The economic paradox of the freebies phenomena: how and why companies give stuff away for free

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ABSTRACT

The paper reports the findings of a research study into the 'freebies' phenomena – the provision of free goods and services by companies. Such activities are seemingly an economic paradox because they should not occur in a profit-based organization – either privately-owned or publicly-owned where there is a fiduciary duty to maximise the return for the shareholders. Examples of freebies are given and used to construct a typology together with the underlying motivation or rationales for the provision of the freebies, as well as a determination of who pays for the freebies. A major step forward in understanding is then achieved with the construction of the BIGI Model which identifies the four main reasons for freebies provision being Brand building (including new product launch), Income generation, Government legislation and Information gathering.

Keywords: freebies, free goods and services, free samples, brand building, customer loyalty programmes, sales promotion, BIGI Model.

INTRODUCTION

The provision of free samples to prospective buyers is a practice that is perhaps as old as human barter and exchange. Buyers have always needed to know the quality of the product they are purchasing especially when this is a food item of variable quality – such as wine or fruit - so they have been provided with a small amount by the seller to taste before they buy. This same practice continues to this day in the retail sector where customers are encouraged to 'try before they buy' especially when a new product or service is launched.

However, this historical practice of free samples has seen additional practices of 'freebies' – which can be understood as *'the provision of free goods and services at no cost to the end-user'*, as an extension by the authors of the meaning found in the Oxford English Dictionary (Simpson & Weiner, 1989): *"Adjective: Free, without charge. Noun: Something that is provided free."*

This definition of 'freebie' excludes such items as 'buy one – get one free' (bogof), as well as items which require customers to make a purchase in order to obtain the 'free' item (a technique popular with time-share accommodation sales staff where, for example, 'free travel' or a 'free television' is promised upon purchase of accommodation).

Of course, use of such distinctions leads to complications and anomalies arising, for example, can a free sachet of shampoo provided on the cover of a women's magazine be considered to be a 'freebie'? The researchers believed that it could, as a usual purchase of the magazine would have happened anyway and the addition of the free sample was not reflected in an increase of the price of the magazine. Similarly, a free flight after undertaking several previously, might well be considered a freebie because it requires no additional purchase.

The cost to the producer of providing such freebies is seen as essential to selling the product and the practice can be transferred to significantly larger purchases as in the case of the sale of automobiles where prospective purchasers will require a test drive (possibly lasting several days) in order to gauge for themselves the suitability of the vehicle.

This conception of the freebie is echoed by the saying that *'There is no such thing as a free lunch'* – a saying whose origins are unknown but reflect a popular belief in the US of the 1960's and which may originate to a time in the 1840's when saloons would offer bar snacks to entice customers (as happens today with salty peanuts which increase thirst and therefore sales of liquid refreshment aimed at satisfying that thirst). Essentially, the phrase captures the belief that everything that is provided free (as a freebie) eventually has to be paid for, in one way or another, such as by returning the favour, being indebted to the host or by 'paying' in some other hidden way which is not made explicit at the time.

Currently, the use of freebies extends from the street market or corner shop to the largest multinationals, who use them for a variety of purposes such as launching a new product or service, attracting new customers to existing products or services or building brand loyalty within the existing customer base (e.g. Bawa & Shoemaker, 2004; Kramer, 1998; Villas-Boas, 2004). Indeed, the use of freebies is increasing, with for example, customer loyalty cards now being offered by ever more diverse companies from local coffee-shops to hairdressers and bookshops.

It is opportune then to look at an activity which is increasing both within business and society where its consequences are becoming noticeable. This study sets out therefore to find examples of freebies, to categorise the types of freebies regularly used and to try and understand the business rationales which explain why they occur in order to construct an explanatory model for others to use.

METHODOLOGY

The research was designed to answer two seemingly simple questions: how and why do companies provide free goods and services (freebies)? In order to answer these questions, it was necessary firstly to collect examples of the products and services as a source of primary data which were to be used for later analysis. Therefore, for the three-month period April to June 2006, the researchers collected all the instances of freebies they came across through their normal daily activities such as reading, shopping, watching TV, sorting the post, and surfing the web. An alternative approach of actively seeking instances of freebies would have resulted in too many instances to analyse effectively within the time and budget limitations of this preliminary study, whose aim was to explore rather than exhaustively catalogue freebies provision.

The research was based on the qualitative method of grounded theory (Glaser & Strauss, 1967; Glaser, 1994). The choice of this research method was influenced by the need to develop a rich description of the phenomenon given the comparative lack of existing data within this research area as revealed by the literature review, which although it provided a wealth of information about building brands and new product launches, had very little in comparison on the other aspects. Therefore the Grounded Theory approach was seen as ideal when seeking to identify, explore, understand and explain phenomena without preconceptions, as compared to other approaches where such assumptions would predetermine the outcome.

This is because, by its nature, Grounded Theory is *"inductively derived from the study of* the *phenomenon it represents"* (Strauss & Corbin, 1990, p.23). The grounded theory approach is a *"qualitative research method that uses a systematic set of procedures to develop an inductively derived grounded theory about a phenomenon"* (ibid, p.24). Furthermore, in terms of the relationship between the phenomena and theory: *"one does not begin with a theory, and then prove it. Rather, one begins with an area of study and what is relevant to that area is allowed to emerge"* (p.23). Employing the grounded theory approach "*the research findings constitute a theoretical formulation of the reality under investigation, rather than consisting of a set of numbers, or a group of loosely related themes"* (ibid, p.24). As there was a shortage of research studies on the subject, the method could be used to *"build theory that is faithful to and illuminates the area under study"* (ibid, p.24).

Charmaz (2000) provides further explanation of the inductive and iterative process by which theoretical frameworks are developed by grounded theory methods. Throughout the research process, the grounded theorist develops analytical interpretations of their data to focus further data collection (as happened in our research on a number of occasions), which in turn is used to inform and refine developing theoretical analyses. In addition, the collection of multiple examples aims at *"constructing an explanatory theory about this phenomenon under investigation and observation based on the identification of regularities"* (Royer & Zarlowski, 2001, p.114). It is also important to realise that *"quantitative as well as qualitative data can thus be incorporated into a grounded theory approach"* (Seale, 1999, p.102).

The method used was remarkably simple and robust within its limited sampling frame, providing a wealth of actual examples and having the benefit of being easily replicable elsewhere, particularly by students who wish to move beyond the use of surveys as a research tool. Such basic and straightforward fieldwork in collecting data from observation is often forgotten as an approach and it is useful to remember that there is virtue in simplicity, especially when conducting research in an area which is not well understood. Indeed, this collection of examples or 'specimens' is one that forms the basis of our understanding of biology, used for example by Charles Darwin on his sea voyages.

The examples of freebies collected, allowed the researchers to undertake an initial analysis by asking *"Why are they (the companies) doing this (providing freebies*)?" This allowed for the emergence of four distinct categories (Brand, Income, Government, and Information) of freebies based on the motivation or rationale which inform them, such that what initially appeared to be a single phenomenon (freebies) had in fact four distinct causes or origins. This made explicit the underlying business motivations or rationales which was an important step in understanding the economic behaviour of the businesses providing the freebies, such that the question *"Why are they doing this?"* could be answered with *"For various reasons – four have been identified and they are closely linked to the industry offering the freebie, so that if you tell me the industry, I can predict what freebies they will use."*

The final stage of the research was to construct the taxonomy of examples found and an explanatory model as the stage of theory construction. This was informed through a later literature search to see whether what was known conformed to our findings and to identify where the gaps in our understanding were. This led to the extension and development of the conceptual field into new areas which had hitherto been ignored by us such as the shift from advertising income to acting as a broker and taking commission on sales that occur between other parties as in the case of the TradeMe website described later.

Limitations of the research

The major limitations of our approach are not difficult to identify – the relatively small-scale and local nature of the data collection, and its restriction to B2C (business-to-customer) goods and services, as compared to other forms such as B2B (business-to-business) or B2G (business-to-government). However, in our own small but pioneering way, we have marked a path which others may find useful and a theory which can be tested until it is added to or replaced by something better at explaining what is going on. Not all research needs to be complex and expensive to be useful; research does however need to be valid and be grounded in reality rather than in attempts to impose theory onto the world such as is regularly seen in the actions of economists.

THE FINDINGS

What kinds of freebies are there?

The findings showed a large diversity of freebies in both goods and services from free food samples in supermarkets to free flights on airlines. The problem of how to categorise them - how to create a typology - was answered by the second of the research questions: why do companies provide freebies? In other words what is the *rationale* for the provision of the freebie? It also became clear that different industries had different approaches to the use of freebies, for example:

(1) Free samples – samples allow customers to 'try before they buy' and is especially used for low-cost items such as food or cosmetics.
(2) Free trial – frequently found with services industries such as a free trial gym session.
(3) Promotional or speciality items – these are gifts given to customers in order to maintain customer awareness of a brand (whether this be conscious or subliminal through constant repetition of the image on a daily basis e.g. a mouse-mat with a company logo on it) (Duncan, 2005, p469). Specialty items are generally low-cost items such as pens, key-rings, mouse-mats, bookmarks, coasters, calendars, rulers, coffee mugs, and T-shirts.
(4) Premiums - "items offered free to reward some type of behaviour such as buying, sampling, or testing" (Duncan, 2005, p467). Free premium offers may be included in the product's package (in-pack), placed visibly on the package (on-pack premium), handed out in a store or at an event, or sent by mail, such as reward points or 'money off' (discount) vouchers.

THE BIGI MODEL

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The BIGI model answers the question as to how and why freebies are provided by companies by identifying four main rationales from the findings:

B: Brand promotion: divided into *sales promotion* (such as new product launches) and *brand loyalty* systems. Businesses provide freebies in order to create, maintain or increase sales.

I: Income generation for the business owners, such as free newspapers or radio stations. Businesses provide freebies in order to generate income for themselves not from sales (of which there are none) but from other sources such as advertising.

G: Government legislation which demands operators provide free goods or services such as local telephone services as part of their permission to operate in the market. Businesses provide freebies because they have to legally.

I: Information gathering, where freebies are provided in order to obtain customer information which can then be sold at a profit to Third Parties.

Figure 1: The BIGI Model (authors)

Classification	***Example***	***Rationale***	***Who pays?***
Brand building (B)	Airline loyalty card	Customer retention	*Product manufacturer* (not retailer)
Income generation (I)	Free radio station or newspaper	Raise income through advertising	*Advertiser* (through need to reach target market)
Government (G)	Free local telephone calls	National economic development	*Service provider* (through additional charges on other services)
Information gathering (I)	Free internet software	Customer information can be sold	*Customer* (through spending time dealing with unsolicited e-mails and other approaches)

Brand building ('B' category)

The first category of freebies provision is the best known and although it includes a number of variations, was collectively named as 'brand building'. We found that there were two major scenarios for businesses offering freebies to consumers in the retailing industry sector: (1) *sales promotion* (including new product launch or promotion of existing products) and (2) the building of *brand loyalty*.

Within sales promotion campaigns, free goods or services perform as an effective and powerful marketing tool used by companies. As mentioned in the literature review section, providing free goods or services, such as product samples or trial services, can motivate prospective customers to try something for the first time, even when the product has been on the market for decades. This marketing tactic is particularly effective when companies launch new products which have features or benefits that cannot be fully conveyed as effectively through advertising (Schultz & Robinson, 1986), for example, a unique new flavour *Chai* Tea bag.

Sales promotion is equally effective when adding products to existing product lines (at the start of a product life cycle) or to boost sales when products are entering the decline stage of the product life cycle.

When companies undertake a new product launch into the market, freebies will be used in a variety of methods to reach potential customers, for example:

(1) *Handouts* of Hershey Foods Chewy Jolly Rancher candy to passers-by in a shopping mall, and Masterfoods energy bars use of the same technique.
(2) *Mail delivery* by Unilever to provide samples of Degree anti-perspirant gel; J. Walter Thompson's Listerine Pocket Packs; or Wrigley's Eclipse chewing gum.
(3) *In-store samples* such as Pepsi's Sierra Mist drink, Heinz's Bagel Bites, or Sara Lee's frozen starters.

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(4) *Magazine inserts* supplying various products such as Marie-Claire's sachet of muesli; Health Foods's Chai tea bags; Women's Weekly addition of Johnson product samples; and Next with Nivea and L'Oreal cosmetics.
(5) Free in-store *product testers* such as Body Shop fragrances.
(6) Use of *coupons* such as a free Coca-Cola Zero drink with Domino pizza.

The second situation arises when companies engage in sales promotion to increase sales volume, for example, by bundling complimentary free goods or services together, such as a free drink with fast food in order to stimulate sales growth and expand market share:

(1) The use of free toys in order to entice children by McDonalds, KFC, Burger King and Pizza Hut. The business ethics of doing this are controversial with views ranging from such activity being child abuse or exploitation of children for commercial gain through to claims that it is a perfectly legitimate marketing approach and that children are extremely discerning consumers. For example, the use of 'pester power' by some advertisers (where children pester their parent in a shop to buy them an item seen on TV) is not welcomed by adults.
(2) Free shipping (Postage & Packing) by Amazon, Strawberry Cosmetics and SaSa Cosmetics.
(3) The placement of products or services (e.g. gym pass) by many companies into a 'gift bag' – the most famous of which are the bags distributed to guests at the Hollywood Oscars, in the hope that celebrities will be seen using the freebies after the event and therefore supply both free advertising and endorsement to companies.
(4) Free consultancy by Contour Gyms and Destination Immigration.
(5) Free make-up service from Radius Pharmacy.
(6) Free publications which customers can take such as Recipe Cards in supermarkets.
(7) Magazine inserts.
(8) Free introductory lesson for Number Works Centre or trial membership of Bally Total Fitness gym.
(9) Free MP3 player from National Bank (New Zealand) to new student customers.
(10) Cash rewards from ASB Bank (New Zealand).
(11) Free lunch when you bring a fried (Valentine's Restaurant).

The collected examples given above also revealed a third reason for providing freebies which is the aim of building customers' *brand loyalty*. The increasing popularity of frequency or loyalty programs adopted by companies such as airlines, in order to attract and retain customers has been significant in recent years. It is a key contributor to keeping customers loyal for some companies and has become an integral part of customer relationship management, such as with Westpac Bank which awards Hot Points to customers for use of its own Westpac Credit Card. The Hot Points can then be redeemed for a variety of goods and services.

The data shows that the freebies rewards schemes are employed mostly in travel industries, such as airlines, hotel chains and car rental chains and customers are rewarded with the same product or service as they purchase. Apart from the travel industries, the restaurant and café industry is the second largest sector that uses this technique:

(1) Air Miles schemes that provide free flights such as Delta Airlines (Skymiles), Air New Zealand (Airpoints Dollars) and United Airlines (Mileage Plus).
(2) Free hotel stays: Marriot Hotel, Comfort Inn and Quality Inn.
(3) Free car rental days: Hertz, Avis, Europcar.
(4) Free internet access: from Starbucks Coffee.
(5) Many cafés offer free coffees after a set number of purchases such as 4, 7, or 9 (10^{th} one free).

Interestingly, some freebies may have nothing to do with the products or services the companies offer. For example, a magazine offers a free memo pad or a tube of hand cream to purchasers, but in such a case the perception of receiving a 'free gift' (is there any other kind?) contributes to brand loyalty for the distributing company, that is the magazine.

In the *brand loyalty* subgroup, the finding is in accord with the literature review about the use of free goods or services to reward loyal customers. Companies employ the freebies provision tactic to attract the customers to join in their loyalty programs.

The cost of providing freebies is carried by the producers with the expectation that such costs will be recovered from brand loyalty in future sales.

Income generation ('I' category)

The second reason behind the freebies provision phenomenon is for generating income for companies. Industries who adopt advertising income as their main source of revenue are the major freebies providers who fall into this group. The majority of those companies are media, publishers or dotcoms, which can assist the advertisers to reach a wide coverage of consumers. An interesting variation of this is the case of New Zealand entrepreneur and university drop-out Sam Morgan, who in 1999 established TradeMe - a web-based version of the Classified Advertisement (small ads) section of print newspapers where people advertise goods for sale (Dominion Post, 2004). After several years - including a shift from advertising revenue to taking commission on sales - he successfully sold the website to John Fairfax Publishing for $700 million (Carney, 2006).

The research findings indicated that offering goods and services to customers for free is a way of generating income such as is seen with free newspapers, free-to-air radio, free-to-air TV, free software, or free access to websites, for example, media companies and e-businesses which provide software or online content to customers but without charging for it. Free goods or services act as channels of promoting products or services for advertisers who pay for the privilege:

(1) Radio stations
(2) Free-to-air TV channels
(3) Free software ('shareware')
(4) Free daily or weekly local newspapers e.g. The Tribune
(5) Free e-mail services e.g. Google, AOL, Yahoo, MSN, Sohu
(6) Free Internet access e.g. NetZero Internet, FreeDialup.org, MetConnect, NoCharge, Nyx, FreeNet
(7) Free Internet telephony using VOIP (Voice Over Internet Protocol) using Skype

The data also indicated that the companies which provide free goods or services in the income creation category do not pay for the freebies they give away, the cost of freebies being paid for by the advertisers.

Government legislation ('G' category)

The third reason for providing freebies by companies is to comply with government regulations in exchange for the right of doing business in that area. This category is usually found in the media and telecommunications industries. A typical case in this category is the Kiwi Share protocol signed by the New Zealand Government and Telecom New Zealand. Telecom agree to offer free local telephone calls to customers in exchange for the right to run the (privatised) national and international telecommunication business in New Zealand. Other examples include the TV and radio stations in New Zealand and China, where Government subsidizes commercial operators as part of an agreement to provide free-to-air TV and Radio services to the public.

The study also found that the cost of free goods or services paid by the providers is covered by the other goods or services they provide (such as the provision of broadband or international telephone calls) or by government subsidy.

Information gathering ('I' category)

The final reason for providing freebies - and of most concern to the freedom and safety of the individual – is that it allows companies to collect information about customers which can then be sold or passed to others. The more accurate the information, the greater its value to purchasers who then have a targeted database which will yield a higher response rate and sales, for example, does this person own a boat and if so what size is it?

Very little has been written about this rapidly expanding area of activity especially given the way it may breach privacy laws in New Zealand and elsewhere.

In recent years, information gathering has become easier with the use of sophisticated electronic databases which can target customers. The value of such databases means that companies entice customers with free products or services in order to obtain their personal details e.g. Reward Cards that require collection of personal data as opposed to simply stamping the card after each purchase.

Another example of such data collection is of shops that require personal details when purchasing electrical items, with the excuse that such information "is required for guarantee purposes" (what happens when the purchase is as a gift for someone else?).

This process of data collection is not the case for example with some of the other categories, whether it is free biscuits or free TV channels.

In a recent article for New Zealand's *Consumer* magazine, Bowie (2007) examined the nature of loyalty programmes and the way in which they engage in other activities such as dataveillance (data surveillance), direct marketing and data mining, in order to raise awareness of such activities and the uses to which they may be put.

Who pays for freebies?

The study found that there are different parties who pay for freebies. In the brand loyalty and sales promotion (B) category, the costs of free giveaways are paid for by manufacturers, but not the wholesalers or distributors, in the expectation that these costs will be recovered by future sales. For example, the airlines offer free air tickets to their loyal customers, the cost of those free tickets is paid by the airlines themselves, while the companies expect the cost to be covered by future sales or to be offset by the reduced marketing expense of attracting new customers.

In the income creation category (I), the cost of free goods or services that companies offered to customers are paid by the advertisers (which is different from the other categories), for example, the print and electronic media provide free newspapers or web-sites to readers, but charge advertisers for advertisements within those same media.

The research also found that in the Government Regulations (G) category, the cost of free goods or services provided to customers is paid by the providers themselves or through government funding. Similar to the situation in the "B" category, the providers expected the cost of freebies to be covered in future sales or, more importantly, offset by other products or services, such as national or international telephone charges.

In the final category – Information Gathering (I) – the costs are eventually carried by the customers who are plagued with unwanted junk mail or telephone calls to their home, and possible fraudulent use of credit cards or wholesale identity theft.

LITERATURE REVIEW

Consistent with our Grounded Theory approach, the literature review was conducted subsequent to the fieldwork in order to prevent any preconceptions or assumptions influencing the data collection. The information derived from the search was then fed back into the process of analysis in order to see where it could be improved, as was the case with the fourth category (Information-gathering) which was added subsequent to the first data analysis.

The key words used for data searching were: freebies; gratis; giveaway; free samples or sampling and sales promotion; sales promotion; brand loyalty; rewards and/or frequency program. The wealth of information which resulted was distilled into key writings which helped in our understanding of freebies in their various aspects (examples of freebies, rationale for freebies, and historical accounts of freebies).

Sales promotion techniques

Within the literature, freebies are usually located within the marketing area as sales promotion and brand loyalty techniques (Kotler & Armstrong, 2005) with the seminal work being undertaken by Duncan (2005).

In marketing communications, sales promotion is *"a marketing communication function that offers a tangible added value to motivate and accelerate a response"* (Duncan, 2005, p.461). Some sales promotion techniques, such as sampling and premiums, are involved in using the freebies provision as a method to achieve promotion objectives.

It is however essential to remember that freebies are not a recent phenomenon, for example, within the history of marketing, Allioni-Charas (1984) in his book on sales promotion techniques, gives an account of the free goods or services tactic – the free sample - which was employed by shops in the early days of the US:

> *"In the chronicles of pioneer America, how the country store served as the treasure trove of new tastes, sensations and product ideas for rural shoppers eager for contact with the world of manufactured and processed goods."* (p.50)

Product samples or trial periods

Several decades ago, marketing scholars proved that the distribution of a free sample, either a tangible product or trial service, would help in improving the customers' attitudes towards the product and increasing the intentions to buy (Hamm, Perry, & Wynn, 1969). O'Guinn et al. (2003, p.648) also agree that *"getting consumers to simply try a brand can have a powerful effect on future decision making"*.

Ailloni-Charas (1984, p.50) believes that *"sampling long preceded mass advertising as an effective tool in the adoption process*." Marketing experts (Belch & Belch, 1998) also observe that the provision of 'free' product or services samples is regarded as an ideal promotion tool for generating trials to encourage consumers to try the new product or service, or create brand awareness for a new brand. They are convinced that *"people always enjoy getting something for free"* (Scott, 2006, p.26). As a strategy, it is effective in attracting customers because consumers are more likely to try a new product if it is free than if they have to buy it (William & Kincaid, 1985). For example, American company NetZero.com and New Zealand's company Freenet.com both offer a limited period of free internet access to customers to encourage them to try out the services.

Advertising by means of free-sample offers may help change attitudes and perceptions. In their study, marketing scholars Bettinger, Dawson & Wales (1979) found that an offer of a free sample product produced not only a shift of image, but an increased improvement in the qualitative judgements of the products by the group of adults that had received the free sample. Schultz & Robinson (1986) point out that samples and trials provision is a 'must' when the company want to reach new users in the introduction of a new product, the improvement of an old product, or the opening of new markets for an established product.

Free samples or trials provision can be distributed in different ways. For example, in-or near-store sampling, central location sampling, sampling by mail, door-to-door sampling or weekly newspaper or magazine inserts. Since giving products away without charging any cost, the costs of sampling programs tend to be high for the company. However, the cost will be offset when high trial and conversion rates result during or after the promotion.

Giving free samples to customers has proved to be an effective sales promotion technique to attract customer to try products. On the surface, for corporations it seems that they lose money by giving their products away without charging customers any cost, however, this is an effective marketing strategy that companies use to bring new customers in and increase future sales.

Brand loyalty

The need to ensure that customers return is seen in methods to develop loyalty to a particular brand, whether it be cigarettes (with their 'free' cards of footballers or coupons), or service providers such as airlines, car rental, casinos, hotels and restaurants.

Previous studies (e.g. Butcher, 1998; Kramer, 1998; Villas-Boas, 2004) confirm that one motivation for companies to provide 'free' goods or services is to create brand loyalty. Why is customer loyalty so important to a company? Aaker (1996, p.21) points out that *"a highly loyal customer base can be expected to generate a very predictable sales and profit stream."* To create such a customer base, some companies are prepared to make strenuous efforts with their Customer Relationship Management (CRM).

Some customer loyalty programs, such as Frequency programs, were introduced by American companies at the beginning of the 1980s (Taneja, 2003) and have increasingly become a popular marketing promotion technique (O'Guinn, Allen, & Semenik, 2003). It is believed that these techniques can *"build loyalty more directly"* (Aaker, 1996, p.23) through offering consumers discount or 'free' products rewards for repeat purchases or patronage of the same brand or company. The theory that lies behind the tactic of rewarding loyal customers with 'free' goods or services, is that the companies realised that to *"exchange for their business may also lead to goodwill among some customers"* (Schultz, Robinson, & Petrison, 1998, p.91), hence create customer loyalty. However, it is more important to ask why customers return (or why they do not) – are the purchasing decisions based on price, helpfulness of the sales person, quality of the product or other factors such as availability of a product and the lack of availability of a competitors product within for example, a Coke machine.

In the airline industry, the American airline companies pioneered the frequency programs by launching the frequent flyer scheme, which reward frequent-flyers with free air mileages (O'Guinn et al., 2003; Taneja, 2003). Other parallel programs – such as frequent-stay program (the hotel chains), frequent-rental program (the car rental chains), frequent-diner program (restaurants and the like), similarly show that the provision of free goods and services by companies is an act of rewarding loyal customers or, a *"tactical or promotional marketing initiative"* (Peppers & Rogers, 2005, p.26) to lure new customers, by providing what are perceived as instant benefits. In addition, it is believed that such programs may help businesses establish a database of customers, to tailor the products and rewards to suit their wants better, subsequently the customers may receive special benefits in addition to the stated rewards of the program, leading to further brand loyalty. In Cuneo's article (1995, p.11), he even believes that *"in some cases, when the competition is offering freebies, continuance in a program – may be the only way to maintain market share."*

In the above situations, the provision of 'free' goods and services is used as an incentive by corporations to reward and increase customer loyalty. Those corporations may adopt different reward programs from their competitors but share the same or similar motivations.

Premiums

A premium is another way of providing free goods or services to customers. The most effective premiums are those that are instantly available, such as a free toothbrush attached to a type of toothpaste or a lip gloss inserted in a magazine. Premiums can come in different ways, such as consumables (movie tickets, gasoline, food, and beverages), or collectables (for example, a Guinness glass or baseball cap) bundled with the products or services the customers consume. The advantage of providing premiums is that they *"can improve a brand's image, gain goodwill, broaden the customer base and produce an immediate increase in sales"* (Duncan, 2005, p.467).

Specialties

Specialties are *"items given free to customers and other stakeholders to help keep a brand's name top-of-mind"* (Duncan, 2005, p.461). Duncan (2005, p.469) explains the rationale of this sales promotion tool as being that *"it is the belief that people will think more positively about a brand that gives them something of value – the more added valued, the greater the impact. Also, because most specialty items are tangible, recipients are exposed to the brand name multiple times and that exposure helps to keep the brand top-of-mind."*

In business-to-consumer markets, companies usually offer consumers some low-cost items such as rulers, coffee mugs, T-shirts, pens and calendars (of which the Pirelli tyre calendar is perhaps the best example).

Paid advertising theory

Making money from advertising is the major revenue resource for media companies. Radio, television, the internet, newspapers or any kinds of printed media adopt this revenue model to make money and run their businesses. Afuah (2004) observes that customers who watch TV, listen to radio, or read magazines or newspapers in many countries usually do not pay for most of the content that they value. In this situation, advertisers usually pay for most of the content (programming or news) in exchange for the right to have their ads or classified ads shown to the TV or newspaper audience (Afuah, 2004). Accordingly, organisations provide free-to-air radio, free-to-air television channels, free internet access, free newspapers or the like aiming to attract more audiences and then earning advertising revenue from the advertisers. Providing free products or services by those companies would broaden their customer base, increase their coverage and then would bring more advertisers.

Government regulations

Sometimes, the provision of 'free' goods or services is not done out of a willingness on the company part of itself, but is required to comply with government regulation of the industry. This situation mostly happens in public service sectors which have been privatised, such as telecommunications.

In the Haucap & Marcus's (2005) study of telecommunications regulation, they exemplified Telecom New Zealand (TCNZ) as a company which provides free local calls services that are embedded in the contractual arrangement between the government and the company. To fulfil the obligation, the company has to provide 'free' local call service to the residents. The company is compensated for this free service, by being award the right to charge for other services, such as international calls. The provision of such free services is seen as contribution to both the common good and to economic development.

Information gathering

Although there is a great deal of literature (see for example, Langford, 2000) on information gathering using datamining or dataveillance (data surveillance) of, for example, customer databases for the purposes of direct marketing, we were unable to find any research on how this occurs when freebies are provided. This presents an area for future researchers to explore.

Summary of the literature

The above literature review sums up the motivations behind freebie provision phenomenon and describes the conceptual framework which forms the background to this research. However, as seen from the literature, little research has been done explicitly on the reasons for the freebies phenomenon such as free software or shareware.

The lack of existing research in this area, despite the widespread examples available as a rich source of data for analysis, increases the significance of this research in exploring the gap in our knowledge of a business and social phenomena which is an anomaly within economic models of the free market.

CONCLUSION

The first research question asked how multinational corporations provide free goods and services. The answer to this is seen in the examples provided in the findings section above. These indicated that there are a variety of approaches to providing free goods and services, different methods (e.g. free samples or trials, free press or free content, rewards and incentives) may be used for different objectives the company wants to achieve (e.g. sales promotion or build brand loyalty, earn revenue or comply government regulations) and which industry the company is located in (retailing, mass communication, airlines, hotel chains or telecommunication industry).

The creation of the BIGI Model answers the second research question of why companies provide freebies. Many multinational corporations believe that providing free goods and services to users for free is a powerful tool to accomplish sale promotion goal(s), increase their brand awareness and build brand loyalty ('B' category). Apart from those motivations, other reasons companies give away free goods and services are to earn revenue ('I' category), to fulfil governmental requirements ('G' category) and to gather customer information which can then be sold (second 'I' category).

The construction of an explanatory model is an initial step and it is hoped that future researchers will add new categories to BIGI.

What is it then that companies get from giving? Clearly, a great deal. What may appear to be generosity is in fact a calculated strategy to maximise business income. Where such a goal requires that goods and services should be given away for free, then companies are prepared to do that and see it as a necessary cost within their wider strategy.

In summary, giving something away for free can be perceived as a powerful and effective business tactic used by businesses which intend to get more from customers in the future. Free goods and services have proved that they can generate much benefit to businesses. Hence, companies which know how to exploit the use of freebies are able to gain a competitive advantage over those companies that do not.

The initial research presented in this paper has only been a tentative and exploratory start and there are a great many areas for other researchers to pursue such as the identification of more historical and current examples of freebies across cultures. In addition, assessment of the frequency of freebie provision and their popularity (in terms of take-up) would allow a greater understanding to be reached as to the effectiveness of freebies as a marketing tool. Our research only examined a small sample of B2C (Business-To-Customer) freebie provision and more research can be undertaken to see if B2B (Business-to-Business) or B2G (Business-To-Government) will reveal other examples and rationales especially in the area of datamining or dataveillance (data surveillance). Finally, the whole area of the provision of free goods and services by Not-For-Profit organisations such as charities would further add to our understanding of a social phenomenon that is increasing in both its frequency and value across many countries. We would therefore encourage others to build on our work and welcome further contact with staff and students alike.

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