**'Freebie' marketing**

A. In the late 1890s, while travelling as an itinerant salesperson for the Crown, Cork and Seal Company, King C. Gillette observed how his corked bottle caps were discarded immediately after opening. Nevertheless, his company turned a healthy profit and there was immense business value, Gillette soon came to realise, in a product that was used only a few times. Gillette had his own personal breakthrough while struggling with a straight-bladed razor—a slow, fiddly and potentially dangerous instrument that required sharpening on a regular basis. A simple, disposable blade that could be thrown away when it dulled would meet a real need and generate strong profits, he correctly reasoned. After founding the American Safety Razor Company in 1901, his sales leapt from 168 blades in 1903 to 123,648 blades only a year later.

B. What King C. Gillette pioneered is for more than a convenient and affordable way for men to shave, however; it is the business practice now known as 'freebie marketing' that has inspired many more companies over the years. Gillette's approach was contrary to the received wisdom of his era, which held that a single, durable, high-quality and relatively expensive consumer item with a high profit margin was the best foundation for a business. Freebie marketing involves two sets of items: a master product that is purchased once, and a consumable product that is frequently disposed of and repurchased on an ongoing basis. In this instance, the master product is often sold with little to no profit margin and is sometimes even dispensed at a loss. As the consumables are purchased over months and years, however,this can yield a much greater overall profit.

C. Freebie marketing only works if the producer of the master item is also able to maintain control over the creation and distribution of the consumables. If this does not happen, then cheaper versions of the consumable items may be produced, leaving the original company without a source of profit. The video game company Atari, for example, initially sold its Atom 2600 consoles at cost price while relying on game sales for profit. Several programmers left Atari, however, and began a new company called Activision which produced cheaper games of a similar quality. Suddenly, Atari was left with no way to make money. Lawsuits to block Activision failed, and Atari survived only by adding licensing measures to its subsequent 5200 and 7800 consoles.

D. In other instances, consumers sometimes find that uses for a master product circumvent the need to purchase consumables. This phenomenon is well known to have afflicted the producers of CueCat barcode readers. These were given away free through Wired magazine with the intention that they would be used by customers to scan barcodes next to advertisements in the publication and thus generate new revenue flows. Users discovered, however, that the machines could be easily modified and used for other purposes, such as building a personal database of book and CD collections . As no licensing agreement was ever reached between Wired and its magazine subscribers, CueCat were powerless to intervene, and after company liquidation the barcode readers soon became available in quantities over 500,000 for as little as US$0.30 each.

E. Not all forms of freebie marketing are legal. One notable example of this is the use of freebie marketing to 'push' habit-forming goods in areas where there is otherwise no market. For illegal substances this is already restricted on the basis of the product's illegality, but the use of freebie marketing to promote legal goods such as tobacco, alcohol and pharmaceuticals is also outlawed because the short-term gain to a small number of commercial outlets is not deemed worth the social cost of widespread substance abuse.

F. Another practice that is prohibited under antitrust laws is a form of freebie marketing known as 'tying'. This is when a seller makes the sale of one good conditional on the acquisition of a second good. In these instances the first good is typically important and highly desirable, while the second is inferior and undesirable. A music distributor who has the rights to an album that is in high demand, for example, might only allow stores to purchase copies of this album if they also buy unpopular stock that does not sell very easily. Because this typically relies on the manipulation of a natural monopoly on the port of the distributor, such practices are widely understood to constitute anti-competitive behaviour.