

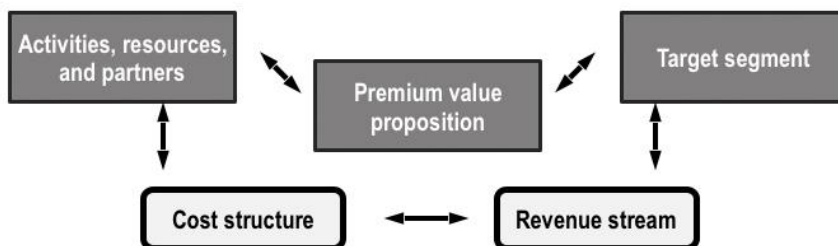
## Freemium and Free Trial Software Approaches

As the IT market continues to mature, IT decisions are increasingly driven by the people who use the technology, rather than the people who administer it. This consumerization of technology, driving changes in the market, when coupled with open source, has led to the availability of free alternatives to nearly every commercial software product. No provider is immune to the impact of these changes. Introductions of new software products are available today in freemium versions. The change in the way a firm attempts to monetize its software offerings is the result of specifically targeting developers with a freemium model in the marketplace.

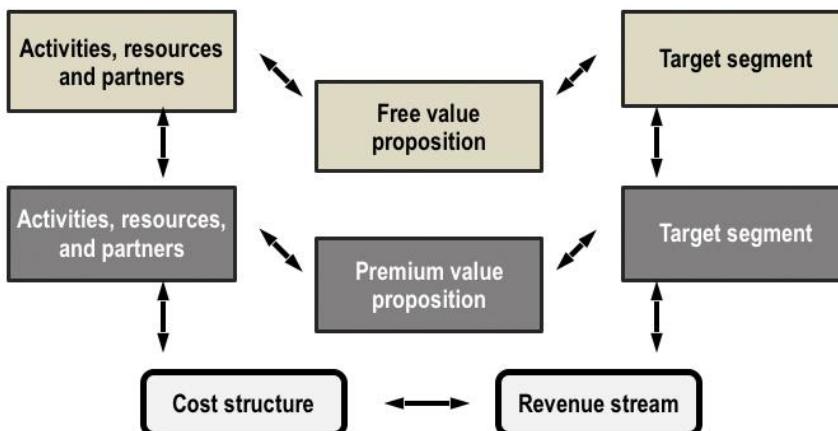
All business models are malleable thought structures, meant to be adapted and decisively employed to best achieve a specific product's or service's goals. Freemium, a combination of the words free and premium, describes a business model in which a core product is given away for free to a large group of users and premium products are sold to a smaller fraction of this user base.

The freemium business model (below) is an adaptation of a fairly common distribution and monetization scheme used in software since the 1980s: the feature-limited software paradigm was when consumers saw most of the fundamental core components of a product released for free, with the product's remaining functionality becoming available only upon purchase, either in a one-time payment or through recurring subscription payments.

### Traditional



### Freemium



The most basic point of difference originally between the freemium business model and the feature-limited model was distribution: feature-limited software products were generally distributed on physical discs, whereas freemium products were almost exclusively distributed via the Internet. So the distribution speed and ultimate reach of feature-limited products were a function of the firm's capacity to produce and ship tangible goods; no such restrictions limited the distribution of freemium products. Obviously, as bandwidth capability has grown, the difference has been eliminated.

The second distinction between the freemium and feature-limited business models is the scope of functionality of each: whereas feature-limited products often merely showcased the look and feel of the full product and could not be used to fulfill their primary use cases at the free price tier, with freemium products, payment restrictions generally do not limit access to basic functionality. Rather, freemium products exist as fully featured, wholly useful entities even at the free price tier; payment generally unlocks advanced functionality that appeals to the most engaged users.



The freemium model represents a fundamental evolution from the feature-limited model, given a new set of circumstances under which software is distributed and consumed: mobile devices give users access to products at a moment's notice and throughout the day, cloud storage services and digital distribution channels allow products to be discovered and purchased without the need for physical discs, and digital payment mechanisms render purchases nearly frictionless.

The pervasiveness and connectedness of software, then, represents a heightened state of awareness with respect to the demands made upon software by users. And it also presents a massive opportunity to quickly and almost effortlessly reach millions, if not billions, of potential consumers upon product launch. This is the reality of the modern software economy, and it is the backdrop against which the freemium business model has emerged.

The ultimate logistical purpose of the freemium business model—and the source of the advantages it affords over other business models—is the frictionless distribution of a product to as large a group of potential users as possible. This potential for massive scale accommodates three realities of the freemium model:

1. A price point of \$0 renders the product accessible to the largest number of people.
2. Some users will not engage with the product beyond the free tier of functionality.
3. If the product is extremely appealing to a group of users, and the product presents the opportunity to make large or repeat purchases, a portion of the user base may spend more money in the product than they would have if the product had cost a set fee. Thus, the revenue fulcrum, or the crux of a product manager's decision to develop a freemium product, is the

potential to maximize scale, paid engagement, and appeal to the extent that the total revenue the product generates exceeds what could be expected if the product cost money

While the freemium business model is not governed by a rigid set of physical bounds, some patterns hold true across a large enough swath of the commercial freemium landscape to be interpreted as intellectual thresholds. The first pattern that emerges is that the broader the appeal of a product, the more potential users it can reach and the more widely it will be adopted. A broadly appealing product has a widely applicable use case or purpose. Generally speaking, products that address a universal need, pain point, or genre of entertainment appeal to more people than do products that serve a specific niche. Broad applicability obviously has a direct impact on the number of users who adopt a product.

The second pattern is that very few users of freemium products ever monetize or spend money on them. The low proportion of users who monetize in freemium products contributes to the necessity of large potential scale: a low percentage of monetizing users within a very large total user base might represent a respectable absolute number of people.

The third observable trend with the freemium model is that the spectrum of total monetization levels - that is, the total amount of money users spend within the product - spans a wide range of values, with a very small minority of users spending very large amounts of money. The larger the minority of highly engaged users, the more revenue the product generates in aggregate; when the spectrum of monetization levels is broad, more users tend to monetize than when the spectrum is limited to fewer values.

The confluence of these three trends establishes a freemium development directive: the broader the appeal, the higher the level of engagement; and the more numerous the opportunities to engage that the product offers, the more revenue it will generate. At some optimized point, these forces can contribute to a more advantageous revenue dynamic than could be expected under paid adoption circumstances. If frictionless distribution is the logistical purpose of the freemium model, then its commercial purpose is to establish the product attributes necessary to achieve greater monetization and absolute revenue than would be possible using a paid adoption model.

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