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

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## 4.7 When to choose the Freemium model?

As we've already explored the specifics of the freemium model, let's now turn our attention to why SaaS companies might choose this approach over others. This decision is not made lightly, as it involves assessing key factors, such as: strategic goals of our company, the nature of the product and the target market.

### *Strategic goals*

#### Strategic goals

- if we want to build a large user base and collect valuable user data
- best for monetization through upsells and premium features



Firstly, **the strategic goals** of a company are fundamental in this decision. If the company wants to quickly build a large user base and gather valuable data on user behavior, the freemium model is often the preferred choice. For instance, Dropbox uses the freemium model to attract a vast number of users by offering a significant amount of free storage space. This way the company gathers extensive user data and insights without the barrier of cost and accelerates both user acquisition and data collection. Also, if your plan is to monetize primarily through upsells and premium features, the freemium model can perfectly showcase the value of these enhancements. However, if the core value of your product is immediately apparent and can be fully experienced in a short period, a free trial might lead to quicker and more effective conversions.

### *Type of product*

#### Type of product

- effective for products that benefit from network effects
- suitable for easy-to-use products with minimal learning required



Regarding **the type of product**, the freemium model is particularly effective for products that benefit from network effects — meaning the more people use the product, the more valuable it becomes. Think about collaborative tools such as Asana or Trello. This type of

products often require widespread adoption to truly demonstrate their value and become indispensable to users.

### **Target market**

#### **Target market**

- highly suitable for the B2C sector with a large and diverse user base



Lastly, **the target market** plays a crucial role. The freemium model is especially suitable for the business-to-consumer (B2C) sector, where the potential user base is vast and diverse. In such markets, even a small percentage of users upgrading to premium services can have a significant impact on revenue. This is because the scale effect—the broader the base, the greater the potential for revenue. For example, with an ideal conversion rate ranging from 2% to 5%, even modest increases in user base size can result in substantial financial gains. Take Google Drive, for example. It uses a freemium model that provides users with a basic amount of storage for free, which is sufficient for most casual users. However, for those who need more space, Google offers various premium plans. This strategy not only captures a vast number of free users but also creates a steady revenue stream from those converting to premium out of necessity or convenience. This contrasts with free trials, which can be effective in any market size and are particularly useful when rapid revenue generation is a priority.