

MARKETING COLLOQUIA

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Date: WEDNESDAY, October 17, 2018

Where: 741 JMHH

When: 12:00 PM to 1:20 PM

CUSTOMER LEARNING AND REVENUE-MAXIMIZING TRIAL DESIGN

ABSTRACT: Digital goods providers often offer free trials in order to familiarize customers with the product. I develop a structural model of customer learning-by-using to evaluate the profitability of two widely used trial configurations: limiting duration of free usage (i.e. "time-locked trial") and limiting access to certain features (i.e. "feature-limited trial"). Adopting a Bayesian learning framework, the model describes how product experience influences willingness to pay. It also allows identification of key factors behind learning and quantification of the trade-offs the firm faces in designing trials. I estimate the model using a novel data set of videogame users' play records. I find that in this setting, time-locked trials outperform feature-limited trials, and the revenue implication depends on the rate of demand depreciation during the trial period.