



Jeff Yoshimura, Vice President Marketing, Zuora

For years, consumers have enjoyed access to a world of free online content. Some industry experts thought the model would somehow last. But the growth of the Subscription Economy has demonstrated that businesses and consumers are willing to pay for formally free online services that are valuable to them. So I'd like to declare what's overwhelmingly obvious: the age of free is over.

Want proof? There were two stories recently that have effectively sealed the coffin on "free":

First, Fox announced that it will only offer next day Hulu screenings to cable subscribers. Everyone else has to wait 8 days. This follows recent moves from ESPN and CNN to do the same, with some calling it "authentication." Authentication is just the step before a full paywall. Media players now know that customers want their programs and they will pay for them, so long as they deliver them in every format and device that they carry.

Second, the New York Times announced its first quarterly results since launching its paywall. In just three months, the Grey Lady attracted more than 280,000 paying subscribers. And that move directly led to the Times' first quarter of Y-o-Y quarterly growth in almost 3 years! To quote Ryan Chittum at the Columbia Journalism Review,

"It proves that, contra the naysayers, readers will pay good money for quality news."

But this isn't about writing the "free" obituary. The "free" movement has always deflected the conversation from the real issue, which is how do you own the customer. For example, in the above piece, it's clear that Hulu doesn't own the customer; someone like Comcast does. That could explain why formally hot Hulu is seeking a buyer.

The companies that succeed in the Subscription Economy are those who understand the customer better, deliver the services they want, on the devices they want, and at the right price. It's about putting the customer at the center of your business model by delivering valuable services today (and more tomorrow) that people are loyal to and will pay for. And it's about adopting a family of pricing plans, tailored to the unique needs of different customer segments. And those needs might include a free trial. Which is valuable so long as it's part of a larger pricing strategy and not the ONLY strategy. Revenue models that rely exclusively - or even primarily - on ad sales are dead.

It's time for the industry to wake up. It's never been about "free" as a strategy. It's about the customer. And tech vendors and service providers are starting to recognize this. Let's look at some key examples more in depth.

Ning: How to Kill Your Free Strategy and Succeed

Consider Ning, the leading platform for creating your own social network. For years, Ning had focused on offering its service as mostly an ad-supported freemium solution. But as ad rates plummeted and Ning continued to bleed cash, the company recognized it had to change its strategy or face an unpleasant future.

In May 2010, Ning announced that it was shuttering its freemium product in favor of a recurring subscription model. This was a bold move. Ning recognized that it was going to lose customers. However, it also understood that its original model meant it would continue its unprofitable ways and would lead to a slow, inevitable death. The choice was clear.

Just 45 days later, Ning executed seamlessly on one of the most closely watched shifts to a paid subscription revenue model in the technology industry. More importantly, as part of this move, Ning tripled its paying user-base just weeks after going live on its new subscription commerce platform. That's the power of the Subscription Economy.

How did Ning do this? A couple of ways. First, by offering a free option initially, it managed to attract a relatively large group of customers out of the gate. Most of these users were so committed to Ning's great service that they were at least open to the idea of paying for something that they had been getting for free for years.

However, Ning would have been unable to convince most of them to hand over their credit cards if it hadn't also articulated substantial "value" for each of its paid subscription packages. These packages included an array of new services and capabilities that would improve the customer experience. And, very smartly, ones that mapped to the different ways that users engaged with Ning. Upon the launch of its subscription-only service, these services included a customer support offering (\$10 per month or \$100 per month depending on the level of service); custom domains (at \$5 per month); additional storage and bandwidth (at \$10 per month); ad removal (at \$25 a month). And, even a service that would erase any traces that you were running your social network on Ning (at \$25 per month).

What are the lessons from Ning? First, it is possible to make a successful transition from a freemium offering to one that is based on subscriptions. Secondly, within the Subscription Economy there certainly is room for free: free access to one's service can be a powerful means for initiating a relationship with a potential customer. However, a two or three month free trial to Ning might have brought in almost as many customers as its initial strategy of offering ongoing access for free. And offering a free trial also would have put the company on a path to profitability much earlier. And third, customers are willing to adapt to subscription models to access the products and solutions that they depend on.

The key is providing them with more value than they experienced with the freemium version. Just asking people to pay for what they got free yesterday will fail 100% of the time. Finally, while some people wring their hands over the 'Pandora's Box' of pay walls, companies like Ning have positioned themselves for dynamic growth. Either get on board or get out of the way.

Netflix: What Not to Do with Your Paid Subscription Strategy

Making the shift from free to paid can be tricky and needs to be handled delicately. In fact, any price change in the Subscription Economy can be a high wire act if it's not managed efficiently and properly with a clear understanding of your customer base.

Enter Netflix, poster child of the Subscription Economy. If Ning earned an "A" for clearly articulating the value of its new subscription plans, Netflix deserves an "F" for some of its recent pricing changes.

For years, Netflix was a poster child of the Subscription Economy as a result of the way it had

successfully built and monetized long-term customer relationships. Customers were delighted to pay a monthly subscription in exchange for having movies delivered to them (via mail and/or streaming)...while also avoiding the late fees associated with Blockbuster and other movie rental operations. Subscribers were so enamored with the service that millions stopped renting at Blockbuster, leading to a fire sale of Blockbuster to the Dish Network.

However, in recent weeks, Netflix has made a couple of critical missteps. Chief among them, the company announced that it would no longer include free streaming with its DVD subscription service. Rather, Netflix would break up the two services. And, the total cost of subscribing to the two plans would be a whopping 60% more than the earlier, combined DVD/streaming service. What was the benefit of the combined plan to the customer? None. Zero. Zilch. As result, many formerly loyal Netflix subscribers dropped their memberships within days, leading to an \$8B loss in the company's value, which represents HALF of the company's market cap.

The lesson here is that customers want to feel that they are getting real, tangible value for their money. And, for years, Netflix made a compelling case to its customers. Additionally, the free streaming service and lack of DVD late-fees had made customers feel in control: in the case of the former because one could chose to watch a movie "instantly" and in the case of the latter because one didn't feel that one was being taken advantage of. (Who hasn't felt ripped off when learning that they would have to pay \$10 in late fees on a couple of DVDs?)

In the Subscription Economy, the companies that ultimately succeed are the ones that can continually justify the value of their monthly fees while making their customers feel in control. By violating these basic tenants, Netflix has managed to piss off even the customers that they've retained, irreparably lost everyone's trust, and even created an opportunity for long-vanquished Blockbuster to make a comeback.

The situation with Netflix reminds me of one at salesforce.com years ago. Zuora's founder/CEO, Tien Tzuo, was Chief Marketing Officer at Salesforce back then and relayed this story. As with Netflix, Salesforce decided to charge more for its services, raising the monthly subscription fee from \$50/user/month to \$65/user/month. The backlash was immediate. Investors, customers and the media lambasted them for the move. But, they did learn a few invaluable lessons. First, they were reminded just how delicate the relationships are with one's customers. And secondly, that customers would be willing to pay more if they felt they were indeed getting more for their money. Salesforce.com did this, and continues to, by delivering higher value services on top of Salesforce CRM.

Box.net: Using Free as an Onramp to Paid Subscriptions

Service providers are being forced to look to cloud services for new revenue streams, and when they do this, they start encountering the need to work with consumers as readily as they speak to enterprises. So forget about B2C and B2B marketing. Think B2Any.

Take online storage and collaboration company Box.net. Box started by selling direct to consumers and individuals inside companies with a freemium model. Later, Box added a premium subscription version for those individuals that wanted more services. By adopting this mentality, it rapidly grew that initial base while quietly expanding into enterprise-size deals. Just recently, Box announced a deployment to 40,000 employees at P&G. How did Box get there? It satisfied individual fans who sung Box's praises widely, and it built the company completely around those customers.

To this day, Box still offers a free service to consumers. But, that free service has helped create a legion of loyalists within companies that are now paying Box monthly for its "Business" and "Enterprise" plans. In the latter case, I suspect quite handsomely. That's BtoAny.

What is your strategy to progress a customer from free or light usage to premium and heavy usage?

In today's Subscription Economy, it's about speed and the flexibility to respond to what your customers want. If you don't deliver that, your competition will.

This article is published in [SIIA's Marketing in Today's Economy](#) , released in 2012.