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Measuring the Value of "Free" Applications: The Evolution from Free to Fee

Patrick Moran, Sr. Director Marketing
Cisco WebEx

Technology users are in the midst of a revolution, in which the movement to provide "free" software will drive the adoption of an entirely new set of productivity and business tools.

Free software comes in many flavors, from open source software, to freeware, to free "betas" of software and Internet service, to free Web-hosted applications. When it comes to technology software and services, it has become apparent: the price of some applications is fluid. The dynamic of "free" continues to change and will continue to do so as technology evolves and economies of scale influence pricing. The bottom line is: what is free today may be worth paying for tomorrow.

Considering this, several questions arise. Should you, as a business decision maker, seek out free goods and services or look for value that corresponds to price? In what context would you give away your organization's products or services?

What's Old is New Again

Shareware is one of the earliest industry examples of marrying scale with marketing. File compression software, such as PKzip and WinZip, gave away software for use on a restricted basis, either for a limited time or with fewer features, with considerable success. The free trial of a hosted application or service essentially gives the prospective buyer an opportunity to see if the application or service has value.

In the SaaS market, the free 30-day trial has been around for more than 10 years, but a newer method, the perpetual, but limited free trial, is becoming more common. These perpetual free trials usually have embedded advertising or limitations to functionality, customer support, data sharing or a combination of advertising and feature restrictions. The features or capabilities of the free version provide the user with an on-going experience

with the service so that the user will willingly convert to a paid subscription to get more value from the service.

For example, AdventNet's Zoho CRM service has a free subscription level that allows a company to set up an account, but the account limits the subscription to three users. The free edition also lacks a handful of features available in pay versions. Zoho's model provides a customer with a simple way to start trying the software at no cost. If the company has a very small sales organization, they can use it for free in perpetuity. Once the sales team grows beyond three users, presumably Zoho CRM has proven valuable and the company will pay for the service.

Skype provides another example of a free service within certain limits. By offering free calls between Skype users and providing fee services to connect to landlines and cell phones, Skype has a way to attract customers as well as generate revenue from value-added services.

Advertising and mass media have considerable influence on pricing due to the success of advertising and direct marketing subsidized consumer services. Newer companies are seeing the success of advertising subsidized email services, such as Yahoo! Mail, and social networking services, such as Facebook and YouTube, as models for launching their services; even when the customer is a business instead of a consumer. Free services, however, typically have some limitations. The free version of Yahoo! Mail, for example, limits the number of message rules a user can run.

The Future of "Free"

While the temptation for many companies may be to embrace free software, the differences between free and for-fee software can easily provide ROI (return on investment) for the buyer. Additional features and capabilities, such as guarantees on uptime, service and support, can justify the cost if they allow users to work without sacrificing productivity.

With 30day free trials, for example, it doesn't make much sense for users to hop from free trial to free trial when considering the risks associated with constantly changing providers: forgotten passwords, losing data undermine user productivity. In fact, the value of "for-fee" services becomes apparent when using that software to collaborate with partners and customers. Relying on advertising-based solutions or ones with inherent limitations can give partners and customers the impression or hinder collaboration.

Buyers should continue to expect to see free trials, with some caveats, for the foreseeable future. In fact, access to free versions of for-fee on-demand services will likely become more pervasive as a way for individual users to realize personal benefits of the technology. The fee versions will include more collaborative features for working on shared data across larger groups.

The model that some open source software vendors use to add value when charging for applications will likely be common with SaaS vendors, as well. Some open source applications, charge for modules for integrating with other applications as a source of revenue and incentive to buy a commercial license. On-demand applications that may otherwise be free will add value and charge for integration with third-party applications, either in the cloud or on-premise.

In addition, a number of services will continue offering advertising-supported applications. This idea, also more than 10 years old, has enjoyed resurgence lately because of the number of new companies bringing SaaS applications to market. The advertising supported model allows the companies to quickly acquire customers with a free service while still having a source of revenue.

Companies offering a mix of advertising supported and fee-based services will likely continue to do so, provided ad sales continue to support the costs of running the free version. A decline in advertising revenue, could force some free applications to disappear, however, since they would no longer be profitable.

Free to Fee: A Success Story

WebEx WebOffice was one of the first advertising supported SaaS applications. Even before the economic downturn in 2000, WebOffice (at the time named Intranets.com) converted from an advertising-supported to a paid subscription model for a number

of reasons.

Primarily, by 2000 the Web advertising model had begun to move from a page impression model to a pay-per-click model. Advertisers realized that while the branding impression of a Web advertisement had value, ads that resulted in a transaction had more value. Users of Web applications weren't aligned to the transaction-oriented model, however, as they had subscribed to the application to do work, rather than shop.

Today, WebEx WebOffice is a thriving for-fee service. During its transition from free to for-fee, WebOffice retained customers that saw the value of the service and were willing and able to pay a fee to use it. Not all customers converted, however, as some couldn't afford the service or didn't want to pay for a service that had been free. Those customers that did switch realized the benefits of a shared team workspace service, in saved time and the ability to centrally share information. WebOffice customers also saw the immeasurable value in having 24-7 access to customer support and guaranteed availability and reliability.

Focusing on Value

Anyone comparing free against for-fee on-premise and on-demand software should consider how much time and effort they have invested in the software, the value they derive and how they expect to realize a return on their investment going forward. People don't switch from 30-day trial to 30-day trial because it is too difficult to keep learning new applications every month.

Likewise, you should make sure that the value corresponds with the cost. While something is free, do you want to risk your customers or partners seeing advertisements for your competitors? Is it really worth picking a free product or service that only does half of what you need, when paying, often very reasonable sums, ensures you can do almost everything you need, plus some?

The hard truth is that we can't assume a service will be free forever. And, when it comes to SaaS, you are often likely to end up paying for the service in some way or other down the line.

