

# The business of zero marginal cost

"CONTEMPLATION seems to be about the only luxury that costs nothing," wrote Donnie Smith in *I Capture the Castle*.

However, according to the author of *The Zero Marginal Cost Society* Jeremy Rifkin, contemplation is not the only luxury that costs nothing. The Internet and Internet of Things are ushering us into an era of goods and services that are almost free.

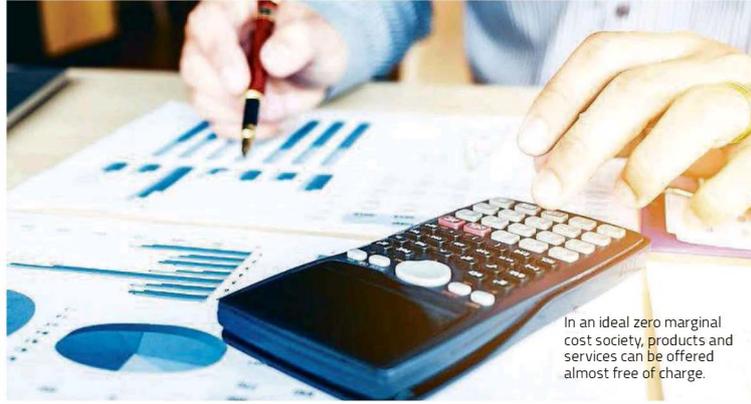
In his book, Rifkin predicted that massive economic and social changes will arise from the rapidly increasing number of horizontal value chains, displacing existing vertical value chain behemoths. We are now getting a glimpse of this prognosis.

For decades, industries have focused on increasing productivity and decreasing marginal costs, enabling businesses to reduce prices and capture larger market shares.

After the initial setup cost of assembling the teams and tools needed to make the first unit of a product, the subsequent marginal cost of producing additional units can be reduced progressively.

For physical products such as cars, the market will lean towards pricing the product at its marginal cost, barring monopolies.

For example, with renewable energy, once solar panels and wind power generators are installed, they generate power at almost zero marginal cost. In economic terms, companies may collaborate with each other to dramatically reduce



In an ideal zero marginal cost society, products and services can be offered almost free of charge.

production costs.

Zero marginal cost products are nearly free of charge. There are countless cases in which goods and services that customers used to pay for have been made free.

For instance, the marginal cost of e-mail transmission is zero, and so is getting information on the Internet in most cases. The marginal cost of e-books consists of only their respective copyright fees.

For a traditional taxi company to add another car to its fleet, it needs to acquire a vehicle and licence at a significant cost. In contrast, ride-hailing services such as Grab can

add vehicles to their inventories at almost no cost by enabling people to share their personal cars. Because of this, a ride-hailing service can offer other on-demand services such as food delivery beyond just increasing the size of its fleet.

"Freemiums" or tiered pricing entails giving away some core products for free and offering additional services at a fee, such as how Spotify lets you play free music but airs advertisements between plays.

If you want advertisement-free and offline music, you have to sign up for Spotify Premium –

a paid subscription.

A similar example is how e-newspapers offer articles. The New York Times and other e-newspapers allow you to read a limited number of free articles per month. If you want access to more articles, you are asked to sign up for a paid subscription. Likewise, most free mobile applications offer in-app purchases to unlock additional features.

The phrase ecosystem play refers to offering free digital products, which are part of a larger set in a company's product suite.

For example, Google and Apple give away free GPS applications on

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their phones to enhance the value of their smartphone ecosystems.

These free applications are examples of open-source software – a movement that advocates for companies to share software development costs to increase productivity, accelerate innovation and lower setup costs.

In conclusion, we are experiencing what it is like to live in a zero marginal cost community where we need not own something in order to use it.

Students of Victoria University master's programmes at Sunway College Kuala Lumpur are capturing the zeitgeist of zero marginal cost economics. – **By Dr Hendry Ng, director of Victoria University postgraduate programmes at Sunway College Kuala Lumpur**

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