

How Freemium Pricing Affects User Activity

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Abstract

In online platform businesses, where network externalities are crucial, user activity is of paramount importance. Prices are a key lever to influence conversion rates, but also impact customer mind-set and behavior, beyond determining demand. In this research we explore how conversion prices impact usage activity in freemium businesses. We analyze data of a large-scale pricing experiment in a freemium business, and compare the subsequent usage patterns of converters between different price groups. We utilize propensity score matching and difference-in-difference analysis to derive an estimation for the causal effect of conversion. We find that after conversion among high- compared to low-price converters, login frequency increases by respectively 25%, compared to 20%, and network growth increases by 30%, compared to 20%. Our findings suggest that pricing in freemium businesses poses a trade-off between conversion rate and user activity.

Keywords: *Freemium; Propensity Score Matching; User Activity*

Track: Digital Marketing & Social Media