

This sheet is a handout material from Udemy course:

[Essentials of Software-as-a-Service \(SaaS\) Business.](#)

All rights reserved (Robert Barcik, robert@barcik.training).

4.6 Freemium Model

In the previous lectures, we have covered the free trial model in depth. Now we shift our focus to another popular SaaS model—the freemium. A freemium is a model where the product is offered for an unlimited amount of time and without charge. Let's explore the key distinctions between the free trial and freemium models.

Aspect	Free Trial Model	Freemium Model
Duration of Free Access	<ul style="list-style-type: none">access to features for a limited time	<ul style="list-style-type: none">unlimited access to features
Access to Features	<ul style="list-style-type: none">most or all features are availablepayment required afterwards	<ul style="list-style-type: none">basic features are always freeadvanced features require payment
Engagement and Conversion	<ul style="list-style-type: none">immediate, intense engagementurgent decision-makinghigher short-term conversion rates	<ul style="list-style-type: none">gradual engagementno immediate deadlinea longer time to convert

First, let's discuss the duration of free access. In the free trial model, users are provided with access to features for a limited period, typically ranging from a week to several months. Once the trial period ends, continued access requires payment. In contrast, the freemium model offers unlimited access to a basic set of features without any time constraints.

Next there are differences in the access to features. The free trial model typically offers access to most or all features of the product during the trial period. This extensive access is designed to encourage users to subscribe once the trial expires. Conversely, the freemium model divides the product into two distinct segments: a free version that provides basic features sufficient for general use, and a premium version that unlocks advanced features. This segmentation is also reflected in the name 'freemium,' a blend of 'free' and 'premium'.

Next we will take a look at how these models influence both user engagement and the subsequent conversion strategies. In the free trial model, user engagement is intense and immediate. Users are aware that they have limited time to evaluate the product's full capabilities, which creates a sense of urgency. From a strategic standpoint, this model

pushes users towards a decision with a clear deadline—the end of the trial period. The immediacy of this deadline can lead to higher conversion rates in the short term, as users are prompted to make a quick decision on whether to subscribe or not. However, the quick decision to subscribe can be overwhelming for some, especially if they're not ready to commit financially right after the trial period ends. Contrastingly, the freemium model fosters gradual user engagement. There's no initial rush or deadline pressuring users which reduces the psychological barriers to trying the product. Users are encouraged to upgrade through continuous engagement. Although this approach may result in a longer time to convert users into paying customers, those who do decide to upgrade often feel more satisfied, as their decision is based on a gradual discovery of the product's value.

A prime example could be Spotify which also utilizes the freemium model.

	Spotify free	Spotify Premium
Over 80 million songs	✓	✓
Podcasts and audiobooks	✓	✓
Travel abroad with your music	For up to 14 days.	✓
Pick and play any track on mobile	Available on select playlists.	✓
Play songs in any order		✓
Ad free music listening		✓
Download music		✓
Download podcasts	✓	✓
Highest music quality		✓

It offers a version called “Spotify free” that provides basic music streaming functionalities. For additional features like highest music quality, ad-free music listening, and downloading music, users must upgrade to the “Spotify Premium”. Spotify continuously enhances its premium offerings to make the upgrade more appealing, employing strategies such as exclusive content and personalized playlists, which have proven effective in converting users from free to paid version.