

Strategic Services Marketing
Prof. Kalpak Kulkarni

Department of Management Studies,
Indian Institute of Technology, Roorkee

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Lecture - 40

Pricing Strategies for Freemium and Subscription-based Services

Hello everyone. In this session, let's explore the pricing strategies for freemium and subscription-based services. What is freemium model? Before discussing freemium pricing, let's understand what is freemium services or freemium model. The freemium model is a pricing strategy used by businesses to offer a basic version of their product or service for free while also providing advanced features or premium offerings for a fee. The first part is free for them, the basic services whereas, for freemium features we are charging a fee. So, free with some premium services is called as a freemium.

The term freemium is a blend of free and premium. In this model, customers have the option to use the basic version of the product at no cost free with the opportunity to upgrade to a paid subscription or purchase additional features for enhanced functionality or access to premium content. So, what are the characteristics of freemium pricing? First, basic version is for free. So, freemium services offer a basic version of their product or service that is available to users at no cost.

This basic version typically includes essential features or unlimited functionality. Second characteristic is premium features at some fee. In addition to the free basic version, freemium services offer premium features or advanced functionality that are only accessible to paying customers only. These premium features may include additional storage space, advanced tools, ad-free experience or access to exclusive content. Third characteristic is tiered pricing.

Freemium services often offer multiple subscription tiers with different levels of features or services at varying price points. This allows customers to choose the plan that best fits their needs and budget with the option to upgrade or downgrade as required. Next

characteristic is upsell opportunities for the firm. The freemium model provides opportunities to upsell free users to paid subscriptions by enticing them with the benefits of premium features or enhanced functionality. This can be done through targeted marketing, in-app promotions or even with limited time offers as well.

Another characteristic is user engagement and retention. Offering a free version of the service encourages users adoption and engagement as it lowers the barrier to entry for the new users. By providing value through the free version and offering incentives to upgrade, freemium services can increase user retention and loyalty over time. So let's discuss some examples of successful freemium services. The first example that we have is of Dropbox.

The Dropbox offers cloud storage and file sharing services with a freemium pricing model. The basic version of Dropbox provides users with a limited amount of storage space for free while premium plans offer additional storage, advanced features and collaboration tools for a subscription fee. Another example is from a music streaming services app, Spotify. Spotify is a music streaming services that offers both a free ad supported version and a premium subscription plan. The free version of Spotify allows users to listen to music with occasional advertisements while the premium plan offers ad-free listening, offline playback and much more features like this including access to exclusive content.

Another example is Evernote. Evernote is a note taking and organization app that offers freemium pricing model. The basic version of Evernote is available for free and includes note taking, organization and syncing across devices. Whereas, premium plans offer additional features such as increased storage, offline access and advanced search capabilities. Now let's look at benefits of some freemium model.

First benefit is with respect to enhanced user acquisition. Freemium model attracts a larger user base with free offering. Second benefit in terms of upselling opportunities. With freemium model, firms can convert free users into paying customers through premium features or upgrades. And another benefit is with respect to market penetration wherein firm can expand market share by offering a compelling free version of the service free at initial stages.

Now let's look at some freemium pricing strategies. Broadly there are three. First is feature based pricing, then usage based and then time based pricing. Under feature based pricing, firm offer basic features for free and charge for advanced features or premium

upgrades. When it comes to usage based, firms try to limit usage or access to certain features for free users and charge based on the usage levels.

And finally a third kind of category of premium pricing strategy involves time based. Wherein a firm provides free access for a limited time before requiring users to upgrade to a paid plan. For example LinkedIn's premium account services. So you get one month or two months free trial where you don't get any charge or kind of a do payment that you are making. But after that particular free trial period ends you get into paying for the services.

So what are the challenges of the freemium model? First challenge here is monetization. This means balancing free and paid features to drive revenue without alienating users. The second challenge is with respect to conversion rates. That means converting free users into paying customers can be very challenging. And third challenge is with respect to value perception.

Wherein one needs to ensure that the free version offers sufficient value to attract and retain users. Now let's look at the subscription service model. Let's recap what is subscription service model before discussing subscription based pricing. So Netflix, Netflix is a subscription based streaming service that offers a vast library of movies, TV shows, documentaries and original content for a monthly subscription fee. Subscribers can stream content on multiple devices and access a wide range of genres and languages.

Second example Adobe. Adobe Creative Cloud is a subscription based software service that provides access to Adobe's suite of creative software applications including Photoshop, Illustrator, InDesign, Premium Pro and much more. Subscribers pay a monthly or annual fee for access to the latest software updates, cloud storage and additional services. So what are the characteristics of subscription pricing? But before that let's understand what are the characteristics of subscription model itself. So first characteristic is recurring payments.

So here subscribers pay a fixed subscription fee at regular intervals for example monthly or annually to access the service. This predictable revenue stream provides stability and financial predictability for the service provider. Second characteristic is access to features or content. Subscribers gain access to a range of features, content or benefits offered by the service. The specific offerings may vary depending on the nature of the service but typically include access to a library of content, software functionalities or even premium services.

Subscription model also involves tiered pricing. Subscription based services often offer multiple subscription tiers with different levels of features, functionality or access at various price points. This allows customers to choose the subscription plan that best suits their needs and budgets. Then comes automatic renewal. Subscriptions are automatically renewed at the end of each billing period unless the subscriber chooses to cancel it.

Automatic renewal ensures uninterrupted access to the service and convenience for subscribers. And finally subscription models offers flexibility. Subscribers may have the option to upgrade, downgrade or even cancel their subscription at any moment of time providing flexibility to adjust their subscription based on changing needs or preferences. So what are the benefits of subscription based model? The first benefit here is predictable revenues. Recurring subscription fees provide a steady stream of revenue for the service provider or business.

Second benefit, customer retention. Subscribers are more likely to remain loyal to the service over time leading to higher customer lifetime value. Then upselling opportunities. Subscription model offer tiered subscription plans with additional features or services to upsell to existing customers. However, there are challenges in implementing subscription based model.

The first challenge is customer acquisition cost. There is a high upfront cost associated with acquiring new subscribers, you know onboarding new customers onto the platform. Second challenge is with respect to churn rate. Retaining subscribers and reducing churn rates can be challenging as well.

And third market saturation. This challenge deals with increasing competition in the subscription based services market can make it difficult to attract new subscribers. Now let us discuss subscription pricing strategies. The pricing strategies that can be adopted for those subscription based service models. The first pricing strategy here is tiered pricing. That means offering multiple subscription tiers with different levels of features or services at varying price points.

Second strategy pricing strategy is freemium to paid conversion. Wherein we want to convert free users into paying subscribers by offering limited access or trial periods. For example, LinkedIn premium account. And then annual versus monthly billing. Wherein

a service provider wants to provide incentives for annual subscription such as discounts or exclusive features.

Let's discuss the subscription pricing strategies implemented by various players in the industry with some examples. The first example here is Zee5. Zee5 is a popular Indian video streaming service offering a wide range of movies, TV shows, original content, live TV channels and so on. Zee5 offers subscription plans with tiered pricing allowing users to choose between monthly, quarterly, semi-annual or even annual subscription plans. Each plan as shown in this particular diagram, right, for month, for six months, for one year and so on.

Each plan provides access to different levels of content and features such as ad free streaming, HD quality and exclusive content. The second example is from Gaana.com or Gaana app. Gaana is one of the leading music streaming platforms in India offering a vast library of songs in the various languages and genres. Gaana offers a subscription based model with both free and premium tiers.

The premium subscription known as Gaana Plus offers ad free streaming, unlimited downloads, HD quality and offline listening for a monthly or annual fee. Then comes another example from media industry that is Times Prime. Times Prime is a subscription based lifestyle membership program in India offering access to a variety of benefits and services across categories such as entertainment, food, travel and wellness. In this image, you can see, for example, with respect to wellness, it has tie up with cult fit and so on. With respect to food, they are having tie up with Starbucks and then again other partnerships with Uber, Gaana Plus, Zee5 and Sony Live as well.

Times Prime offers a single subscription plan with an annual fee. Subscribers gain access to a range of benefits including complimentary subscriptions to streaming services, discounts on dining and even travel offers and so on from its partners. Another example from education industry is BYJU'S. BYJU'S is India's leading and largest online learning platform offering personalized educational content and interactive learning experiences for students from KG or kindergarten to high school. BYJU'S offers subscription plans with tiered pricing based on the grade levels and durations.

Subscribers gain access to video lessons, interactive quizzes, practice tests and personalized learning paths tailored to their own academic needs. The platform offers monthly, annual and multi-year subscription options as well. Further, they have also

classified their products based on targeted education or exams as well. For example, JEE plus NEET, only NEET, then again only JEE and then online classroom program for JEE as well which is offered again in Hindi and English and the pricing is used in terms of tiered pricing approach. So these examples demonstrate how Indian service firms leverage subscription pricing strategies to offer value added services and content to customers while generating recurring revenue streams for sustainable growth and profitability.

So in this session we try to understand and explore the pricing strategies for freemium services as well as subscription based services as well. Thank you.