

## Digital business models

### Lecture 5. Open-source model, Free model , Freemium model

#### Content

- **Open-source model**
- **Free model**
- **Freemium model**

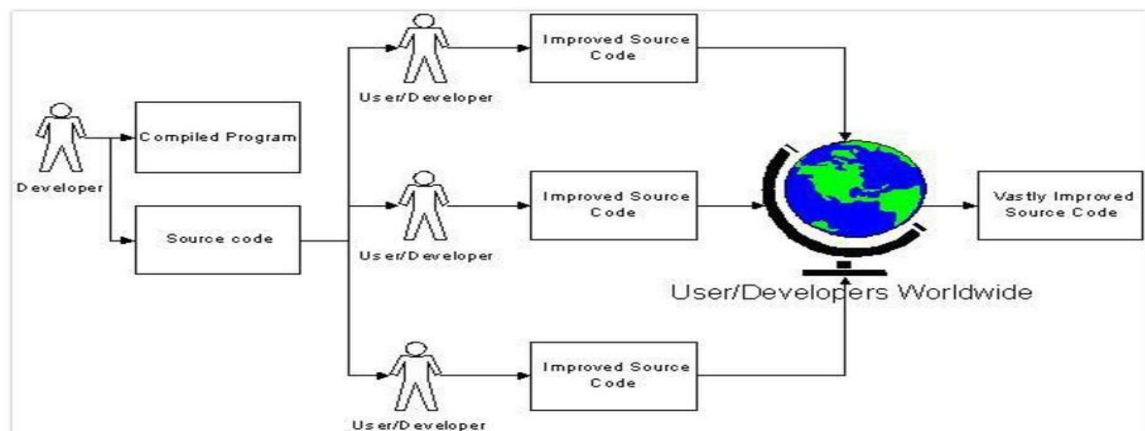
#### What is the Open-source model ?

- There are many types of digital business models, but some of them are very popular. In this lesson, we will look at the most popular and widely used digital business models. They are Open-source model, Free model and Freemium model.
- Let's start with the Open-source model. What is the model and how is it applied and who applies them.

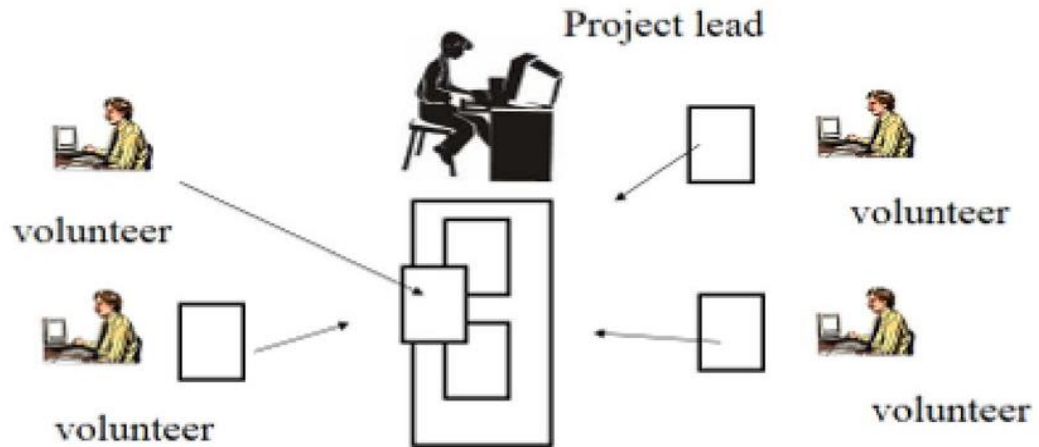
#### What is the Open-source ?

- Open source has become a general term to describe software that is freely distributed without restrictions.
- The main features that characterize free (open source) software is the freedom that every user has.
- By using open source software, you can customize it to your needs, improve it, fix bugs, extend its functionality and redistribute it to other users, etc.

#### How open source works ?



## Open Source Development Model



<https://slideplayer.com/slide/12827676/>

### What is the Open-source ?

- Open Source has become the generic term for describing software that is freely distributable without restriction.
- The main features that characterize free (open source) software is the freedom that each user has to.
- Use the software as one wishes, for whatever one wishes, on as many computers as one wishes, in any technically appropriate situation. Have the software at ones disposal to fit it to ones needs. Of course, this includes improving it, fixing its bugs, augmenting its functionality, and studying its operation.
- Redistribute the software to other users

### What is the Open-source ?

Open-source software is not a new idea but only recently have technical and market forces converged to draw it out of a niche role.

### What is the Open-source software ?

- Open as in free
- Open as in access
- Open as in over time

- Open as in not closed
- Open as in reuse and change
- Open as in any place and for anyone

## Examples of Open Source software

Product	Category
Apache	Server
Linux	Operating system
Perl	Language
PHP	Language
Python	Language
OpenOffice	Desktop
Tomcat	Server
uPortal	Framework
Zope	Framework

[https://www.researchgate.net/figure/List-of-Successful-Open-Source-Programs\\_tbl1\\_228826458](https://www.researchgate.net/figure/List-of-Successful-Open-Source-Programs_tbl1_228826458)

### What is the Open-source software ?

- How does Open-Source Software differ from other Free Software? These are examples of non Open-Source Software Shareware
- Demos/Crippleware
- Bundled Software
- Consortium-Ware
- Non-commercial use only

## The ten economically most important open source projects are

Ranking	Project	Leading company	Market Value
1	<a href="#">Linux</a>	<a href="#">Red Hat</a>	\$16 billion
2	<a href="#">Git</a>	<a href="#">GitHub</a>	\$2 billion
3	<a href="#">MySQL</a>	<a href="#">Oracle</a>	\$1.87 billion
4	<a href="#">Node.js</a>	NodeSource	?
5	<a href="#">Docker</a>	Docker	\$1 billion
6	<a href="#">Hadoop</a>	<a href="#">Cloudera</a>	\$3 billion
7	<a href="#">Elasticsearch</a>	Elastic	\$700 million
8	<a href="#">Spark</a>	Databricks	\$513 million
9	<a href="#">MongoDB</a>	MongoDB	\$1.57 billion
10	<a href="#">Selenium</a>	Sauce Labs	\$470 million

[https://en.wikipedia.org/wiki/Open\\_source](https://en.wikipedia.org/wiki/Open_source)

### Advantages of Using Open-Source Software













- Reduced Risk.
- Quality.
- Transparency.
- Right Features.
- Tailoring.
- Favourable licensing and pricing.

### When Not to use Open-Source Software

- Wrong features.
- Support issues.
- Wrong platform.

- Lack of technical staff.
- Inertia.

## Compare free and open-source software, public domain and freeware with examples

	 Free software	 Open-source software	 Freeware	 Public-domain software
<b>Definition</b>	<b>"FREE"</b> is a matter of liberty, not price	<b>"OPEN"</b> doesn't just mean access to the source code	<b>"FREE"</b> refers to price, while freedom of the use is restricted by creator	<b>"PUBLIC DOMAIN"</b> belongs to the public as a whole
<b>Ground philosophy</b>	Social movement	Development methodology	Marketing goals	Copyright disclamation
<b>Ground rules</b>	Four Freedoms <a href="https://www.gnu.org/philosophy/free-sw.html">https://www.gnu.org/philosophy/free-sw.html</a>	Open Software initiative <a href="https://opensource.org/osd">https://opensource.org/osd</a>		Creative Common Organization <a href="https://creativecommons.org">https://creativecommons.org</a>
<b>Free of charge</b>	Not necessary	Not necessary	✓ YES	✓ YES
<b>Covered by copyright law</b>	✓ YES	✓ YES	✓ YES	✗ NO
<b>Examples</b>	   		 	

<https://moqod-software.medium.com/understanding-open-source-and-free-software-licensing-c0fa600106c9>

### What's the relationship between open source and Linux?

- Linux is an open-source operating system
- To date the most dramatically successful open-source platform.
- Linux is very popular in education, Internet service applications, software development shops, and (increasingly) in small businesses.
- Linux isn't the whole open-source story.
- There are many other open-source operating systems and applications available, including Netscape's Navigator and Communicator client line of Web browsers.

### Dubious Reasons for Avoiding Open-Source Software

- These arguments are frequently used as excuses for avoiding open-source

products but which don't usually hold up well under scrutiny.

### **Fear of the unknown.**

- We have a large investment in a commercial software package.
- We need to someone to blame if there is a problem.

### **How open source works ? Open Source Development Model**

#### **Advantages of Open Source Software**

- Cost Effective. Generally an open source software is free to use. ...
- Reliability. High reliability can be ensured when using an open source software.  
...
- Flexibility. ...
- Scalability. ...
- Licensing. ...
- Error Free. ...
- User Friendly. ...
- Security.

#### **Examples of Open Source programs**

- Linux operating system.
- Android by Google.
- Open office.
- Firefox browser.
- VLC media player.
- Moodle.
- ClamWinantivirus.
- WordPress content management system.

#### **Top 10 best open-source programming languages**

- C++ and C
- Java
- Javascript

- PHP
- Scala
- R programming
- Python
- Kotlin
- Swift
- Ruby

## Free model

### What is free model?

- One of the most powerful techniques available for customer acquisition is giving away a free product or service. You can see the success of this with companies like Google, Facebook, JBoss, MySQL, HubSpot (with their free WebSiteGrader.com), etc.
- The trick to doing Free or Freemium business models right is to ensure that the product/service that you are giving away free is of very high value to the customer, which should result in both high customer satisfaction and a likelihood that they will tell others about your product/service, leading to viral effects. The usual temptation is to stop short of this, and take out the valuable features that would make the product interesting and valuable.

### What is free model?



## What is strategy of free model?

The free model has been adopted by the likes of Facebook, Instagram, Google and Twitter. The ideology behind the free model is that you, as the user become the product because you are not paying for this. This means that your data becomes the most valuable part of the business, as does your attention for advertising purposes.

## What is strategy of free model?

Powerful effect of using the free strategy is that it usually results in a far larger customer base using the free products, who become proponents for your company. This expanded footprint or market share can have a huge effect on the price that acquirers or investors are willing to pay for your company, as they recognize that even though these customers have yet to be monetized, they represent a great potential for future monetization. Twitter and Facebook are two perfect examples of this.

## What is strategy of free business model?

- Another way to look at this kind of business model is that it uses the company's engineering resources to solve the customer acquisition problem.
- In the Free business model strategy, the company is going to shift the cost of customer acquisition to the product development team.
- The cost of a few engineers developing a free product can be many times lower than the cost that would be spent on traditional marketing mechanisms such as trade shows, advertising, etc.
- HubSpot's WebSiteGrader is a great example

## What's the difference between free and freemium revenue models?

- Free Trials have a time-limit with two potential outcomes: either you pay or you are done.
- On the other hand, **Freemium is a model that provides prospects with a free of charge partial access to a software product, with no time limit set whatsoever.**

## Types of Free

- **Buy one get one free** – This type of *free* exists with traders who want to clear their stock inventory. This sort of *free* sells because people think that they get

more while buying less even though the fact is that they are spending money for free stuff.

- **Someone else pays** – Via advertisements. People buy AdWords from Google and that's why we get to use free mail, powerful search engines, great productivity features and more products for free from Google.
- **Cross-subsidy** – Product X is free but the customer pays a hefty price for sub-product Y which covers the cost for both items, for example, you get a free razor but the blades are going to cost you for the long term.
- **Freemium** – Quite popular these days. For example the basic account of the product is free but if user wants more features, he or she has to pay for premium services. Premium customers subsidize the free for products like Flickr, Dropbox, MailChimp. Critical mass is vital.
- **Gift Economy** – The price for the product is not fixed, e.g. Wikipedia is the free encyclopedia that anyone can edit, people usually help by donating. Lost Type – you can pay as much as you want for the fonts you download but it is not obligatory.
- **Free for real** – giving things for free without expecting anything in return, e.g. charity.

### **Who's using free business model?**

- Numerous companies. Most of new start-ups offer something for free, for example Spotify, SoundCloud, Rdio, GrooveShark, Evernote etc. The same applies to older established brands like Twitter, Skype, Vimeo, YouTube, Google, Yahoo who all implemented something from this business model and successfully grew with that.

### **How works Free business model in Games Angry Birds**

Angry Birds is free for Android, Chrome and Facebook. By letting people play this game for free they are building the fan base and spreading brand awareness. When the brand becomes well known, they start selling merchandise, apps for iPhone or the iPad, and special editions of Angry Birds like Angry Birds Rio, Angry Birds Space etc.

### **How to implement free business model ?**

- You can easily implement the free business model in your current business by following good practices used by other companies. Here is a list of some paid services you can offer your users:

- Upgrade features
- Premium services
- Support
- Add-ons
- Pay for commercial use
- Product giveaways for promotional purposes
- Membership
- Product trials

### **Pros and Cons of the free business model**

- One of the pros is the small conversion needed in order to succeed. Only 3-5% of users pay for the rest. That means you don't need a lot of users who actually pay for the product to be successful. Also, having a free product is easier to promote as well as build a community around it. For sustainability, huge amounts of traffic and users are needed, which is really hard to achieve if your product is very new and cannot compete with big competitors in terms of discoverability and originality.

### **Freemium business model**

#### **What is freemium business model ?**

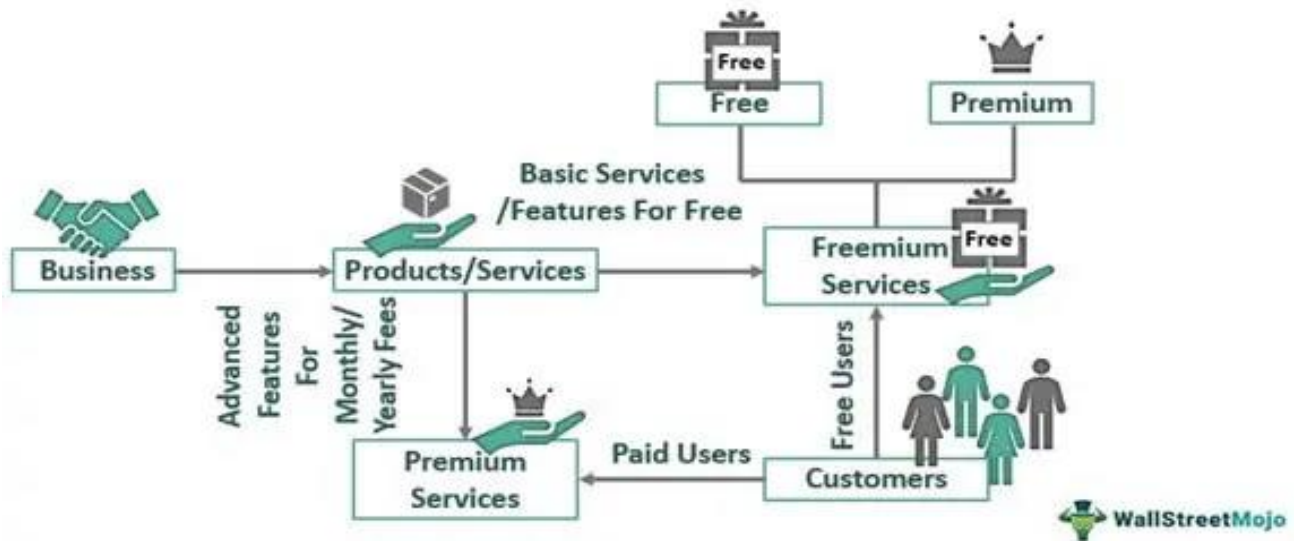
**Freemium**, a portmanteau of the words "free" and "premium," is a pricing strategy by which a basic product or service is provided free of charge, but money (a premium) is charged for additional features, services, or virtual (online) or physical (offline) goods that expand the functionality of the free version of the software.<sup>[1][2]</sup> This business model has been used in the software industry since the 1980s. A subset of this model used by the video game industry is called free-to-play.

(<https://en.wikipedia.org/wiki/Freemium>)

#### **What is freemium business model ?**

Freemium is a customer acquisition model adopted by businesses to introduce basic products or services to users for free. It is a part of the pricing strategy to entice free users to upgrade to premium versions with more advanced features at a paid subscription.

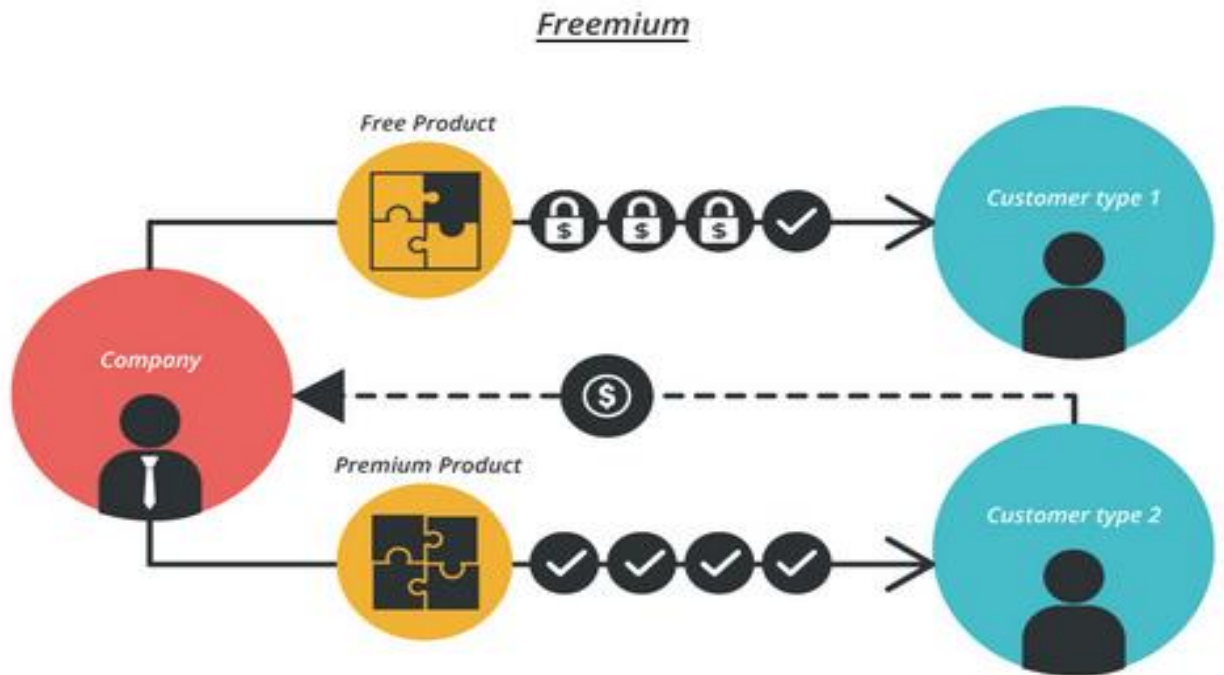
# Concept of Freemium



<https://www.wallstreetmojo.com/freemium/>

## The freemium business model

- The freemium business model is known as the “business model of the Internet”. The term freemium combines the words ‘Free’ and ‘Premium’. The basic product is available for free. The company generates revenue by offering connected premium product, i.e. additional functions or services which usually attract a small number of users. By giving away the basic product for free it is easier to lure users and create a customer base. This business model pattern is one of the most widely used for Internet start-ups.
- There are other business models that include a free product, but they are not based on the core concept of freemium. Neither the ad-financed model (link) nor the “premium with a free trial” model can be defined as freemium.

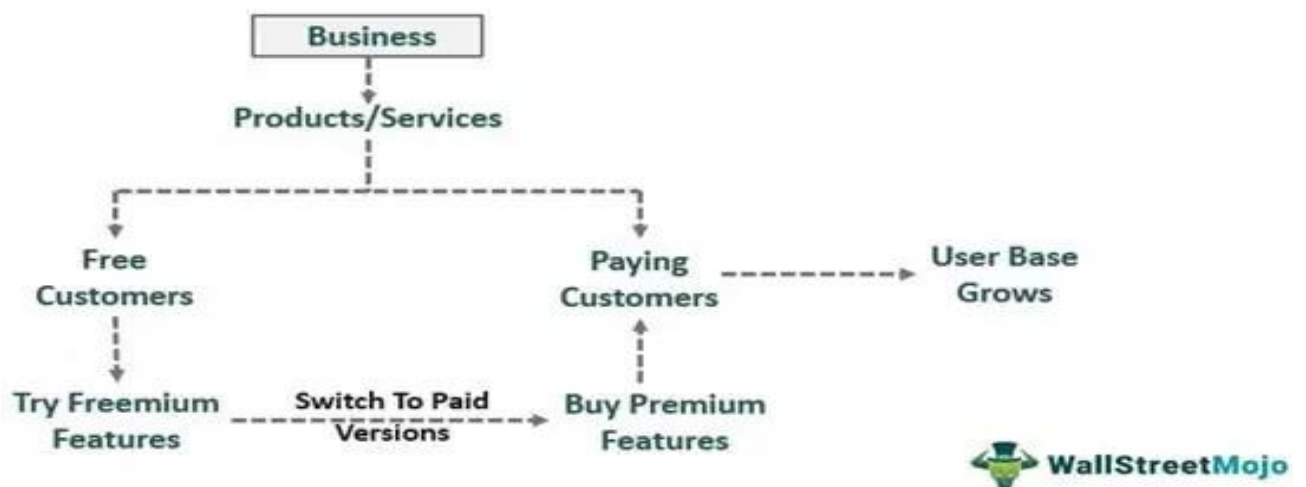


<https://bmttoolbox.net/patterns/freemium/>

### What is free revenue model?

With the freemium revenue model, **the most basic service level of a product is free for all, while more sophisticated service levels require users to pay tiered subscription fees based on usage levels.**

## Freemium Business Model



<https://www.wallstreetmojo.com/freemium/>

## What is Freemium?

Over the past decade “freemium”—a combination of “free” and “premium”—has become the dominant business model among internet start-ups and smartphone app developers. Users get basic features at no cost and can access richer functionality for a subscription fee. If you’ve networked on LinkedIn, shared files through Dropbox, watched TV shows through Hulu, or searched for a mate on Match, you’ve experienced the model firsthand. It works for B2B companies as well—examples include Box, Splunk, and Yammer.

## What is Freemium?

- With the freemium revenue model, **the most basic service level of a product is free for all, while more sophisticated service levels require users to pay tiered subscription fees based on usage levels.**

## Is a Free Trial a Freemium?

- Free trials and freemiums are slightly different; free trials are typically time-bound and only allow a user to "test out" a few parts of a product or service. Meanwhile, freemium models allow their free users to access the full application indefinitely.

## What is Freemium?

Several factors contribute to the appeal of a freemium strategy. Because free features are a potent marketing tool, the model allows a new venture to scale up and attract a user base without expending resources on costly ad campaigns or a traditional sales force. The monthly subscription fees typically charged are proving to be a more sustainable source of revenue than the advertising model prevalent among online firms in the early 2000s. Social networks are powerful drivers: Many services offer incentives for referring friends (which is more appealing when the product is free). And freemium is more successful than 30-day free trials or other limited-term offers, because customers have become wary of cumbersome cancellation processes and find indefinite free access more compelling.

## What is Freemium?

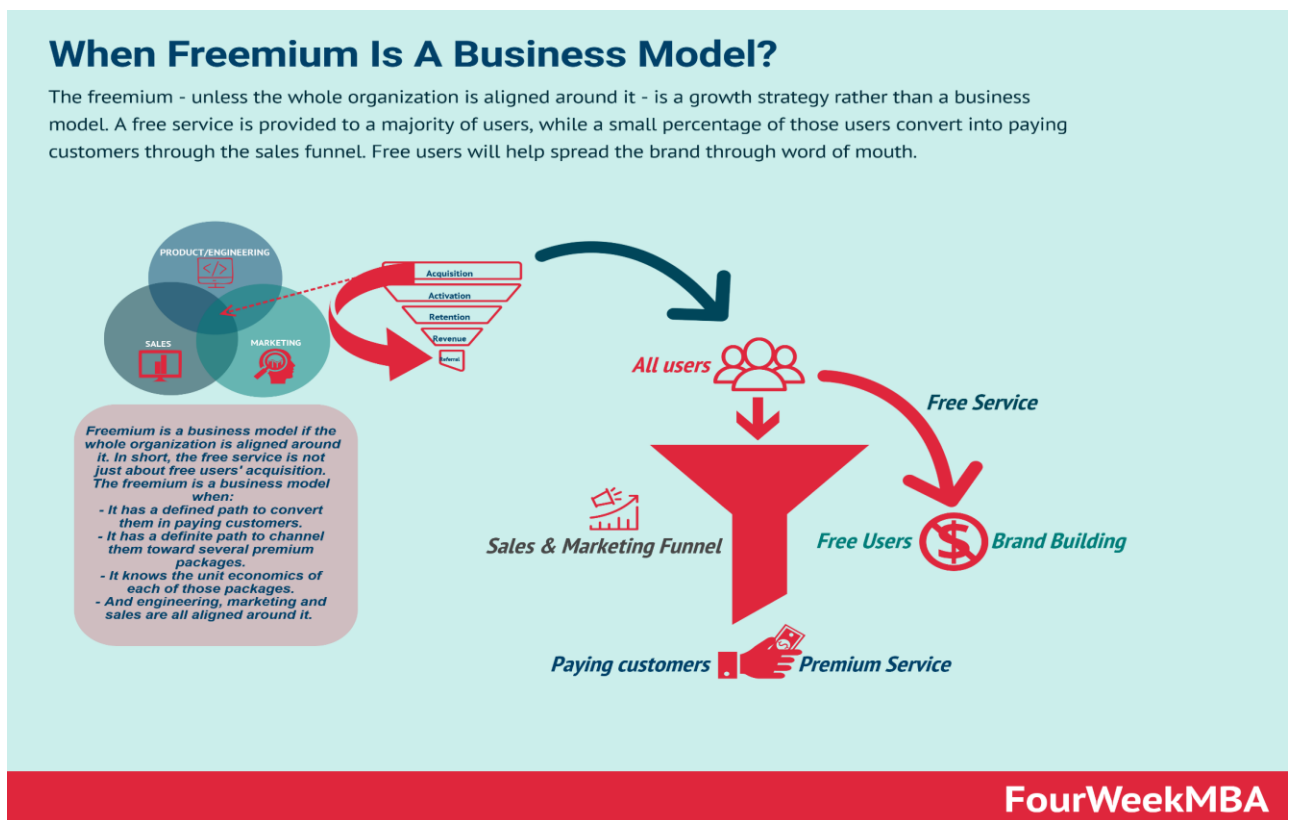
Freemium can be defined as a two-pronged acquisition structure that classifies users as either premium or free tier, contingent upon whether a user pays for access

to a service account. Users in the free tier category receive very little access to products and features because they don't pay. Premium users, on the other hand, enjoy a lot of access to products and features, but they need to make a payment to continue to enjoy the same level of access.

## What is Freemium?

Freemium is a **business model in which a company offers basic or limited features to users at no cost and then charges a premium for supplemental or advanced features**. The freemium business model dates back to the 1980s, though the term was coined in 2006.

**Freemium**, a portmanteau of the words "free" and "premium," is a pricing strategy by which a basic product or service is provided free of charge, but money (a premium) is charged for additional features, services, or virtual (online) or physical (offline) goods that expand the functionality of the free version of the software.<sup>[1][2]</sup> This business model has been used in the software industry since the 1980s. A subset of this model used by the video game industry is called free-to-play. (<https://en.wikipedia.org/wiki/Freemium>)



## **Breaking Down the Freemium Model**

- The freemium model produces a naturally nurturing configuration. The model provides users with the chance to encounter and interact with products without necessarily being subjected to salespersons or marketing campaigns.
- Once a product experiences success, free tier users eventually exhaust their access to free-level features, after which they need to make a decision, based on experience, on whether to seek a premium level account.
- Freemiums work well when developers offer additional features, superior functionality, or paid upgrades that many consumers will wish to access.

## **Limitations on the Freemium Model**

### **Feature limitation**

- Freemiums work well when developers offer additional features, superior functionality, or paid upgrades that consumers are likely to want. Feature access is limited for free tier users.

### **Usage quota**

- A usage quota comprises storage limits, recurrent credits, or information dispensing quotas.

### **Limited support**

- With limited support, freemiums can offer tiered products, support features, and different levels of customer service.

## **Free Trial vs. Freemium**

- After knowing the meaning of freemium, it's possible to wonder why companies don't just use free accounts. In fact, it's a question that businesses deal with on a daily basis. The correct response to the question depends on a number of issues, including specific goals, product type, and the target market.
- Like a freemium account, a trial account is designed to convert available leads to paying consumers. However, freemium and free trial accounts come with a few differences. Freemiums last for a lifetime, whereas trial accounts last for a short period, after which one needs to upgrade.
- In addition, free trial accounts typically allow users to access almost all the features of a product, while freemium accounts only allow a limited amount of access.

## **Benefits of Free Trial Models**

- An obvious benefit of a free trial account is the fact that a product provider is not obligated to offer support to casual consumers who don't create any benefit for a business.
- As soon as the trial period is complete, users face a choice between signing up for premium membership or leaving altogether. In this way, a business is able to create a high commitment rate because only paying members get to use the product on an ongoing basis.
- Additionally, free trial accounts are quite adept at converting free users into paying members, particularly when credit cards are used during the sign-up process.

## **Benefits of a Freemium Model**

- Although there is a clear crossover point with regard to using freemium accounts versus free trial accounts, a freemium model is usually an easier option for most customers.
- A free trial account causes a lot of pressure on a customer because a credit card is usually needed during sign up, and the free period lasts for only a short time. Thereafter, the client must make a decision on whether to pay up or quit the product altogether.
- Freemium accounts are more pressure-free, particularly for new customers, because they are given the chance to interact with and explore a product without necessarily having to make a purchase.
- Some customers don't need all the features at their disposal once they sign up for the first time. Nevertheless, with time, their needs may change, causing them to want more. That way, a product can easily be integrated into a customer's workflow.

## **Examples of Freemium Business Models**

### **Dropbox**

- File-hosting service Dropbox is a good example of a freemium business model. The company offers free storage up to a certain level, but charges for additional storage space and additional services.

### **Tinder**

- Another notable example of a freemium business model is the popular dating app, Tinder. Users are allowed to use the app for free but are also given the option to pay for the premium version of the app, which provides additional

features in addition to the basic ones.

### **Spotify and Apple Music**

- Spotify and Apple Music are free music-streaming platforms that provide additional features of downloading and listening to music off-line on a premium subscription basis.

### **Final Word**

- Freemium offers the potential to increase a product's acquisition prospects and then promote the rapid growth of the business, while keeping related costs at a minimum. All a business needs to do is focus on the needs of the client.

### **Success factors**

#### **Value Proposition – Free v. Premium**

- Thoughtfully design the value of the free product in relation to the premium product and make both your free and your premium services desirable.

#### **Ratio of free v. paying customers**

- Attract new customers with your free product but keep in mind what ratio between free and premium users is necessary in order to finance your business model.

### **Examples of Freemium Business Models**

#### **Skype**

Free computer-to-computer video or audio calls; to be able to call mobile phones and landlines as well as to have video calls with two people and more.

#### **LinkedIn**

Platform that connects people, companies and recruiters; free to publish profile and connect to people, paid services to contact and write messages to new people or to use profile pages as a company in a more professional way; combines freemium and multi-sided platform patterns.

#### **Dropbox**

Free storage and sharing of data; additional storage space available for a monthly fee.

#### **Spotify**

Free music streaming service; for a monthly fee it is possible to listen off-line and ad-free.

#### **MailChimp**

Free newsletter service; monthly fee if you want to send a larger number of newsletters or if you want to send your newsletter to more than 2,000 subscribers; MailChimp changed their business from premium to freemium and had a huge increase in users.

## Chances of use a Freemium Model

- **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

## Risks

**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.

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