THE UNIVERSITY OF TEXAS AT AUSTIN
McCOMBS SCHOOL OF BUSINESS

Fall 2013 IM Guest Lecturer Series

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Completing the Virtuous Cycle between Payment and Social Engagement in Freemium Social Communities

Friday, October 25
GSB 2.120
10:00 – 11:30 AM

Abstract

The Freemium business model, where a software product, an app or a service is simultaneously provided free of charge as well as sold for a premium, is a dominant business model in today's social media landscape. From social communities such as LinkedIn to music listening services such as Spotify, Pandora and Last.fm, to gaming apps such as Angry Birds, to online dating sites such as Match.com, Freemium models owe their popularity to the fact that they combine elements of platform competition, software versioning, social communities and free sampling under one umbrella. Yet, making sustainable profits from a baseline zero price and getting free consumers to convert to premium subscribers is a continuing challenge for all Freemium communities. In this study, we zoom in on the question of monetizing Freemium social communities. Prior research has causally established that social engagement (Oestreicher-Singer and Zalmanson 2013) and peer influence (Bapna and Umyarov 2013) are the two important drivers of getting users to convert to premium in such communities. We flip the perspective and ask whether paying premium causes users to become more socially engaged. If this is the case, then we can claim the presence of a virtuous cycle between social engagement and premium subscription, which taken together with the presence of peer-effects, can be a powerful force for the monetization of Freemium social communities. We causally establish that payment for premium leads to more social engagement using a look-ahead propensity score matching (LA-PSM) procedure, and that this effect varies across users who have different lengths of experience with the site. We show how the LA-PSM technique is superior to both traditional propensity score matching and instrument variable regression in the context of rare events involving economic decisions. In the context of the Last.fm music listening Freemium social community, we find that paying for premium leads to 47% more new friends as compared to free users. Likewise, the premium adoption causes a 87% higher increase in loving songs, 4.5 times higher number of playlists created, a 68% higher increase in receiving wall posts (shouts) from other users, and a 23% higher increase in listening to songs.

(joint research with Jui Ramaprasad and Akhmed Umyarov)