

# MISQ Archivist

## Monetizing Freemium Communities: Does Paying for Premium Increase Social Engagement?

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### Abstract

Making sustainable profits from a baseline zero price and motivating free consumers to convert to premium subscribers is a continuing challenge for all freemium communities. Prior research has causally established that social engagement (Oestreicher-Singer and Zalmanson 2013) and peer influence (Bapna and Umyarov 2015) are two important drivers of users converting to premium subscribers in such communities. In this paper, we flip the perspective of prior research and ask whether the decision to pay for a premium subscription causes users to become more socially engaged. In the context of the Last.fm music listening freemium social community, we establish, using a novel 41-month-long panel dataset, a look-ahead propensity score matching (LA-PSM) procedure coupled with a difference-in-difference estimator of the treatment effect, that payment for premium leads to more social engagement. Specifically, we find that paying for premium leads to an increase in both content-related and community-related social engagement. Free users who convert to premium listen to 287.2% more songs, create 1.92% more play lists, exhibit a 2.01% increase in the number of forum posts made, and gain 15.77% more friends. Thus, premium subscribers create value not only for themselves by consuming more content, but also for the community and site by organizing more content and adding more friends, who are subsequently engaged by the social diffusion emerging from the focal user's activities.

**Keywords:** Freemium, social engagement, monetization, premium subscription