



Startup Toolkit #1

Freemium Sales Models

Context

- Last Time: Jive Software
 - ▶ Evolution of a Sales Model
- Today: Begin 4 Case Series
 - ▶ Startup Sales Toolkit
 - Low Cost Ways to Acquire Customers (2)
 - Important Tools to Facilitate/Enable Sales (2)
- Today: Dropbox
 - ▶ Freemium Sales Models



Dropbox: Informal Survey

- Who has a Dropbox account?
- Who has (or has had) at least one other cloud-based sync and share account with something in it?
- How do you keep them organized/separated, and have you streamlined and/or consolidated your accounts?

Dropbox

- What do they sell... really?
- How have they implemented the model?
- Have they mastered it, or can it be improved upon?

Dropbox: Food for Thought

- In storage, there is usable capacity and used capacity
 - ▶ New users get 2GB of free capacity, can earn up to 16GB
 - ▶ Average user has < 0.5GB
 - ▶ Reading and writing the data has cost – patterns vary
 - ▶ What is the real cost of a referral?
- Does the math work?
 - ▶ Lifetime value of a customer, cost of free, timing of cash
- Dropbox is monetizing in a single dimension: amount of storage
 - ▶ What other dimensions could they explore?
 - ▶ How?
- How do Corporate IT departments view Dropbox?



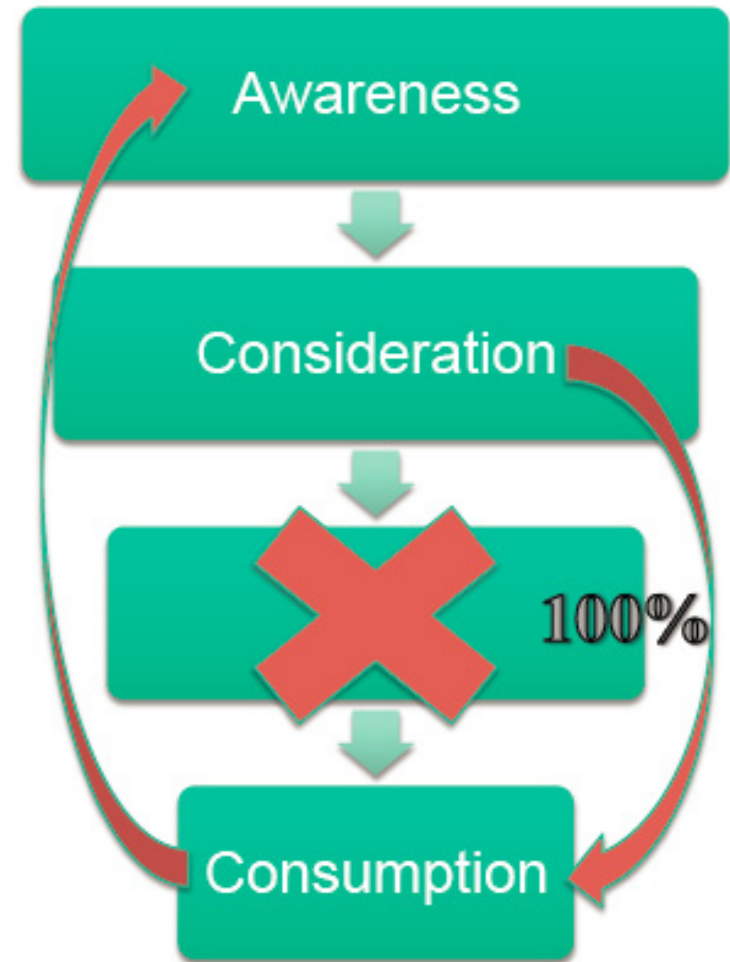
Freemium

- How it works
- Why it works
- How it benefits the business
- Key considerations (analytical framework)
- Options/decisions within Freemium



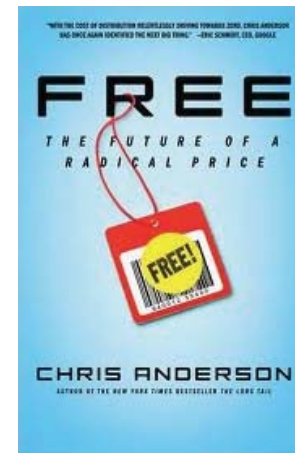
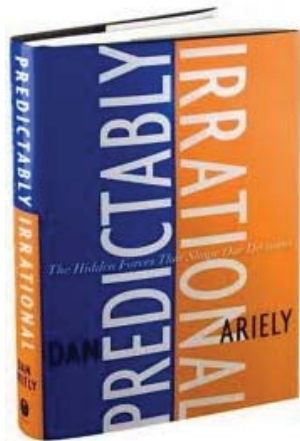
Freemium: The How

- Price the product at \$0
- Remove perceived risk of trial
- Maximize conversion rate from Consider to Consumer... *without a sales force!*



The Psychology of Free

- Ariely: “Zero as emotional hot button - source of irrational excitement”
 - The Lindt/Kisses experiment
- Free removes the psychological barrier of the downside (automatically make us think that there’s no risk involved although there might be)
- The **Penny Gap** - it is much harder to get someone to pay the first penny than to upgrade them from a penny to 20 cents.





Freemium: The Why

- Very low marginal cost of
 - ▶ Production
 - ▶ Delivery
- ... for digital goods/value propositions
- Makes it possible to carry large numbers of non-paying customers
- And monetize them in alternate ways

Freemium: Business Benefits

- Getting further down the maturity curve with less money (de-risk = value)
 - ▶ Reduced selling and/or marketing expense
- ... Often in less time (more speed)
 - ▶ Quicker to large “customer” count
 - ▶ Quicker to real usage which leads to real feedback which leads to advantaged products or services



Freemium: Considerations

- When product has experiential value
 - ▶ New categories: have to try it to get it
- When “land grab” is key
- When free users have real value
 - ▶ Lower your costs elsewhere
 - ▶ Increase revenues in alternate ways
- When cost to serve free users is low
- When market is big (enough)
 - ▶ Free to premium conversion yields enough
- When network effects exist
 - ▶ Customers gain value from other customers

Freemium: Options

- Structure of the Offering
 - ▶ One version free, others are not
 - Dropbox
 - ▶ Base product is free, added features and value are not
 - LinkedIn, Skype
 - ▶ One product is free, complementary product is not
 - iTunes
 - ▶ Time period is free, further use is not
 - Free trials – technically not Freemium

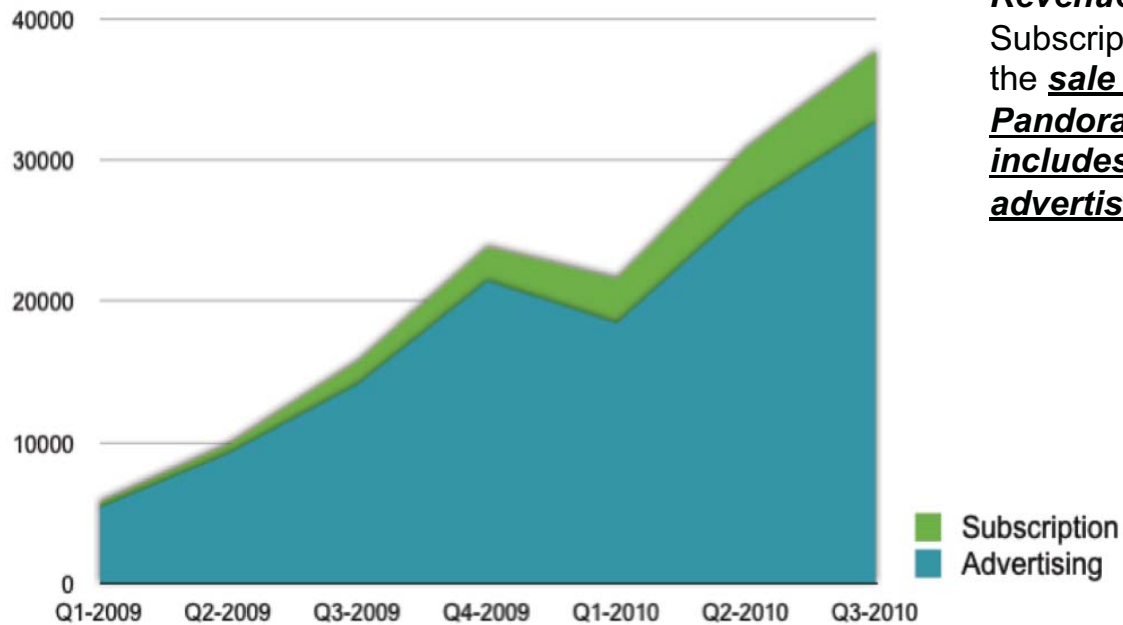


Freemium: Alternates/Add-ons

- What else can you do with a large, free user base?
 - ▶ Show them ads
 - The rise of the “ad-free” version
 - ▶ Analyze their behavior
 - Sell the insights/access



How Freemium works for Pandora



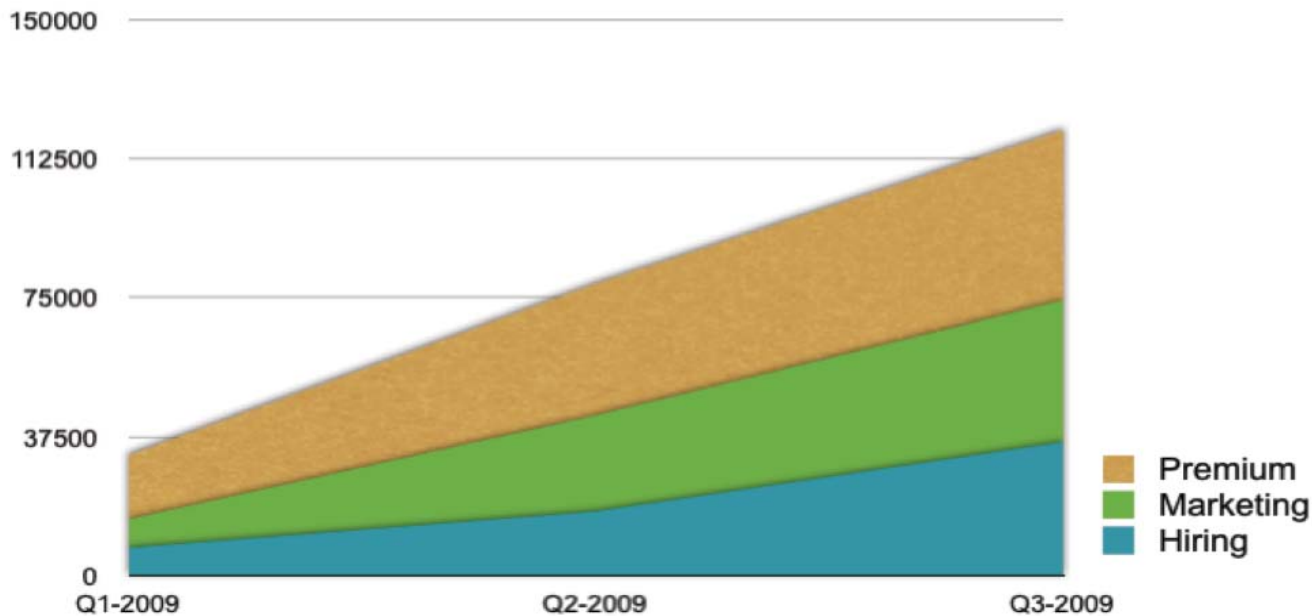
Subscription Services and Other Revenue

Subscription revenue is generated through the sale of a premium version of the Pandora service which currently includes higher audio quality and advertisement-free access.



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How Freemium works for LinkedIn



LinkedIn Home Profile Contacts Groups Jobs Inbox (37) More

Upgrade Your Account

Find and contact the right decision makers, experts and candidates

<p>Business \$24.95 per month</p>	<p>3 Messages per month</p>	<p>300 Profiles per search</p>	<p>NEW Organize Profiles 5 folders</p>
<p>Recommended</p> <p>Business Plus \$49.95 per month</p>	<p>10 Messages per month (\$100 value)</p>	<p>500 Profiles per search</p>	<p>NEW Organize Profiles 25 folders</p>
<p>Pro \$49.95 per month</p>	<p>50 Messages per month</p>	<p>700 Profiles per search</p>	<p>NEW Organize Profiles 25 folders</p>

Premium Subscriptions:
These products provide our members, with access to more tools and features than our free membership, including enhanced search results, enhanced communication capability, improved organizational functionality and priority customer support.



Summary

- Freemium is...
 - ▶ A pricing model
 - ▶ A sales model
 - ▶ A business model
- It trades on the psychological value of free and the low marginal cost of digital goods
- Can be very helpful getting startups off the ground and making lots of progress on little money
- Many considerations before choosing the model... and a number of implementation decisions once chosen
- BUT - no way around having a killer product – start there!

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15.387 Entrepreneurial Sales
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