



# FREEMIUM BUSINESS MODEL, STRATEGIES AND TACTICS FOR ONLINE DIGITAL FIRMS

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# WHAT MAKES A FREEMIUM BUSINESS MODEL SUCCESSFUL FROM A STRATEGIC POINT OF VIEW?



# BUSINESS MODEL CONCEPT AND DEFINITION – THE 4V FRAMEWORK

A business model describes the value which a company offers to one or several (segments of) customers, the architecture of the internal processes and the network of partners it has built up for creating, marketing and delivering this value in order to generate revenue streams and profit.

## ***Value proposition***

- Value offering - firm's bundle of products and their characteristics (e.g., product or service, brand, novelty, etc.)

## ***Value creation***

- Arrangements of resources, competencies, activities, processes and partnerships with other firms to create and deliver the value offering

## ***Value delivery***

- Segments of customers to whom the firm offers the value offering,
- the various means and channels to reach the segments,
- and the firm establishes relationships with the segments.

## ***Value capture***

- Monetisation – the way the company makes money from the value offering through a variety of revenue flows and their overall profitability (i.e., revenue model and cost structure)

# A GENERIC FREEMIUM BUSINESS MODEL OF AN ONLINE DIGITAL FIRM

## ***Value proposition***

- FREE product – basic version of the market offering
- Premium product – enhanced value of the market offering

## ***Value creation***

- Research and new product development
- Infrastructure development and maintenance

## ***Value delivery***

- Internet – own and third-party websites and applications
- Automated services and customer relationships with free users
- Customized services and customer relationship management with paying customers

## ***Value capture***

- Revenues from premium users
- Costs from free and premium users

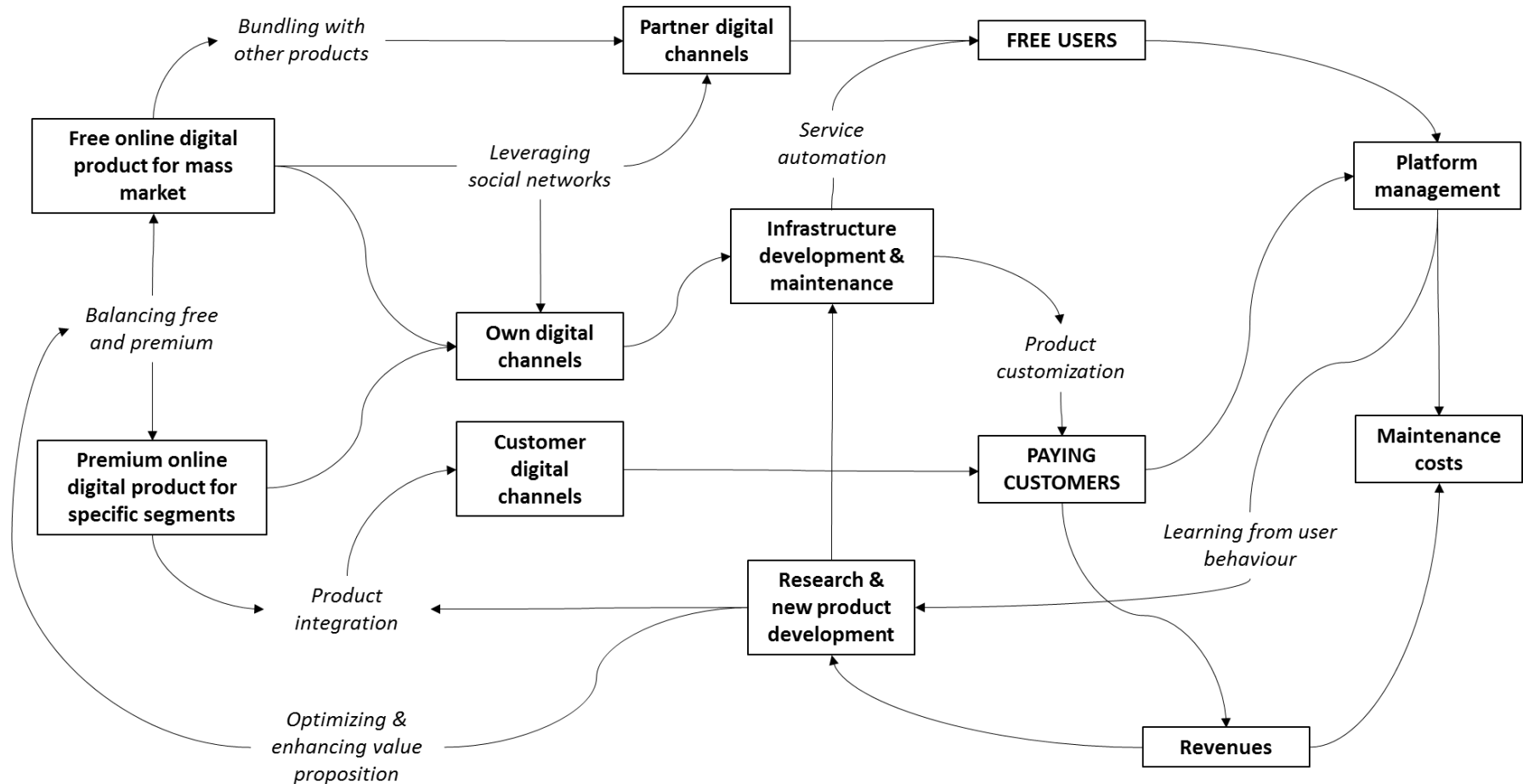
# BUSINESS STRATEGIES OF SUCCESSFUL FREEMIUM COMPANIES

- ▶ Successful freemium online digital businesses execute the so-called '**prospector**' strategy, typically characterized by high degree of exploration with focus on innovation, identification of new markets, growth, and acceptance of high risks (Miles and Snow, 1987).
- ▶ Critical factors for executing the 'prospector' strategy are **free product excellence and user growth imperative**. Vast number of product users is necessary
  - 1) for conversion to paying customers which is app. 2-5%;
  - 2) to achieve high company valuation and attract venture capital.
- ▶ Companies chose **growth-before-profitability strategy** and operated revenue-deficient business model for many years.

# FREEMIUM TACTICS – EXPLORATION STAGE

- ▶ Continuous leveraging the value of free users;
- ▶ Continuous enhancement of free and premium offerings;
- ▶ Aiming at the right balance between free and premium;
- ▶ Continuous learning from user and consumer behaviour;
- ▶ Broad targeting of potential users through product bundling and product integration;
- ▶ Leveraging social network effects;

# FREEMIUM BUSINESS MODEL AND TACTICS OF ONLINE DIGITAL COMPANIES



## LATER AT THE EXPLOITATION STAGE

The same tactics as at exploration stage plus additional strategic moves, such as:

- ▶ Rapid access to new technologies and users through mergers and acquisitions;
- ▶ Aggressive internationalization.





# CONCLUSIONS

- ▶ Choosing a freemium business model implies '**choosing a particular business model means choosing a particular way to compete**' (Casadesus-Masanel and Ricart 2010).
- ▶ Business model elements and business tactics of successful freemium companies constitute a **logical value creation, delivery and capture system**.
- ▶ Freemium companies should maintaining and constantly reapply this business model logic to regenerate it in a **virtuous circle**.



# Thank you!



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