

Is Your Cloud a Rainmaker? Improving the Outlook in a Freemium Environment

By Michael Kelly, Ph.D.

What's the Forecast?

While overall IT spending among businesses has been flat to slightly positive, investments in Cloud computing have been expanding briskly. Gartner estimates that corporate spending on Public Cloud services grew by almost 20% in 2016 to \$209B, suggesting that businesses are shifting substantial portions of their IT budgets to Cloud.

This pattern has driven IT providers to evolve their business models away from traditional on-premise delivery of IT services to remote delivery via the Cloud. But even as the overall IT market becomes increasingly “cloudy,” there is no assurance that any given Cloud service will make rain. Transitioning to Cloud delivery is only the first step in a critical strategy that requires service optimization, effective customer targeting, and an astute pricing structure to ensure that your Cloud does, indeed, make rain.

The Risk of Drought in a Freemium Culture

A number of disruptions have been accompanying the transition to a Cloud-centered marketplace that limit the amount of “profitable precipitation.” One prominent challenge is the *consumerization* of IT – a byproduct of the way smart phones have acculturated consumers to expect a great deal for little to no cost, and, in turn, upended the payment models of B2B Cloud providers. For example, consumers expect that they can download basic versions of mobile apps for free, with the option to make “in-app” purchases for enhanced capabilities. As consumers have carried these expectations into the workplace, they have pressured Cloud providers to offer “freemium” versions of B2B services – with the corresponding risk that clients learn to live with a free, basic service and never upgrade to a “feemium” version.

Are most Cloud-based business service providers fully equipped to manage this consumerized purchase environment? The answer is “no.” Traditional upselling in the B2B marketplace has focused on enticing clients to upgrade from low-price/low-margin “tenement” services to higher-priced/higher-margin premium suites. Even when upselling proved difficult in this traditional environment, companies could, at least, expect a revenue stream. But in this new world, B2B IT providers must successfully lead customers along a more complex and uncertain journey from free to fee to premium, with no revenues until the first transition. This challenge becomes more difficult as service offerings proliferate. “Freemiums” set the market price. As new services jostle to enter the market, established providers who seek to upsell will find themselves competing with the deepest of discounts: *Free*.

Improving Your Outlook

As IT providers try to navigate an increasingly congested Cloud environment, those who take a rigorous, evidence-based approach to their business strategy and offering portfolio will gain clearer market sightlines and greater foresight. Analytic models built from primary and/or secondary data can identify the types of customers most amenable to upgrading from free to fee services. Marketing resources can therefore be allocated preferentially toward such top prospects. Similarly, models can be developed that pinpoint the offering features most likely to drive free-to-fee upgrades (e.g., the option for businesses to choose the country where their Cloud-based data will be stored). More broadly, coupling statistical models with market simulations will help B2B Cloud providers design the structure of their service tiers and corresponding pricing to maximize revenues.

As the saying goes, clouds don't always mean rain. You need to be an active and effective steward of your commercial environment. Seeding your Cloud business strategy with quality data fueling powerful analytics will become increasingly important in ensuring that you wring real value from your intellectual capital in a consumerized B2B IT environment.

###



Mike Kelly, Ph.D.
Senior Group Director
mkelly@naxionthinking.com
215.496.6842

Mike is a Senior Group Director at NAXION who designs and manages major engagements for clients seeking to develop B2B and B2C business strategies based on customer insight and advanced market analytics. Leveraging his skill in devising new modeling techniques and integrating multiple data streams, Mike has helped clients in Information Technology, Energy, Consumer Electronics, and Manufacturing to optimize pricing strategies, guide product bundling, sharpen targeting, and prioritize service improvements that drive customer loyalty. Mike has notable subject matter expertise in the fields of cognition and computational linguistics, where his highly regarded academic work has been a platform for innovation on behalf of clients, while building the firm's intellectual capital in advanced methodologies.