



## The 'Freemium' Business Model: Not Quite a Slam-Dunk

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Can you make money by giving away your product? Absolutely—and companies like Adobe (PDF Reader) and Adobe acquisition Macromedia (Shockwave Player) have proven it. With Web 2.0, consumers have gotten a lot of things at no cost due to various monetization practices—and that's good.

But should you give away your product? That's another question entirely.

The "freemium" business model wraps free services with an upsell to a premium level of service. Because the user doesn't pay up front, hesitation to adopt is eliminated. As consumers reach a higher comfort level, so the belief goes, they purchase the premium version.

Theoretically, at the same time that consumers have the risk mitigated, they begin to feel loyalty and allegiance toward the company. This model is supposed to foster viral adoption, usage, and consumer loyalty.

The theory is wonderful, but it is not quite the slam-dunk it seems.

To be sustainable, companies require cash flow; solid relationships with customers, partners and employees; and products and services that are valued in the market. Here are several reasons not to give away the store:

### **1. You're in business—you need to manage payments**

Whether you're involved in the development of software or hardware, most of your costs are frontloaded and occur in the prelaunch period. Cash flow is a critical business measurement. Even with a freemium model, if you're not prepared to collect money, handle returns, and complete a transaction, you're not going to last long.

The trick is to upgrade the sale to the premium version as quickly as possible. Whatever system you use should be tested, smooth, and accurate. Transactions are about trust. Mishandle a purchase, and you're giving the customer a good reason not to use your solution—no matter how cool the technology.

### **2. Perception drives value**

Customers might use your free product, but most understand the value of their time. People are understandably leery of startups peddling free products. They're not sure whether you're going to be around in six months—they don't know whether there's going to be a decent ROI related to the time they spend learning your interface. Customers know there is no free lunch. Don't insult their intelligence.

### **3. Loyalty + Trust = Relationship**

Why do I trust Logitech and purchase its products? Because the technology is proven over many uses, its products always give me more than I expect, and I love its sense of design. Would another vendor be likely to tempt me with a free product? I might look, but I'm unlikely to buy, because I'm so in love with my Logitech keyboard and mouse.

Admittedly, price is not the key purchasing determinant for me. Even if it were, the difference is slight when I weigh price against the trust I have in their products, my feeling that they'll make it right if there's a problem and my day-to-day, hands-on experience.

Over the lifetime of the device, price difference—even between a retail and a freemium product—can translate to pennies on the dollar. I like knowing that I can have a productive day because everything will work—and the cost of acclimating to new tools keeps my preference for my current setup high.

### **4. Many free products don't have the technical chops**

I've seen lots of free software. Some of it didn't work as I'd wished. I'm not a user of NewsGator, and friends tell me there's still a bit of quality improvement to be had before using Skype with clients. I have a high expectation for ease of use. Adobe Acrobat does precisely what I want it to do—and I had no hesitation when it came time to purchase a full package several years ago. Free doesn't equate to poor quality. And poor quality is an excellent way to erode your brand value.

### **5. Customer feedback is likely less enthusiastic, less complete**

The customer who uses your free product or service has no investment in a relationship with your company. Particularly in tech, companies depend on customer feedback to be certain that major bugs have been exterminated, to make sure the development team gets objective information so that the enhanced features in the next version are a significant enhancement and are truly wanted by users. As Apple is currently experiencing with its OS, collective input from loyal users can help improve products.

### **6. Companies pushing free products often lack multiple revenue sources**

Creative thinking is needed to find revenue sources. Customer service, advertising, surveys, and partner or channel fees are other potential routes to cash flow.

The larger question around the freemium business model involves being invested for the long haul. That means you and your company plan to be around in 2020—hopefully servicing many of the same customers you just acquired during that launch last quarter.

Cory Doctorow may give away his books on the Internet—I find that laudable and an exciting way to share with others. I love that the Web has given him the framework to distribute almost a million books for nearly nothing. But, keep in mind, Cory isn't a company.

Customers need to know that there's a commitment on the part of the company to stay in business and grow. I don't want pictures of my son that have been uploaded to a free service to disappear into the ether because AcmeDrive couldn't manage to find its way to a workable business model.

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We need to keep something in the bank for a rainy day—to have an additional 10% that we can invest in our next level of growth. That's how we'll continue creating excellence in the marketplace.

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