

Freemium Business Model

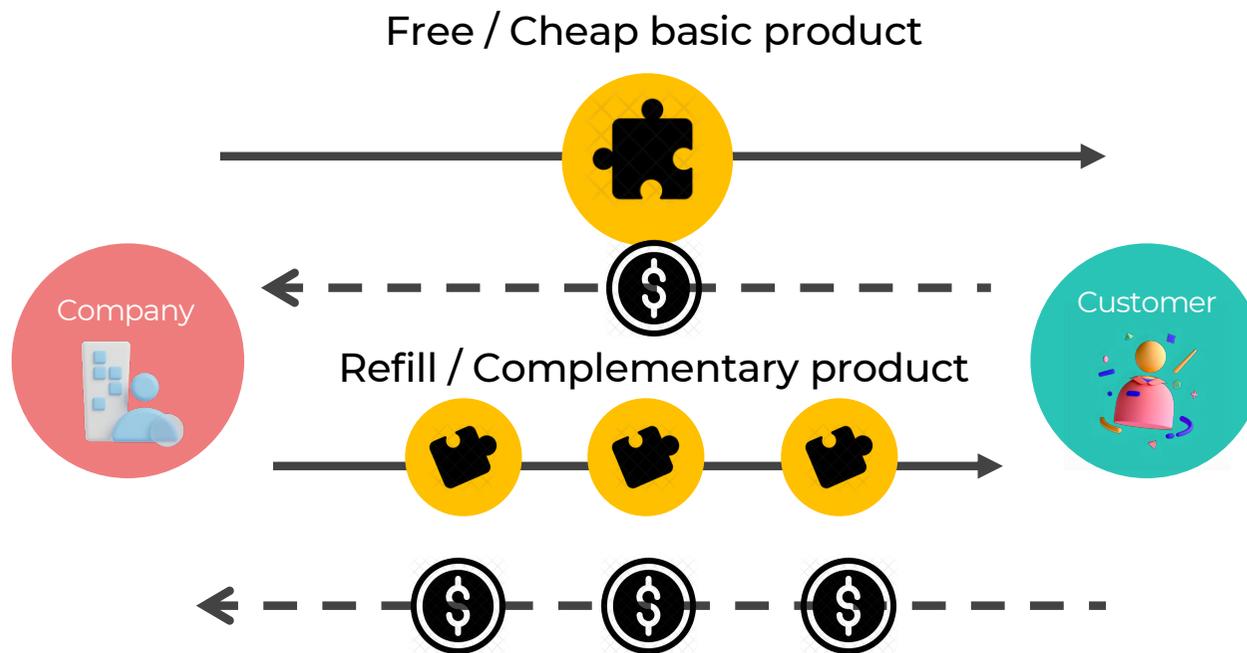
People would get a plain lemonade for free. But you will offer around 5 other flavored lemonades (watermelon or strawberry flavors, anyone?) at a price of \$1 a glass



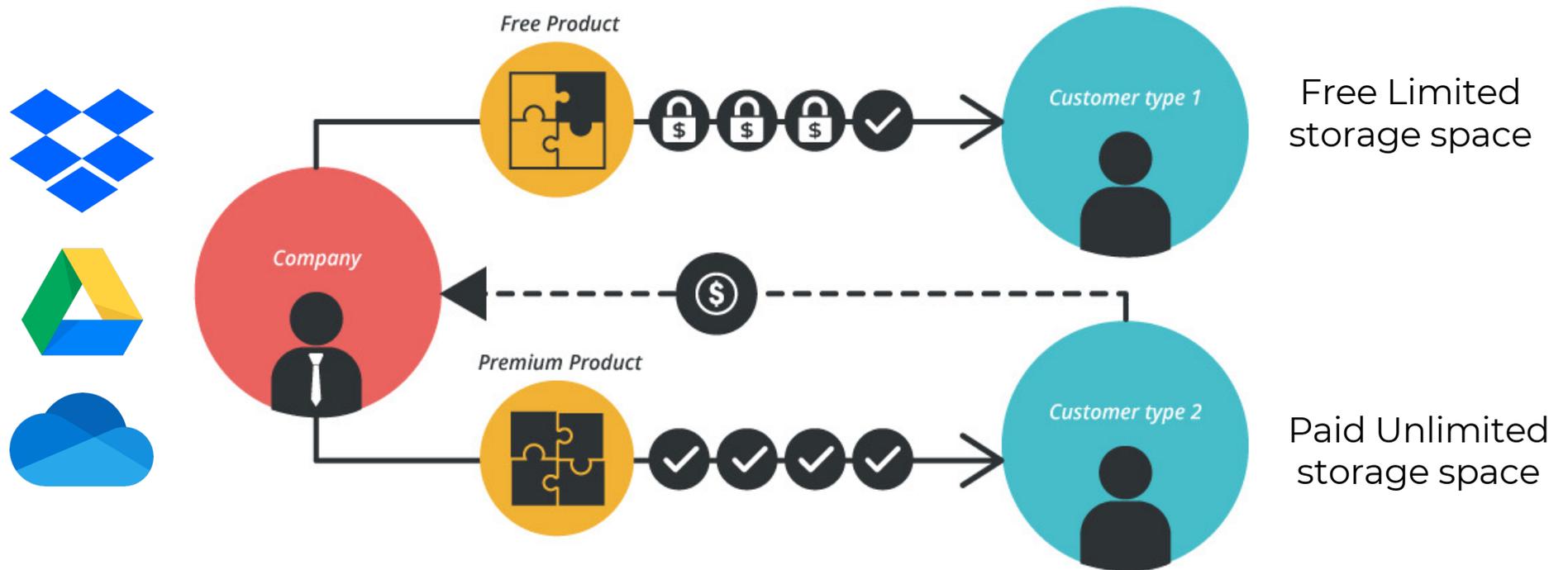
Freemium Business Model

Freemium = Free + premium

The freemium business model allows users to utilize basic features of a software, game, or service for "free", and then charges for "upgrades" to the basic package.



Freemium Business Model



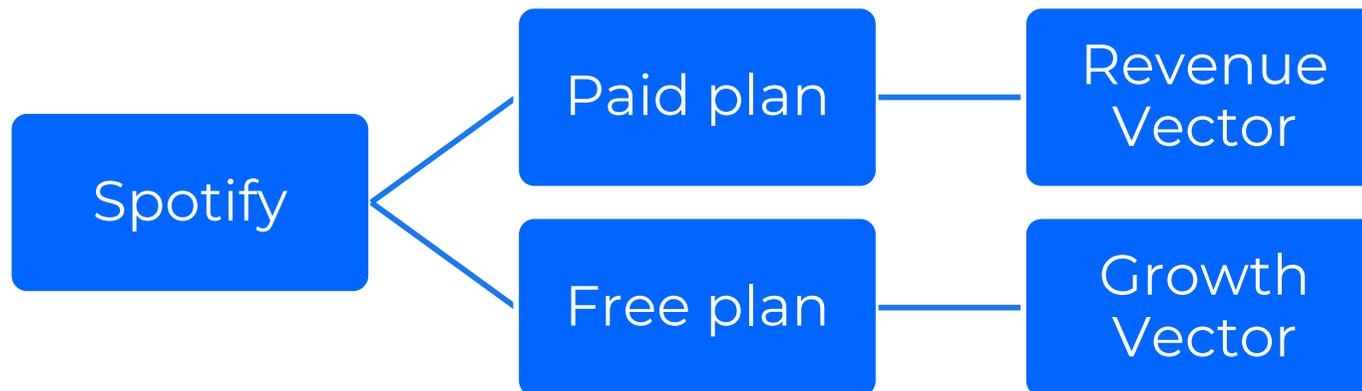
For example, the cloud-based file hosting service Dropbox offers new users 2 GB of free storage alongside premium options that allow users to buy additional space.

Freemium Business Model

Freemium is very common in web-based services (SaaS) and digital apps.

The idea is to

Provide your users with a basic, functional, and completely free version of your product or service whilst simultaneously enticing users to become paying customers by offering them a more advanced, feature-rich, premium version for a price.



Spotify generates the vast majority of its revenue and profits from its subscribers, advertising revenue does provide the company with a solid secondary revenue stream that can be used for investing in growth.

Freemium Pricing Model

Types of
Freemium

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Capacity-Based
freemium

Time-Based
freemium



Freemium Business Model

Using freemium Dropbox has scaled to more than 500 million users.

There are different ways in which start-ups can implement the freemium-structured.

Three of the most common include:

1. Capacity-Based freemium: like usage amount or number of users — beyond which users are required to pay to keep using the service. **Examples: Dropbox, Evernote**

2. Feature-Based freemium where the free version has limited functionality and paid plan is required to unlock the full range of features.

Examples: Buffer, Skype, Notion

3. Time-Based freemium: a free version of your product or service is offered but only for a limited time, i.e., the standard “free trial offer”.

Examples: Audible, Shopify

Companies using Freemium business model



Companies using Freemium business model

Pros

- **Customer acquisition:** It is easy to attract users when giving away a basic service for free
- **Marketing effect:** people are likely to spread the word about free services (word of mouth)
- **Networking effect:** the more people use the service, the likelier it is that they attract other users
- **Usage Behavior** – A few people might end up taking a premium version that helps us understand which feature is enticing users to upgrade.

Companies using Freemium business model

Freemium works on the 5 Percent Rule - where 5% of premium customers support the remaining 95% of free users and also the cost of servicing the 95% is close to zero.

Cons

- Large number of free users but not of paying customers: there are investments and costs involved in providing the free service, but you do not earn any money to finance it.

Companies using Freemium business model

Now, what is the average free-to-paid conversion rate from a free trial or freemium?

Trial conversion rate = Number of trial-to-paid users/ number of trial users.

For example, if your product has 500 trial users and 90 trial users convert to paying customers. In this case, your trial conversion rate would be:

$$90/500 \times 100 = 18\%$$

3 primary models for free-to-paid in SaaS

Types of Freemium	Characteristics	Benchmark
Freemium	The product is offered for free, and money is charged only for advanced features.	
Free trial (without credit card)	<ul style="list-style-type: none">• The product is offered on a “try before you buy” basis without credit card information.• Very effective for generating buzz about your product because it requires little to no commitment.	25% free trial to conversion rate. (Useproof)
Free trial (with a credit card)	<ul style="list-style-type: none">• The product is offered on a “try before you buy” basis with credit card details.• Normally results in fewer users as nobody wants to enter their credit card details	60% free trial to conversion rate (Klipfolio)

3 primary models for free-to-paid in SaaS

But it largely depends on the complexity of your product and your audience (B2C vs. B2B)

B2C companies have an industry average of 57%. While 14-25% in B2B space.
For example, Netflix's conversion rate is 93%, while Amazon Prime's video is 73%.

The best way to improve your free trial-to-paid conversion rate is using Product-Led Growth (PLG) strategies which used the product as the main engine of growth.

Freemium Business Model

The “**freemium**” approach to creating revenue is very common in today’s web-based services, including digital apps.

The idea here is to provide your users with a basic, functional, and **free version** of your product or service.

And simultaneously enticing users to become paying customers by offering them a more advanced, feature-rich, **premium version** for a price.

Many SaaS- (Software as a Service) based products utilize the freemium business model.

For example, the cloud-based file hosting service Dropbox offers new users 2 GB of free storage alongside premium options that allow users to buy additional space:

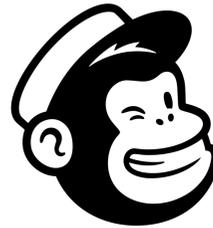
Mailchimp Freemium Case Study



How Mailchimp skyrocketed their profit 650% by going 'freemium'

Today, there are two wildly competitive spaces you don't want to touch with a ten-foot pole.

- Bed-in-a-box mattresses are one.
- Email marketing software is the other.

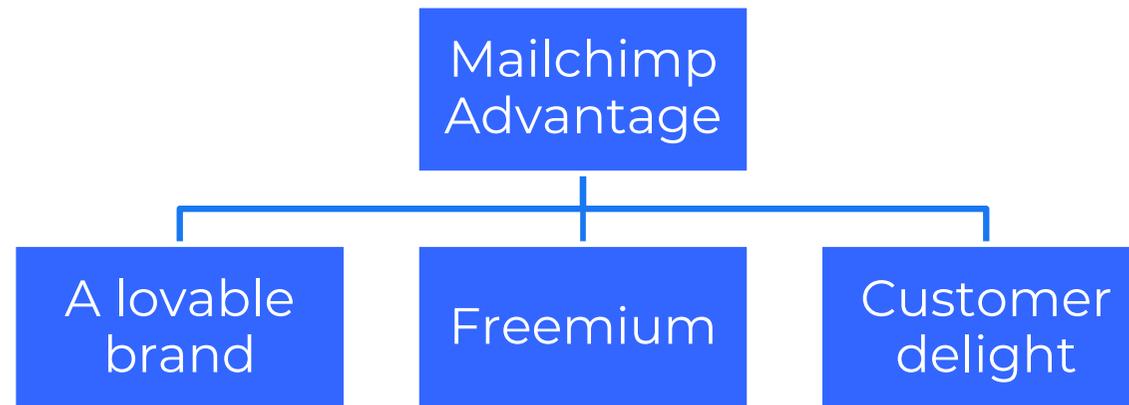


mailchimp



3 key areas where Mail Chimp was able to gain an advantage.

Mail Chimp won by getting closer to its customers than the competition



How Mailchimp skyrocketed their profit 650% by going 'freemium'

In September of 2009 when they had 100,000 paying subscribers they announced a "Forever Free" plan for small businesses like flower shops and coffee shops for up to 500 subscriber.

The jaw-dropping results after Mailchimp went "Forever Free".

- They had grown their user base by 500%, from 85,000 to 450,000.
- They consistently added more than 30,000 new free users and 4,000 new paying customers every month.
- Their profit (not their revenue) had grown by a mind-boggling 650%.

Folks like free.

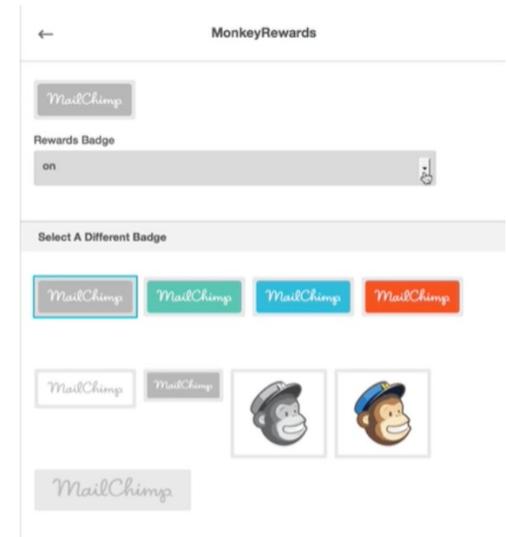
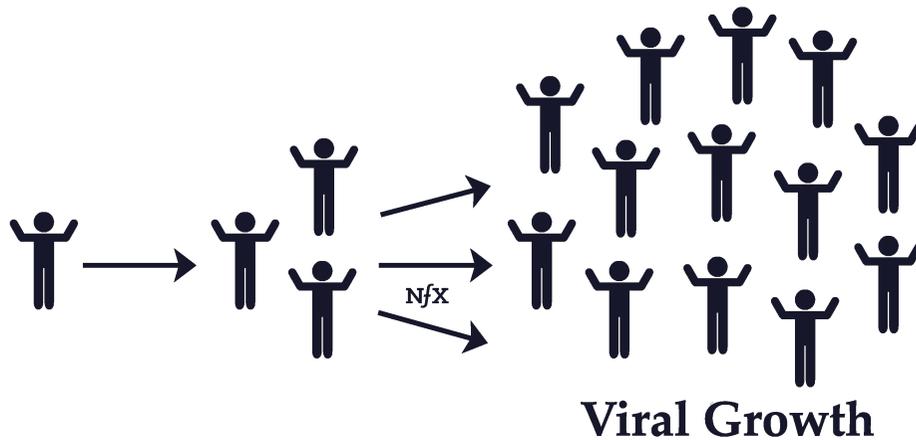
But you don't always have to launch with free... but can move to free when it's the right time.

How Mailchimp skyrocketed their profit 650% by going 'freemium'

Freemium is a good driver for growth

Mail Chimp's free users were stamped with a hyperlinked image of Freddie

Mascot builds excitement and helped them build virality



A LOVABLE BRAND

Mailchimp has one of the most memorable and adorable mascots in the business: Freddie

This also represents some ideas that the whole company stands behind:
making work fun, creativity, and independence.”

The Evolution of Freddie



Getting ready to send out an email campaign?



hand sweating over a big “send” button

once you sent a campaign, guess what?



Mail Chimp gave you a high five.

Subscription Business Model

How many subscription products or services do you use in a day?

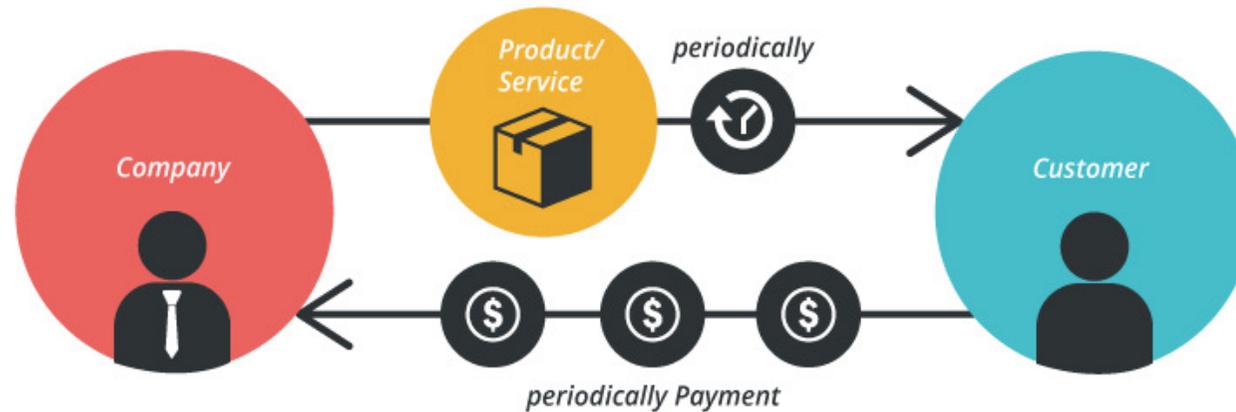


Subscription Business Model



Subscription Business Model

Subscription business models are based on the idea of selling a product or service to receive monthly or yearly recurring revenue.



Subscription Business Model

Services

Businesses that offer a service on a subscription basis.

Products

Businesses that offer products on a subscription basis.

B2B

Subscription business that serve other businesses

BREX
wework

 **shopify**

 **freshworks**

B2C

Subscription businesses that serve consumers directly

 **instacart**
prime video


DOLLAR SHAVE CLUB

BARK BOX

Types of Subscription Business Model

Watch the **full** version of this topic in the course video

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Umbrella subscription

Subscription Pass

System subscription

Publications & Newsletters

prime video

Tinder Go

Dash

MORNING BREW

DOLLAR SHAVE CLUB

BARK BOX

freshworks

Subscription Business Model

1. Subscription box: Personalized experience delivered to your doorstep every month.

Example: **Warby Parker** - Repeat prescriptions of Contact lenses (3 months)

MeUndies - Two pairs of cheeky underwear every month.

Dollar save club - Razor blade of your choice every month.

The logo for Warby Parker, consisting of the words "WARBY PARKER" in white, uppercase letters on a blue square background.The logo for MeUndies, featuring the word "MeUndies" in a stylized, black, lowercase font.

2. Special subscription Pass – Gives you the advantage of standing out from the crowd.

Examples: - Tinder Gold and Dash Pass etc.

Tinder Gold Subscription – Recommend more to girls

Dash Pass – Faster delivery with low fees.



3. Amazon Umbrella subscription – When you bundle up all your services under one subscription umbrella-like Amazon Prime

- One-day delivery.
- Amazon prime video
- Amazon prime music



Subscription Business Model

4. Ecosystem subscription –

When companies lower the entry barrier and lock you in the ecosystem using a subscription business model.

Example: Shopify

Shopify subscription costs you less than \$30 with thousands of paid plugins in their app marketplace



5. Publications & Newsletters–

A Newsletter subscription provides exclusive access to content

Example: Morning Brew



Pros and Cons of using Subscription Business Model

There are several benefits to using the Subscription business model



DOLLAR SHAVE CLUB

- 1. Predictable Cashflow:** After the first purchase, they need to keep buying the product, leading to recurring profit with predictable cash flow.
- 2. Good upselling and cross-selling opportunities:** If dollar shave Club is selling a premium range of blades, then they can also sell other products like shaving cream, aftershave, etc.
- 3. Higher margins:** The base product is usually sold at a loss, while the add-ons are added and are usually sold at higher margins.

Subscription revenue cycle

Every subscription company begins the same five-step revenue cycle:

1. Acquire customers

inbound marketing paid to advertise, and search.

2. Deliver consistent, high-quality service – speaking to customers and solving problems

3. Look for opportunities to upsell or cross-sell.

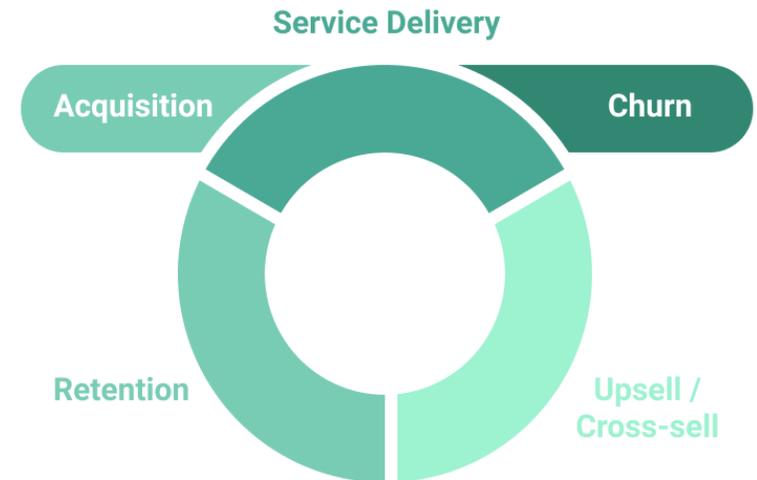
The acquisition is 4x expensive than upselling

4. Work to retain users and reduce churn.

Subscription = lifetime battling churn

5. Rinse and repeat.

subscription compound and flywheel starts turning faster

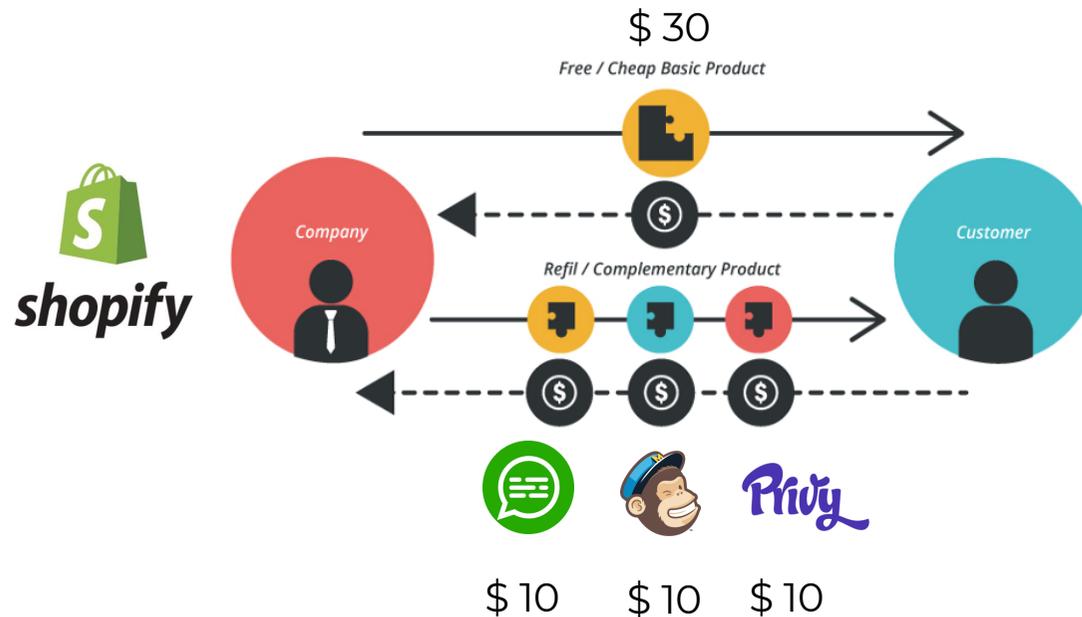


How to measure success in subscription

Five Metrics All Subscription Businesses Should Track

- Monthly recurring revenue (MRR)
- The average revenue per user (ARPU)
- Customer lifetime value (CLTV)
- Customer acquisition cost (CAC)

Cross Selling in Subscription Business Model



Scenario	Monthly recurring revenue (MRR)	Yearly recurring revenue (ARR)
Without Apps	= \$30/month	\$30 x 12months =\$360/year
With Apps	= \$30/month + (10 Apps x \$10/per app) = \$130	= \$130 x 12 months = \$1560/year

Companies using the Subscription Business Model



Assignment for subscription business model

Complete the **assignment**
given in the course

[Try Assignment](#)

Freeterprise model



Freeterprise model

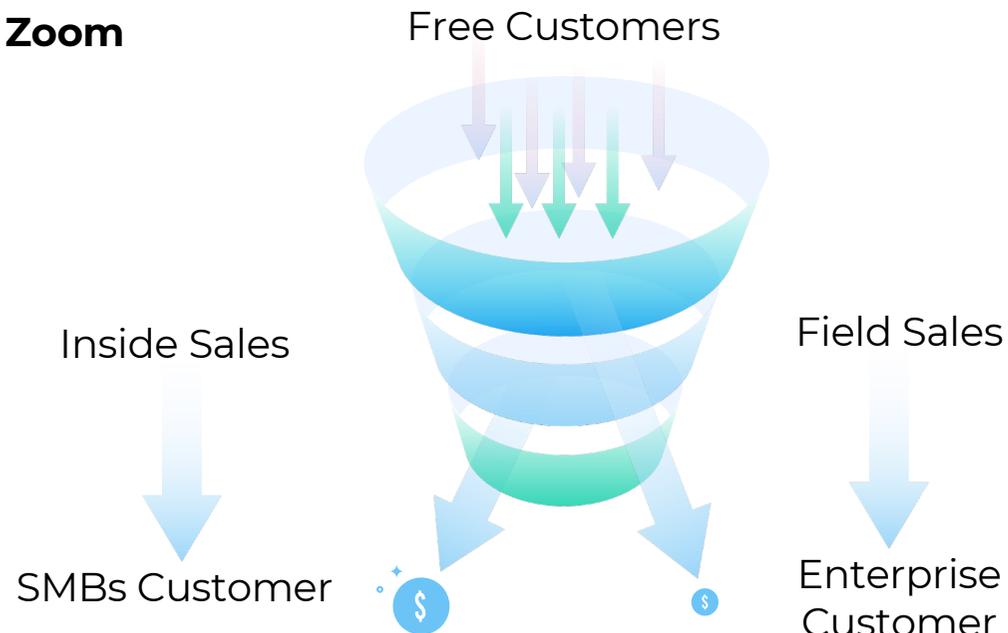


Freeterprise model

In the freeterprise (free & enterprise) business model the professional accounts are driven into the funnel through the free product.

Once the opportunity is identified the company assigns the free account to a salesperson within the organization (inside sales or fields sales) to convert that into a B2B/enterprise account.

Example - Slack and Zoom



Collaboration as the growth engine in Freeterprise model

Team Collaboration as an acquisition strategy

We found your team!

Join your team's Workspace and gain instant access to your thier videos, view each others' activity, and invite new people to the join.



Pied Piper Support Suggested

22 Members

Join

Show more

Create a new Workspace instead



We found 1 team to join from your company!

Addfloat
1 member

Join Team

+ Create your own team

Continue

You can start from a single free professional account, and pull a whole organization into that, to transform it into an enterprise

Collaboration as the growth engine in Freeterprise model

Fee product as entry point within companies.

Upgrade to Loom Business

Billed monthly Billed annually (20% Savings)

\$10 USD × 3 seats × 12 months	\$360.00 USD
20% off paid annually	-\$72.00 USD
<hr/>	
Total due	\$288.00 USD

> Have a promo code?

[Continue to payment details](#)

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