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Could Freemium Models Work for Legacy Newspapers?

The newspaper industry has long been looking for sustainable business models for their digital editions. One of their popular choices is the freemium business model based on free and premium content with a paywall. However, freemium has not yet lived up to the expectation of the industry and has not secured the revenues that industry players hoped for. This article discusses a number of the main principles of the freemium strategy and tactics, and highlights the critical points for legacy newspaper organisations.

In 2015, the Danish newspaper industry continued its decade-long decline of the printed newspaper circulation. The main cause of the decline is the change in preferences of readers, who prefer online news sources. This change in preferences and the resulting decline in circulation have created economic uncertainty for the legacy newspaper firms: while the business model of printed media provided healthy revenues from both subscribers and advertisers for many Danish titles, the Internet-based revenue models have not yet succeeded in ensuring sustainability of their business.¹

It appears that leading Danish newspapers cannot generate enough revenues from online activities to compensate the costs of producing and distributing their content online² despite increasing the Internet traffic to their websites. As a consequence, many legacy newspaper organisations adopted mixed-revenue models based on advertising and subscription for their online content, but continued to exploit their printed titles for the necessary revenues. Much of the digital content is, however, still free of charge. This supports the constant traffic to newspapers' news sites, but implies a dif-

ferent and logically distinct type of a business model (i.e., the so-called *free business model*).

Unlike the traditional (i.e., paper-based) business model of the newspaper industry, the logic of the free business model suggests that at least one substantial customer segment can benefit continuously from a free-of-charge offer.³ The free consumption of non-paying customers is then supported by another business or customer segment. Numerous examples from industry suggest that it is feasible to run a business model based on a free offering by collecting revenues elsewhere⁴ (e.g., from parties other than the immediate beneficiary of the free offering or by converting free users into paying customers). Advertising, freemium, cross-subsidization, gratis, promotion, and barter are the most common free business models to date.⁵

For some years, newspapers have tried to implement various free business models for their online editions, and the freemium business model has received particular attention by the online news media. Also, various premium services have been tried and tested by online news media, and in some cases they have succeeded in building a sustainable business model. In news media, a premium service is often referred to as a paywall. One of the

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success stories is the New York Times, which secured over one million digital-only subscribers for its metered paywall and around \$200 million in digital revenues.⁶ To an extent, a similar result is seen with the Wall Street Journal (with 900,000 subscribers) and the Financial Times (with over 500,000 digital subscribers). However, the one million paying digital subscribers of the New York Times represents less than 2 per cent of all unique US visitors per month. Put differently, the sustainability of the New York Times digital business depends on a narrow group of loyal core readers who represent less than 5 per cent of the overall 60 million readers.⁷ Newspapers with a considerably smaller readership will, therefore, have little chance of monetising their content to get the level of revenues that would permit them to run a daily title.

Apart from online news media, many other types of Internet-based companies – commonly referred to as e-businesses – have emerged from and still rely on a various free business models for different reasons, such as the acquisition of new users or promotion of new products.⁸ Those companies provide valuable insights into how newspaper companies can utilise their free business models to achieve sustainable revenues and secure their future in the marketplace. Of particular interest are successful online firms executing freemium business models, since they can in time inform newspaper managers about how they can best implement this type of business model. The main assumption here is that there are common principles of business model sustainability in the online environment and that some online businesses are even in direct competition with the online news media for reader attention, time, and loyalty. In the remainder of the article, I discuss some of the major aspects of strategy, business model design, and tactics relevant for online news organizations.

Freemium business model

In most management research contributions, a business model is viewed as a conceptual tool which explicitly states how the business

functions and comprises four fundamental components: 1) a value offering (value proposition), 2) value creation, 3) value delivery, and 4) value capture.⁹ A value offering is a firm's bundle of products and their characteristics. Value creation is the arrangements of resources, competencies, activities, processes, and partnerships with other firms to create and deliver the value offering. Value delivery is the segments of customers to whom the firm offers the value offering, as well as the various means and channels to reach the segments. Value capture refers to monetisation, i.e., revenue model and cost structure). Moreover, a business model is also often perceived as a representation of the firm's realised strategy,¹⁰ which assumes that a business model design and configuration is aligned with the firm's strategy, which then guides the realisation of relevant business tactics.

Over the last three years, I have been studying freemium business models of successful e-businesses. The companies I investigated include the music streaming service Spotify, event management platform Eventbrite, professional networking service LinkedIn, cloud storage provider Box, and also a number of smaller firms. The conducted research¹¹ reveals many commonalities in business model configurations, strategies, and tactics of e-businesses that managed to achieve sustainable freemium business models. First and foremost, their business model configurations rely on offering a fully functional free product/service, which is highly relevant for and appeals to a mass market. Their value creation is focused around content creation and maintenance, as well as platform development and management. Their value delivery relies on the Internet, their own and third-party websites and applications for various mobile devices. The value capture is ensured by the revenues from premium users and, to some degree, on the earnings from advertising, albeit to a much lesser extent. In other words, their freemium business models are very similar to those we know from online news media and are therefore comparable. However, the strategies and tactics employed by those e-

businesses differ considerably from those we observed among the legacy newspaper organizations in Denmark and other Nordic countries. And the apparent differences can explain their limited success with freemium business models and raise the question of whether a freemium business model is the answer for the newspaper industry's future.

Freemium strategies and tactics

The successful freemium companies we studied employ a growth strategy that implies continuous expansion of their customer base and their own operations. The driving factor is the hunt for as large a user-base as possible, which can then lead to a high number of paying customers and hence lower fixed costs. (We found that a typical conversion of a freemium business is around 2-5 per cent, as is the case of the New York Times.) This is achieved through new market development, international expansion, as well as mergers and acquisitions. Moreover, the companies invest a considerable proportion of their revenues in innovation. Being technological leaders in their field is considered by most as a matter of life or death, since current users can easily lose interest in a product/service that is not technologically up-to-date. Mergers and acquisitions often bring both new customers and/or proprietary technologies. This growth and exploration strategy is implemented through freemium business model configurations and various acts, initiatives, and strategic choices, which can be referred to as tactics. Therefore, tactics relate directly to the four main business model components (i.e., value proposition, value creation, value delivery, and value capture).

Tactics related to value proposition

Because freemium companies aim to reach and acquire as many users as possible, they therefore target mass markets and offer products/services that appeal to the majority of potential users. This product-market fit is achieved through continuous development, improvement, and refinement of the value

offering. Additionally, successful freemium companies regularly enhance the value of their free and premium offerings (e.g., by adding new services, additional space, content). At the same time, they look for a balance between their free and premium offerings, since being too generous can potentially lead to cannibalisation of some revenues (i.e., when users are fairly satisfied with the free product, they may not want to subscribe to the premium one).¹² Most important, however, is that the freemium companies possess a very precise understanding of what their users and paying customers do and want. This is achieved by the state-of-the-art data analytics staff or departments who monitor and analyse online user behaviour. Based on the analyses, the firms conduct customer segmentation, develop new value offerings, and fine-tune their promotional campaigns.

Tactics related to value creation

The value offerings are created and delivered by successful freemium companies with the help of state-of-the-art technology, sizable R&D spending, highly qualified staff, and creative approaches in product design and delivery. To put it another way, the approach to value creation by those firms is highly explorative (i.e., aims at the superior value creation which inflicts high costs and even requires capital investments). The e-business firms are also very keen in various partnerships with hardware and software producers. They seek to integrate various partner products and services into their offerings, as well as push the backward integration of their own products.

Tactics related to value delivery

Freemium companies typically aim at the mass market without prior segmentation of various user and customer groups. Only when they have acquired a critical mass of users, do they analyse them and identify clusters of users with similar characteristics, which can then be defined as distinct segments. Another central tactic is the use of multiple and diverse digital delivery channels. Their products/services are typically available on most popular

consumer platforms (i.e., web, mobile, tablets, and even TVs and digital set-top-boxes). Also, a lot of user acquisition takes place through social networking sites or social media, such as Facebook, Twitter, and LinkedIn. Sourcing readers through various social media is also common for newspapers, and Facebook has already overtaken search engines as the main source of new readers.

Tactics related to value capture

Keeping the costs inflicted by free users as low as possible and converting those users into paying customers are vital for freemium e-businesses. However, our research revealed that approximately 80% of their overall costs are related to free users, while premium customers generate the majority of revenues. Despite this uneven distribution, freemium businesses constantly search for new free users. This has three major objectives: 1) to add revenues from converting free users into paying customers, 2) to lower fixed costs per user and achieve economies of scale, and 3) to increase company valuation. This last objective appears to play the crucial role in freemium companies' survival. This is because high valuations attract investors, who are willing to infuse capital in the hope of future returns on their investments. Additional capital allows company growth and development based on innovation and market development – the cornerstones of the freemium strategy.

Freemium strategies of newspaper companies

Legacy newspapers with freemium business models do not follow a strategy that is similar to those of the freemium e-business firms we studied. Successful freemium firms base their success on continuous innovation, seek out new markets and new opportunities, and are oriented towards growth and risk taking. This strategy is often referred to as the *prospector* strategy in the classic strategy literature.¹³ Newspapers' freemium strategies are somewhat different from the prospector strategy and are focused on defending the existing

readership and customer base and reacting to the market threats rather than being proactive in creating new market opportunities. Although the newspapers put a great deal of effort into producing digital content, their value offering does not change considerably over time and in itself cannot be considered as being innovative – it is still predominately news in the form of text, photographs, and video content. Moreover, Danish and other Nordic news organisations are limited to their respective local markets of readers, which only permits limited growth and expansion through new user acquisitions.

The strategies of many legacy newspapers in Denmark are oriented towards protecting their current markets, serving existing customers, and reacting to environmental events. However, they are failing to anticipate or influence those events. Therefore, they can be referred to as *defender* and *reactor* strategies.¹⁴ However, these types of strategy do not favour freemium business model configuration and require a set of tactics that are different from the freemium logic.³ This could explain why freemium business models have not yet secured sustainable revenues for the newspaper organisations in Denmark but have worked relatively well in the cases of the New York Times and the Wall Street Journal, whose strategies and tactics have been similar to the freemium e-businesses we studied.

Conclusions and implications

As a response to the decline in readership and circulation, newspapers in Denmark have undertaken a number of cost-cutting initiatives, such as organisational restructuring, staff layoffs, and outsourcing of non-key activities. On the innovation side, they concentrated on developing capabilities for the production and delivery of digital content and have achieved relatively good results with their various mobile apps. However, they still need to ensure that their business model configurations are aligned with their strategies, and only then define the set of appropriate tactics. Taking into consideration the limitations for newspapers

in Denmark and other Nordic countries in the form of the market size, lack of existing and potential investment, and constantly decreasing readerships, the freemium business model might not be the answer to the digital business configuration they are looking for. They need more radical ideas and business model innovations that have not yet been explored by the industry players.

There are a few factors that they might consider in the process. They might find it necessary to be less generous in providing the same amount of free content as they currently do, and keep attracting their still numerous free readers by publishing online only “quick” news, though which are produced and delivered in a professional manner. At the same time, they will need to keep their loyal customer base by

delivering high quality content exclusively to the premium subscribers. By separating the free and the premium content in two quite different value propositions, they may be able to redesign the freemium strategy into two diverse digital business models. The free-only business model can be geared to serve marketers and advertisers, as well as other commercial activities, such as e-commerce platforms. The premium-only business model can in turn serve paying customers and deliver content to potentially new business-to-business segments. For that to happen, however, the newspapers need to enhance their data analytics capabilities and to closely monitor online reader behaviour. One of the possible approaches is to redefine customer groups and value propositions with the use of big data analytics.¹⁵

Notes

1. Holm et al., 2012.
2. Holm et al., 2012.
3. Osterwalder & Pigneur, 2010.
4. Anderson, 2010
5. McGrath, 2010.
6. Doctor, 2015.
7. Doctor, 2015.
8. McGrath, 2010.
9. Holm et al., 2013.
10. Casadesus-Masanell & Ricart, 2010.
11. Günzel-Jensen & Holm 2015; Holm & Günzel, 2015.
12. Kumar, 2014.
13. Miles & Snow, 2003.
14. Miles & Snow, 2003.
15. Bøe-Lillegraven, 2014.

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