

# “Freemium” business models in publishing. New packaging for the needs of readers in the digital age

**Ivona Despot, ivona.despot@zg.t-com.hr**

Naklada Ljevak – Ljevak Publishing

**Ivana Ljevak Lebeda, ivana.ljevak@naklada-ljevak.hr**

Naklada Ljevak – Ljevak Publishing

**Nives Tomašević, ntomasev@unizd.hr**

Department of Information Sciences, University of Zadar

Libellarium, VIII, 1 (2015): 81– 89.

UDC: 655.4:658.5=111

DOI: <http://dx.doi.org/10.15291/libellarium.v8i1.216>

Professional paper

## Abstract

In a digital environment, the traditional roles of authors and publishers change. The shift of power from authors, publishers and/or content to the platform affects the development of new business models, and shaping the content in the digital environment becomes a major challenge for publishers. The subscription models of the content sale have long been present in other media industries. Editing, design and marketing are the key features that a publisher develops and adapts to changes. The traditional skills of publishers are no longer sufficient. Instead, a continued integration of innovative solutions is needed. The aim of this paper is to explore how the emergence of subscription models influences the development of new publishing products which bring together the author and the publisher in a joint effort to reach a larger number of readers.

**KEYWORDS:** freemium, free content, business models, publishing, subscription.

## Introduction

Readers were accustomed to reading hard-copy books of 100, 200 or 500 pages through the past centuries. Hardcover is the most desirable form of books for librarians and passionate readers (Despot 2013). The bookbinding issue is being questioned with texts that are outside the scope of standard hardcover form. The answer to this dispute over the book cover can be manual bookbinding or use of special procedures, but it is usually too expensive for publishers (Book1One). The digital environment offers new possibilities and this paper will analyze new business models in publishing which offer new “packaging” to the content which is unsuitable for the hard cover binding.

The influence of the digital age on the publishing industry creates new disruptive elements in the business process thus creating entirely new business concepts. The variants of subscription models for book sales are the result of new technologies and they are clearly observed heritage taken from the media industry. The book *Free* by Chris Anderson analyzes business models that offer "free products and services" and the author reveals the economic potential in such models. It should be noted that "free" is not new in the world of marketing, but in the digital age this concept has adapted to the new possibilities of the digital environment. Anderson concludes that the business stakeholders who understand the possibilities of free models will become leaders in the future but today they are the elements that disrupt the traditional business management (Anderson 2009, 8).

For Kevin Kelly, a book does not want to be an island, but "current library". In the article *Scan This Book* Kelly emphasizes the need for a universal library in which each book is "networked, grouped, accompanied by quotations, with extended excerpts, indexed, analyzed, commented, remixed, re-composed and woven into the culture more deeply than ever before" (Kelly 2006). For Andrew Keen, the author of the *Cult of the Amateur* Kelly's vision of the new library is just another idea of "noble amateurs". Keen considers that

Without a sustainable publishing business model, Kelly's universal library will degenerate into a universal vanity print - hypertextual confusion of unprepared, unreadable garbage. Bookstores and publishing houses will disappear. All we'll end up having to read will be our own version of our own stories. (Keen 2010, 73).

The perception of the Google generation that everything on the Internet is free faces publishers with many difficulties in creating sustainable business models. How will publishers adapt to new business models? E-book was created on the idea of Michael Hart to be a free and accessible new form of a book (Lebert 2009, 5). This visionary idea popularized the e-book and opened the way for the development of electronic publishing. There are millions of free books on the Internet which can be read on e-readers, there are a lot of illegal e-books that are downloaded without permission. Publishers are facing the problem of pricing e-books because customers expect them to be much cheaper than printed books. Can freemium become a sustainable business model in publishing? Is this a business model that can draw together digital authors and publishers to attract more readers? This paper will analyze the business models based on freemium to determine its potential for the publishing industry.

---

## Free vs Valuable

"Information wants to be free" is a slogan that was embraced by the advocates of the Internet openness. Castells argues that "the culture of the Internet is the culture of the Internet creators" (Castells 2001, 47). Castells uses the term creators

of the Internet to refer to hackers and Steven Levy describes their attitudes in the book *Hackers: Heroes of the computer revolution* which states that:

All information should be free. If you do not have access to the information you need to improve things, how can you fix them? A free exchange of information, particularly when the information was in the form of a computer program, allowed for greater overall creativity. (Levy 1984, 28)

The book *Hackers: Heroes of the computer revolution* inspired Stewart Brand to launch the first Hacker's conference in 1984 in California, where Brand explained the dual nature of information value:

On the one hand information wants to be expensive, because it's so valuable. The right information in the right place just changes your life. On the other hand, information wants to be free because the cost of getting it out is getting lower and lower all the time. So you have these two fighting against each other. (Levy 2010, 384).

Warning of the large amount of free content created by amateurs, Keen asserts that "free information is not really free; everyone will sooner or later pay for it one way or another, with the most valuable resource of all we possess - our time." (Keen 2010, 61).

Pierre Mounier points out in the conclusion of the article *Freemium as a Sustainable Economic Model for Open Access Electronic Publishing in Humanities and Social Sciences* that the tension between these two principles about the value of information to be free and valuable impacts on business models in publishing in the digital environment and that the model such as freemium can draw together the stakeholders in the book chain in creating an alliance for knowledge dissemination in the digital environment (Mounier 2011).

The openness of the network architecture and its decentralization stimulate the environment for creative people who have created a virtual world. Free and fast content sharing is the option that has spurred many to be creators and users of new technologies. Unrestricted participation, collective work and the speed and transparency strengthened the network (Castells 2001, 39).

In the open model, the recipient is entitled to use this version for free, to test and develop it. This is possible only if the information that led to the solution (code) is transferred along with it. According to Pikku Himanen "the central message of the hacker's philosophy is that great things can be accomplished in the open model through the direct cooperation of individuals. The only limit is our power of imagination." (Himanen 2002, 58)

While some praise the cooperation and openness on the Internet, others like Keen warn that "undermining the experts, the ubiquity of free content created by users threatens the core of our professional and scientific institutions". He further warns of a great influence of Wikipedia compared to Britannica.com which is edited by the Nobel Laureates and other recognized experts and concludes "to fight against something that is free is difficult if not impossible." (Keen 2010, 60)

## Freemium

Digital business accepted freemium as an extremely popular model. Its beginnings can be traced back to the time before the Internet was created. Chris Anderson noticed the first successful attempt to share something for free in order to support the sales of products, in the example of the marketing campaign "Jell-O Girl" from 1904. In order to boost the sales of gelatin for making desserts, a free cookbook was shared containing recipes in which gelatin is used (Anderson 2009, 9-10).

Freemium is a business model whose name was coined in 2006 by Fred Wilson, a futurist and investor (AVC). This model in its basic concept offers the basic service for free and charges the additional functionality of a product or a service. The model became dominant primarily within the Internet companies and companies that develop applications for smartphones but also among other companies in the content industry. 98% of Google Play Store revenue and 95% of Apple's App Store revenue come from freemium applications (<http://www.freemium.org/>).

The undeserved great popularity and earnings of the freemium business models come from incorrect labelling of freemium products as "free". The use of freemium as a marketing tool exclusively exploiting the word free has a goal to deceive the end users of services or products. An example of such marketing could be found at the leading stores for purchasing and downloading applications, App Store and Play Store, where thousands of children downloaded free games and then attracted by such content subsequently bought new, improved versions, characters, levels, and other upgrades (Bolluyt 2014). This purchase within free applications (in-app purchase) caused negative reactions of customers and great dissatisfaction of parents. This led the European Commission to send a series of objections against the business models of Apple and Google. Neelie Kroes, responsible for the Digital Agenda, said:

The Commission is very supportive of innovation in the app sector. In-app purchases are a legitimate business model, but it's essential for app-makers to understand and respect EU law while they develop these new business models. ([http://europa.eu/rapid/press-release\\_IP-14-847\\_en.htm](http://europa.eu/rapid/press-release_IP-14-847_en.htm)).

The warning of the European Commission about the breaches of EU laws by large technology companies which sell applications caused changes in their business. App Store changed the word "Free" option to "Get" and Play Store changed "Free" to "Install".

Many freemium applications cause confusion and misunderstanding about what is free and for what services or products customers need to pay. Veena Kumar suggests six questions that will clearly define the model and allow its sustainability in the market. What should be free? Do customers fully understand the premium offer? What is your target conversion rate? Are you prepared for

the conversion life cycle? Are users becoming evangelists? Are you committed to ongoing innovation? (Kumar 2014)

The author came up with these questions by studying freemium business models and partaking in their creation. With the introduction of subscription for the digital edition of the New York Times it was necessary to adjust the model so that free content would be of sufficient scope to attract readers to the subscription model. Kumar points to good freemium model examples such as Skype and Dropbox, where users understand what is free of charge and what needs to be paid. He uses LinkedIn company as an example where this difference is not clear and argues that better informed users would lead to greater success (Kumar 2014).

## Why the freemium in publishing?

By observing the changes in other media industries, publishers can spot the transformations not only in content creation and its distribution but also in the method of charging for the content. Reading with advertisements, the "pay-per-view" model or a model with a time limit for free access to the content, after which you need to pay to read, are just some of the options that digital technology enables. The application of various business models can be seen in the new start-up companies that do not have the ability to invest in the promotion of a new product and use free access to a service or product to get the required publicity for the development of new products or services. Sharing free content as a marketing tool is becoming the backbone of the development of many companies in the content industry.

Although subscription is not a novelty in book publishing, it is used when the production costs are high, in order to test the market or give interested readers a lower price in advance. Publishing houses use the subscription model to avoid traditional intermediaries in the book chain as well (Jurčević 1987, 114).

The success of freemium and other subscription models motivated the Book Industry Study Group to conduct a survey in 2013 (Book Industry Study Group 2013). Results showed that 80% of respondents believe that the subscription model would be inevitable. The results show some specificity for different areas because the expectations and needs of readers differ. A professional reader in search of information about a particular topic wants a subscription service that provides better insight, highly relevant choice in the selected area, and is prepared to pay. Occasional readers want a range of information from various fields, less content and such readers can withdraw from the purchase because of high prices (Book Industry Study Group 2013).

Justo Hidalgo, the co-founder of a Spanish start-up company 24symbols - a cloud reading service that uses a freemium subscription model, believes that a freemium subscription model is the future of publishing. In this model, a reader

can get free content with advertising or opt for a monthly subscription that provides more content for readers without advertising. Hidalgo believes that paid content can be a viable business model with extremely high quality and differentiated content such as *The Financial Times* or strong brands such as *The New York Times*. Models that offer only content are not sustainable - it is necessary to have enriched models with additional services or create experiences that readers want (Webb 2012). On the company's website they describe the model as

Choose between reading a subset of this catalog online for free, or become a Premium reader with a small subscription fee, and access the whole catalog, offline, and with no ads. (<https://www.24symbols.com/help/whatis>)

The incredibly great popularity of freemium models is evident in the Chinese market where 195 million readers are attracted to the platforms which offer serials by unknown authors. The content that attracts a sufficient number of readers turns authors into VIP authors and readers can follow their sequels for a symbolic fee of 2-3 Yuan (20-30 cents). The most popular content is transformed into a TV program or a video game making authors literary stars (Sun 2011).

Seeing the great potential of freemium models in China, the DeepDyve company has devised a model for the academic community. Knowing who their users are and knowing that researchers do not want to buy the articles only on the basis of abstracts, this company created a new free model. The model allows free reading of their article base for five minutes a day. In DeepDyve's view

researchers are less likely to recommend content that their networks can only evaluate based on the abstract. Therefore providing freemium access will result in them being far more willing to share interesting articles with their colleagues, followers and other social connections." (Lossius 2013).

Another interesting subscription model for "time-poor readers" is the Delay App. Three Dutch publishers created the reading app for reading on the go with a time limit of 5, 10, 15, 20, etc. minutes. Stories are selected according to reading length in order to tailor them to the time a reader will spend waiting in traffic, i.e. the delay. The potential was recognized by publishers in other countries, so the Delay App spread to Germany and Sweden. Seeking to convince publishers that a free application would increase the number of readers and that the application would become a good promotional tool for selling e-books, they offered the app for free during a single day and recorded 10,000 downloads (Coul 2012).

Read Petite was scheduled to be launched in 2013 but has not been launched yet. Tim Waterstone, the founder of a large bookstore chain, is entering into a new business venture with books that will be specialized for the content in batches. He stated for the Guardian that it is the area in publishing which was not recognized because the publishers did not see its commercial potential, so quality content remained insufficiently promoted (Harris 2013). This type

of content became popular in the 19th century, when the book chapters by writers such as Charles Dickens were published in newspapers and magazines (Abrams 2013).

The freemium model found its application in the publishing industry specialising in serializations, shorter forms suitable for reading on smartphones and tablets. Amazon launched the Kindle Unlimited and announced the subscription era in the world of books (Nicks 2014). Publishers are facing big decisions on how and in what way to address the new challenges in the pricing of content.

---

## Conclusion

Visionary ideas open up new possibilities, but also become disruptive elements for many of the participants from the content industry. Information wants to be free but the book does not want to be an island but a virtual library. The question is: what do content creators want?

Publishers are faced with new destructive elements which create new business models and develop new publishing products and services. There are millions of free books on the Internet which can be read on e-readers; there are many e-books that have been illegally downloaded without the permission of the author or publisher. Freemium includes free content, but offers a sustainable business model with additional payment for advanced functionality. The content packaging options and the way they will define a sustainability model or the pricing of content will be a great challenge for publishers in the times ahead.

The future of the book publishing has always been followed by the dual nature of a book as a cultural asset and a market product. This duality can be seen in the nature of information which is to be valuable and free. Freemium is an attempt to shape this duality in a sustainable business model which can bring together publishers and authors in order to find their way to readers of cloud-based content.

---

## References

- AVC. Accessed December 01, 2014. [http://avc.com/2006/03/the\\_freemium\\_bu/](http://avc.com/2006/03/the_freemium_bu/)
- Abrams, D. 2013. "Read petit: a new serialized digital shorts subscription service." Accessed November 23, 2014. <http://publishingperspectives.com/2013/04/read-petit-a-new-serialized-shorts-subscription-service/>
- Anderson, C. 2009. *Free*. New York: Hyperion Books.
- Book Industry Study Group. 2013. "Digital books and the new subscription economy, a major new BISG research study, releases today" Accessed November 23, 2014. <https://www.bisg.org/news/digital-books-and-new-subscription-economy-major-new-bisg-research-study-releases-today>

- Book1One. Accessed November 23, 2014. <http://www.book1one.com/BindingStyles/HardCover.aspx>
- Bolluyt, J. 2014. "Why Google will stop calling freemium games 'free' in Europe." Accessed November 23, 2014. <http://wallstcheatsheet.com/technology/why-google-will-stop-calling-freemium-games-free-in-europe.html/?a=viewall>
- Coul, Op de E. 2012. "Dutch delay app gives you stories tailored to your free time." Accessed November 27, 2014. <http://publishingperspectives.com/2012/06/dutch-delay-app-gives-you-stories-tailored-to-your-free-time/>
- Castells, M. 2003. *Internet galaksija*. Zagreb: Naklada Jesenski i Turk.
- Despot, I. 2013. "Creative marketing strategies on the e-book market." In *16. seminar Arhivi, knjižnice, muzeji: mogućnosti suradnje u okruženju globalne informacijske infrastrukture: zbornik radova*. Ed. by Nives Tomašević and Ivona Despot. Zagreb: Hrvatsko knjižničarsko društvo, pp. 223-242.
- European Commission. Accessed November 29, 2014. [http://europa.eu/rapid/press-release\\_IP-14-847\\_en.htm](http://europa.eu/rapid/press-release_IP-14-847_en.htm)
- Freemium.org. Accessed November 28, 2014. <http://www.freemium.org/>
- Harris, J. 2013. "Tim Waterstone: 'If reading is going to be all digital in 50 years, so be it.'" Accessed November 23, <http://www.theguardian.com/books/2013/apr/09/tim-waterstone-reading-entirely-digital>
- Himanen, P. 2002. *Hakerska etika*. Zagreb: Naklada Jesenski i Turk.
- Juričević, B. 1987. *Ekonomija knjige*. Zagreb: Školska knjiga.
- Keen, A. 2010. *Kult amatera*. Zagreb: Fraktura.
- Kelly, K. 2006. Scan this book! Accessed November 29, 2014. <http://www.nytimes.com/2006/05/14/magazine/14publishing.html?pagewanted=1&r=4>
- Kumar, V. 2014. "Making 'Freemium' Work." *Harvard Business Review*, May, 27-29.
- Lebert, M. 2009. *A short history of eBooks*. Toronto: NEF.
- Levy, S. 1994. *Hackers*. New York: Dell Publishing.
- Levy, S. 2010. *Hackers*. Sebastopol, CA: O'Reilly Media.
- Lossius, G. 2013. "DeepDyve experiments with 'freemium' access to academic content." Accessed November 29, 2014. <http://www.publishingtechnology.com/2013/06/deepdyve-experiments-with-freemium-access-to-academic-content/>

- Mounier, P. 2012. "Freemium as a sustainable economic model for open access electronic publishing in Humanities and Social Sciences." Accessed November 29, 2014. [http://elpub.scix.net/data/works/att/107\\_elpub2012.content.pdf](http://elpub.scix.net/data/works/att/107_elpub2012.content.pdf)
- Nicks, D. 2014. "Amazon just launched 'Kindle Unlimited,' a subscription service for e-books." Accessed November 24, 2014. <http://time.com/3004637/amazon-kindle-unlimited/>
- Sun, H. 2011. "How freemium self-published fiction is taking over China." Accessed November 27, 2014. <http://publishingperspectives.com/2011/11/freemium-self-published-fiction-china/>
- Webb, J. 2012. "Getting the content out there isn't enough anymore." Accessed November 23, 2014. <http://toc.oreilly.com/2012/01/subscriptions-paywalls-freemium.html>

---

## Sažetak

### **„Freemium“ poslovni model u nakladništvu. Novo oblikovanje za potrebe čitatelja digitalnog doba**

U digitalnom okružju, autor i nakladnik pod utjecajem trendova mijenjaju svoje tradicionalne uloge. Premještanje moći od autora, nakladnika ili sadržaja do platforme utječe na razvoj novih poslovnih modela. Oblikovanje sadržaja u digitalnom okruženju veliki je izazov nakladnicima. Pretplatnički modeli prodaje sadržaja već su odavno prisutni u drugim medijskim industrijama. Uređivanje, dizajn i marketing ključne su funkcije koje nakladnik razvija i prilagođava promjenama. Tradicionalne vještine nakladnika nisu više dovoljne već je nužna stalna integracija inovativnih rješenja. Pretplata i opseg knjige dobivaju novo značenje u digitalnom okruženju. Cilj je rada istražiti kako pojava pretplatničkih modela utječe na razvoj novih nakladničkih proizvoda koji ujedinjavaju autora i nakladnika u zajedničkom nastojanju da dođu do većeg broja čitatelja.

**KLJUČNE RIJEČI:** besplatni sadržaj, *freemium*, poslovni modeli u nakladništvu, pretplata.