

Can Freemium Marketing Work for You?



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Everyone still loves something for free – and a handful of B2B companies are mining ‘freemium’ marketing strategies all the way to an IPO.

Gaming companies were first to this market; in fact, 38 percent of the entire country over age two is playing some type of freemium game. [And 40 percent buy an app extension.](#)

But a lot of the winners are also in the B2B sector – which is perhaps the best-positioned to convert avid fans into ongoing, paying customers. Among the stars: [Skype](#), [LinkedIn](#), [ConstantContact](#), [EverNote](#), [Dropbox](#) and [LogMeIn](#). They’ve cracked the code, with enough paying customers to drive a viable, often fast-growth, business model.

This spring, we were delighted to host [Carol Meyers](#), the former CMO of LogMeIn, at our quarterly networking breakfast for marketing executives, who shared her back-story on what works, what doesn’t, and what she’d do differently the next time around.

Here are the key learnings we took away – along with some targeted research into other successes:

- [Out of the gate: three requirements for any freemium tool](#)
- [Optimal pricing strategies](#)
- [When customers buy](#)
- [How to reach the best sales prospects](#)
- [Models and metrics for low-cost marketing – and managing sales](#)
- [Spreading word-of-mouth](#)

VCs are aggressively jumping on this bandwagon.

Here’s how to figure out whether, and how, to make the leap. And being early enough to take advantage of being fast, best and right.

“The easiest way to get one million people paying is to get one billion people using.”
-- Phil Libin, CEO of [Evernote](#), via [TechCrunch](#)

Free trials are not freemium offerings. For the record, free trials are just that – typically a mostly-full product for a limited period of time. Freemium offerings are designed as full products, that also offer premium features, but are not deeply crippled or limited in lifespan.

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Three-Step Reality Test

There's not really any negotiation here. Successful freemium offerings have to be:

- Attractive to a very big market, because conversion rates are generally under two to three percent
- Simple to use, easy to download and have a clean sales model
- Able to deliver value right away

"If you're not achieving all of these," said Meyers, an early advocate of freemium marketing. "You're defeating the purpose."

The most successful offerings have an extraordinarily strong built-in viral component – the core

group of 'senders' are naturally touching target prospects. That continues to be the send-and-receive model of Dropbox, and [MailChimp](#), where the collaborative nature of the product leads to natural guerilla marketing.

Ease of use and delivering first-time value are essential elements of this experience, of course; a crippled product can undermine the whole effort. This inevitably introduces interesting conversations with both sales and development teams about how much of the product to share, and what this shift to freemium does to underlying pricing models.

"With a free product that delivers great value – you get great word-of-mouth," said Meyers. "People like to share."

Optimal Pricing: How High Can You Go?

When it comes to pricing, the toughest leap can be as small as a [penny](#) – getting customers to pay anything at all. That's why it's called 'the penny gap.'

In the freemium world, the common assumption is still that low-end price-points performed best. But [Splunk](#) helped change this model, with prices as high as \$5,000 and \$6,000 per product.

Low-end pricing can begin in two-digits, and jump to \$1,000 or more, at the enterprise level. As soon as you target low-end pricing, the customer distribution model also changes, which is why the target market needs to be so large. LogMeIn, which made its mark with products that topped out at \$1,000 for the enterprise version, found that 80 percent of its business came from 90 percent of its customers.

88 percent of the top-grossing iOS apps are freemium applications
-- [ABI Research](#)

Company	Conversion Rates	Money Raised	Revenue	Valuation
Constant Contact	1-2%	\$3.6M	\$214.4M (2011)	\$635M (Calculated estimate)
Dropbox	1-2%	\$257M	\$240M (2011 estimated)	\$4B
Evernote	1.8% (6% of active users)	\$166M	\$12M (2011 estimated)	\$1B
LogMeIn	1-2%	\$20M	\$119.5M (2011)	\$764M
Skype	7-8%	\$18.8M	\$860M (2010)	\$8.5B (Bought by Microsoft in 2011)
Twitter	N/A	\$1.2B	\$140M (2011 estimated)	\$10B

Time-to-Buy

Freemium programs require detailed cohort analysis, ideally, on a monthly basis. You'll want to track:

- Usage
- Renewals
- New product sales

All of these can be screened according to classes of customers, or products, and tracked against time. While the first month might be really important – the long-tail still plays. One company found that .5 percent of customers who downloaded their offering bought in the first 30 days, and another .25 percent bought in the second month. But the trail of purchasers continued for two years.

Playing Nice With Sales

Good freemium programs cut the time to close – 14 to 30 days is typical. The clock begins as soon as the app is downloaded. For large potential customers, some teams will work around the person

who downloaded the software, and aim cold-calls directly to their boss, typically using a combination of LinkedIn, [Discover.org](#), or [RainKingOnline.com](#).

Marketing Strategies: PPC, Reviews & WOM

If you're paying for PPC – cutting it can backfire. One company discovered that its PPC campaigns weren't directly delivering sales and cut the program, but then saw downloads stagnate. It became clear that the paid ads had a real impact, even if it wasn't directly measurable.

When it comes to reviews, social media and app store reviews – especially iTunes – are extremely powerful; the latter feeds into the 'top-selling' products, which in turn drive future sales. But there's another twist to top-revenue rankings; when LogMeIn raised its price to \$29.99 for its product, its aggregate revenue soared – catapulting it to the top of applications by revenue. And that, in turn, drove more downloads.

The Go-To Action: Freemium and PR?

The most important success factors are having a terrific product and a big enough market. And reviews. Word-of-mouth is enormously powerful – which means you'll absolutely want to tie into social media. In some ways, everything about PR comes down to word-of-mouth and getting products into paying customers' hands – helping them understand why they should be paying for your products.

What Do You Want to Learn Next?

- [Five Steps for Improving Your Social ROI](#)
- [SEO: Capturing Page One](#)
- [Measuring Social Media ROI in B2B](#)

Anti-Upgrade? Consumers and small businesses are generally more willing to suffer an inferior product – as long as it's free.

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