The same as when we complain about how expensive are the goods in these days, we are surrounded by forces that make them cheaper. For example, 40 years ago, the main problem of America was the hunger; today is obesity, for which we have to thank to the Green Revolution. 40 years ago, charity was understood through clothes donations to the poor. Now you can buy a t-shirt for a smaller price than a cup of coffee in the center of the city, thanks to China and global outsourcing, the same situation stands for toys, gadgets and any other goods. This way cocaine never has been cheaper like today (globalization works through mysterious ways).

Digital technology benefits from this dynamics and from something more powerful: the passing from the Newtonian model to the quantum model. We are still at the beginning of atomic scale exploring of materials – semiconductors (processing power), ferromagnetic compounds (storage units) and fiber optics (bandwidth). In the historical path all the three ways followed are still new and we have much to learn from these. We are at few decades from discovering a new world.

What these notions about "free" induce? Well, let us take an example. Six years ago, Yahoo! announced that Yahoo Mail, a free service, will offer unlimited storage space. Let it be clear, "unlimited" means "infinite". This way online storage price, at least for e-mail, went to zero and the amazing thing is that no one was surprised; many considered this thing normal.

From well-founded reasons: it's clear now that anything which enters in contact with Internet-based technologies are becoming free, at least from the consumers perspective. After storage space bandwidth (YouTube: free) and processing power (Google: free) followed the race for touching the lower limit of cost. The traditional economy sustains that on a competitive market, prices evolve to the marginal cost (Bodislav, 2011). There never has been a more competitive market like the Internet and, every day, the marginal cost of digital information tends to zero.

One of the specific jokes for the end of the 90's was that there are two numbers on the Internet: infinite and zero. The first one, it is for the trend for the value of companies stocks, proven to be false. But the second one it is still valid. The Internet became the land of free goods and services.

The result is that now we don't have one but two spread trends for free business models in the economy. The first one is an extension of cross subsidies of Gillette that are applied to more and more industries. Technology gives companies huge flexibility on how to define markets, permitting them more freedom and offer free products or services for a consumers group while for another group offers it for a price. Ryanair, for example, divided the industry through its redefining into a full-service tourism agency instead of using ordinary plane ticket salespersons.

The second trend is that anything that enters a digital market enters under the accelerated lowering costs effect (Bodislav, 2011, pp. 358-362).There is nothing new in the deflationary force of technology, but what is new is the speed with which industries become digital businesses and this way capable at efficient exploiting the competitive advantage. When Google transformed advertising in a software application, a classic service business based on human economics (goods are becoming more and more expensive while years pass) has transformed in software economics (the goods are becoming cheaper).

From the consumers point of view there is a big difference between cheap and free. If you offer a product for free it can become viral. Demand one cent for it and you are in another business, one in which you are battling for every client. The "FREE" psychology is powerful.

The difference between cheap and free it's called "the money gap". People believe that the demand is elastic and that volume enters a straight slope as soon as the price increases, but the truth is that zero is a market and any other price represents a different market. This is the difference between a good market and no market. The huge psychological gap between "almost zero" and "zero" it is what made micro pays to fail. It is the fact why Google doesn't subscribe to our credit cards. It is the fact why online businesses don't charge users. And it's the fact for which Yahoo! offers unlimited storage space. The question for infinite storage space is not that "if" but "when". The winners are the ones who give this good or service for free.

Most economic models built on the idea of free good or service is based on the third party system. There is a third party who pays to participate in a market created through free exchange between two parties. Sounds complicated? It is happening right now, as an example we have communication media.

In the traditional model, a publicist gives a product for free (or almost free) to consumers and advertisers pay to participate at market penetration (first books/DVDs from a new collection are for free). Radio is "free to air" and the same with television. The same with magazines and newspaper publishers, they don't charge the real price for creation, printing and distribution of their products. They don't sell newspapers to readers, they sell readers to advertisers. It is a third party system market.

In a way, the Internet represents an extension of the business media model to industrial branches. It is not a simple notion that advertisers will pay for everything. There are many ways through which media companies can make money from free content, from selling information about consumers to licensing a brand, added value subscriptions and direct e-commerce. At this moment many online companies are built on the skeleton of these models (Nevens, et al., 2006).

3. THE INTERNET – MARKET MIX OR ZERO PRICE LIMIT

Between new ways for companies to subsidize products and lowering business costs in the digital era, the opportunity to adopt any kind of free business models weren't so many (Anderson, 2008, pp. 140-149). The economy with a zero price has many niches for defining the idea of a free offer, but this in this research paper will be presented the ones that have a direct influence on the global market. The most important niches can be divided into three categories:

- **Freemium (Free Premium)**
- *It can take many shapes: from free to exclusive or premium, the "pro" version, a website or software with more options than the free version. But isn't this the "free sample offer" model from a perfumery or from drug dealers? Yes, but here it has another understanding. Since this free samples have real costs, manufacturers give only a small quantity hoping to hook the consumer and to stimulate his demand for more.*
- *But for digital products, the free versus paid ratio is reverse. An ordinary website uses "The 1% Rule" – 1% of the users sustain the others (Anderson, 2009). In the freemium model, that means that every user who pays for the pro version of the website will offer to 99 users the basic version for free. The principle on which this model works is that those 99% have a maintenance cost of almost zero.*
- **Cross subsidies**
- *When a retailer demands 12 Euro (the average price in Eastern Europe) for the latest movie released on DVD, it is a leader that is losing. The company offers the DVD under costs to attract the client into his store, where it hopes to sell him an electronic device or an appliance to make its real profit. Expensive wines subsidize cheap food in a restaurant and the original slogan "free meal" (crisis menu) was based on a free meal offered to anyone who ordered at least one beer in a saloon in San Francisco in the lately 1800. In any products or services package, from banking to added options to mobile phone subscription plans, the price for each individual component is determined through psychological levers, not through cost (Anderson, 2009). Mobile phone companies don't make profit from the included minutes in the subscription plan or in the added option – they maintain that low plan because they know that is the first thing that the consumer notices when he chooses his operator – but the monthly plan for data traffic is pure profit.*
- **The gift economy**
- *Altruism always existed, but the Internet offers the platform through which actions of individuals may have worldwide impact. In some way, distribution at a cost equal to zero transformed into an industry of putting in common. In money-based economy everything appears to be free – indeed, in money-based economy there seems not to be a straight competition – but this tells more about the narrow vision of the measuring ways for value more than about the value that was created.*
- *Unleashed by the miracle of abundance, the digital economy turned the traditional economy by 180 degrees (Anderson, 2009). The entire domain is built on studying the economic exchanges and how they are made. Milton Friedman sustained all the time that "there is no such thing as a free meal" (Friedman, 1971). But Friedman was wrong in two cases. Firstly, a free meal doesn't necessary mean that food is offered for free before it rotten or that it will be paid later – it is possible to be tabbed in someone else's account. The second case, in the tumultuous digital land, like observed, the main trump of information economy – storage, processing power and bandwidth – became cheaper, with each day that passes. Two main functions of scarcity in the traditional economy – the marginal costs of production and distribution – are in freefall. It is like the restaurant would not have to pay for its raw materials and for the labour costs for preparing the meal.*

Surely has the economy something to say about the created situation?

It has. The word is “externality” or “outsourcing”, a concept that underlines the idea that money isn’t the only rarity at this time of global crisis. In front of the elements exposed to scarcity there are two factors that are underlined: available time and respect, factors that recently we succeeded to measure through “attention economy” and “reputation economy” (Bodislav, 2011). There is a limited offer of reputation and attention in the world at a given moment. These are the new scarcities – and the world of goods and services only exists with the purpose of buying these valuable assets for the good of the business model.

4. CONCLUSIONS

Between digital economy and crossed selling embraced by Gillette’s experiment based on price movement, we enter an era where the “zero price” will become a rule, not an anomaly.

Today digital technology is hip because it became too cheap to be measured and because it can erase boundaries, even those boundaries are tangible (physical boundaries) or intangible (cultural or educational boundaries). It took us decades to escape from the preconceived assumption that processing power was designed to the few and only now we can liberate the bandwidth and storage from imagination’s poverty. But a generation raised on the free Internet structure arises to maturity and it will find new ways to embrace waste, transforming the world during the process. Because free is what it is wanted, what I want and what we want – and more and more information will be available for free. But there is a situation that wasn’t taken in consideration: in the beginning of the 3rd millennium we had the dot.com bubble, one of the small crises that cumulated into the actual global economic crisis which seems to be endless.

The actual global economic environment can stand another crisis even on a small scale, so the accelerated economy from the IT&C industry must be softly regulated to create a proactive management approach of a possible future irregularity: the dot.com bubble 2.0, based on the over-evaluation of Internet based companies, like Facebook, LinkedIn or other online service creators and integrators. Those companies taken as stand alone are not dangerous for the global economy, but their (stock) market strategy and the network economy effect will create an extra pressure on the global economic development and its sustainable deployment.

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