

# Freemium: Lessons from Hollywood Boulevard

*When it comes to defining a pricing strategy, a guestimate is not an option, in this piece, Caroline Franczia uses examples from Pretty Woman to analyse a particularly dangerous approach: a freemium business model.*

Temps de lecture : minute

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I am categorical on this, in SAAS B2B, I am yet to be convinced that freemium\* is a sustainable go-to market strategy. Why would you depreciate the value of your software, worth that, to your enterprise customer may be inestimable? This is what Vivian, in *Pretty Woman* identifies from her very first ever encounter with Edward Lewis. Don't be put off by the girlie movie reference, when it comes to business insights, you'll see the quotes are... on point.

*"You can't charge me for directions!" - Edward*

*"I can do anything I want to baby, I ain't lost." - Vivian*

Except maybe - there should be at least one exception to such a bold

statement - if you have more of a B2C go to market strategy, which means that your solution will never, ever target an entire department, a complex, large company and the features between Freemium and the paying version are so clear and so valuable that people would end up paying for it.

*“I appreciate this whole seduction thing you've got going on here, but let me give you a tip: I'm a sure thing.” - Vivian*

Nevertheless, at the very early stage many startups believe that a Freemium offer is the way to go for growth and adoption. The main issue with thinking growth in your pricing strategy is that free volume will always equate to... zero pounds in the bank. And as we know, Zero multiplied by one million is still zero, and that is not good for your revenue growth. One million users paying nothing can leave you bankrupting your business in infrastructure, R&D and energy costs! Spotify, a B2C company lost €340M in 2019 with 265 Millions users and 127 Million paid users.

*“You people work on commission, right?” - Vivian*

*“Yeah.” - Shop assistant*

*“Big mistake. Big. Huge. I have to go shopping now.” - Vivian*

Before moving forward with any pricing strategy you must do a little bit of homework:

# Analyse your growth target audience

- Who are you targeting: type of population... and are they price sensitive?
- What difference will you make in their day to day: stickiness
- How can you become viral: adoption

# Refine your product positioning

- Is your software providing a solution that does not exist to a common problem?
- Is your platform based on features that no one else does?
- Is the product going to blow the users mind from the first few hours of usage?

With this in mind it is easier to define your go-to market route and associate the appropriate sales and marketing efforts (growth hacking) with the value based pricing strategy, one that will sustain your expansion.

*“I never joke about money.” - Vivian*

*“Neither do I.” - Edward*

The common truth with Freemium is that no matter how good your solution is, no matter how attractive the additional features might be, the person who is using your solution for free will do everything they can to keep it that way, especially if it is good enough as it is. Come on, except for maybe Vivian and Cinderella, how many people really have the opportunity to leave the streets of Hollywood Boulevard and end up shopping on Rodeo Drive?

*"I just wanna know who it works out for. You give me one example of somebody that we know that it happened for." - Vivian*

*"Name someone? You want me to name someone? Oh, God, the pressure of a name... Cinde-fucking-rella!" - Kit*



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SAAS has brought new ways of doing business, prospects don't want to enter into a super long sales process any longer, this is why you should be sure that your user interface is a killer and that your solution is intuitive so you can offer a limited trial, which could last up to two months.

With a solution that grabs the attention of the user and solves a problem, you can make sure that you establish your value and give yourself a chance to develop a relationship with your future customer. I recommend a trial that requires a credit card sign up so that the user is automatically charged when the period is over instead of cutting the services.

*“You know, you could pay me now, and break the ice.” - Vivian*

Your future is in your hands and mindset, if you decide your company will be big, it will be. Never underestimate the value of what you are building, no empire was created by giving out software for free. Your future depends on your margins, your growth depends on the cash you bring in and not just from investors and a careful management of your ratio of customer lifetime value (LTV) to customer acquisition costs (CAC), or the payback period on your CAC. Last, but not least, your employees' commitment and talent retention depends on the road to success you are designing.

*“Welcome to Hollywood! What's your dream? Everybody comes here; this is Hollywood, land of dreams. Some dreams come true, some don't; but keep on dreamin' — this is Hollywood. Always time to dream, so keep on dreamin.” - Happy Man*

\*Freemium pricing, a business model, especially on the Internet, whereby basic services are provided free of charge while more advanced features must be paid for, a subject that is often on my table for discussion.



*Caroline Franczia is a regular columnist for Maddynews and the founder of UpperCut First. Experienced in working for large companies such as Oracle, Computer Associates, and BMC, Caroline also lived in Silicon Valley for four years before moving to startups (Sprinklr, Datadog, Confluent) where she witnessed on the ground the benefits of a well-thought sales strategy. These are the foundations of UF: a structure that accompanies the European startups in their sales strategy by giving them an undeniable advantage in their go-to-market.*



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