

Department of Marketing



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Selling the Premium in Freemium

We investigate how to increase the effectiveness of a freemium model by extending the product line as a means to spur demand for the existing premium version in the presence of the free version. We discuss the conceptual nuances that the presence of the free version introduces in analyzing the impact of product line extensions in the context of freemium model. We conduct a randomized field experiment with an online content provider, the National Academies Press, which offers book titles in a PDF format for free and sells the paperback format for a premium. Overall, we show that paperback titles accompanied by an additional premium format, either an e-book or a hardcover format, have higher sales than those in the control condition. The positive impact on paperback sales is stronger for titles that are more popular and/or lower in price, and the effect of introducing the e-book format is higher when the e-book price is closer to the paperback price. By analyzing customer choices at the individual level, we confirm the existence of compromise effect and attraction effect in the extended product line setting, which is a contribution not only in the freemium context but also to the product line literature. We provide specific managerial recommendations to increase the sales of premium products in a freemium model.