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## Spillover Effects and Freemium Strategy in Mobile App Market

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“Freemium” whereby a basic service level is provided free of charge but consumers are charged for more advanced features has become a popular business model for firms selling digital goods such as mobile apps. However, it is not clear whether the launch of a free version helps or hurts the sale of an existing paid version. The free version may allow consumers to sample the product before making a purchase decision and subsequently increase downloads of the paid version but it may also cannibalize downloads of the paid version. We use a unique data set on game apps from Apple’s App Store that tracks the launch of individual apps, and their versions, on a daily level, to identify whether a freemium strategy stimulates or hurts downloads of an existing paid version. We estimate the spillover effects between the free version and the paid version of the same app accounting for the endogeneity of the launch of the free version as well as app-level product heterogeneity. We find that the launch of a free version increases downloads of the paid version of the same app and present multiple robustness checks for these results. We then present suggestive evidence that the results are due to consumers sampling the free version and rule out alternative explanations.