

Everyone wants to give everything away for free. Thats the way the internet should work, right ? Wrong. Let me change the conventional wisdom a little bit with this :

**Free is only good if someone else is paying for it.**

We dont want to waste our time with a product or service if its not worth anything. We want things of value, and we dont want to waste of lot of time trying to determine if what is being offered is something we would use or consume. The easiest way to make the determination ? See if anyone else is using it and paying for it.

When we see enough other people actually paying, and how much they are paying, that becomes our “due diligence” and market pricing mechanism. It also becomes part of the decision tree as to whether or not we would prefer a free version , or are willing to pay. For some, it becomes the determining factor on whether or not they are willing to steal rather than pay.

Which translates to the conventional wisdom that free is the way to go on the web as being wrong. I think many websites are making a huge mistake by going free **only** for their products. The real upside comes from being a hybrid, with both free and for pay versions.

When people actually pay for your product, you define a value to everyone. First you have to keep your paying customers happy. They want their money’s worth. Which in turn, keeps you improving the product and the service surrounding it. Just as importantly, it creates a revenue stream for your company. Always remember this. Without a revenue stream, you have no company.

Of course, you can sell advertising around the product. But while culture of the web is such that most of us understand that if you get something for free, you accept advertising or limited features in return.

The challenge for businesses is figuring out what the right balance of price vs features and advertising is.

At [Filesanywhere.com](http://Filesanywhere.com), an online disk storage company, we have a variety of offerings from free to thousands of dollars, depending on the needs of the customer. It works great because the perceived value of the free version is off the charts because everyone knows they are getting a subset of a product that is worth thousands of dollars to corporations. Its a bargain to them when they can start with the free version, see if it meets their needs, and then choose the higher end offerings if they need or want them.

On the other hand, I have tried versions of competitors of theirs, that are offered exclusively for free, and some of the products were good, but the advertising was so intrusive, it wasnt worth the hassle and I didnt have an option out.

The challenge of pricing and product options is going to become more and more complex in a digital world. Because the cost of creating and distributing one more unit of a digital product, whether its a song, movie or piece of software or anything else is essentially nothing , its very , very tempting to want to give it away and generate revenue via advertising or elsewhere. Thats a huge mistake.

Whenever you have people willing to pay for a version of your product. Take their money and return them a great product and value. Not only will that revenue act as a cash source foundation for your company, but it will define the value of your product to those who only want a free version. That in turn will create even more demand for both and leave you with happier customers