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JMML
ISSN 2148-6670
Journal of Management, Marketing and Logistics YEAR 2020 VOLUME 7 ISSUE 1

WOULD YOU LIKE TO BE A PREMIUM CUSTOMER? A RESEARCH ON THE FACTORS RELATED TO THE INTENTION TO PAY FOR A PREMIUM MUSIC SERVICE

DOI: 10.17261/Pressacademia.2020.1196
JMML- V.7-ISS.1-2020(4)-p.42-52

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Date Received: December 9, 2019 **Date Accepted:** March 18, 2020

To cite this document
Kircova, I., Turkay, P.B., Kose, S.G. (2020), Would you like to be a premium customer? a research on the factors related to the intention to pay for a premium music service. Journal of Management, Marketing and Logistics (JMML), V.7(1), p.42-52.
Permemant link to this document: http://doi.org/10.17261/Pressacademia.2020.1196

ABSTRACT

Purpose- Freemium business model offers the customers a limited or unlimited product/service experience. Although the Freemium business model seems to be funded by the advertisement income, the main expectation from the model is to convert users to premium customers for increasing profit margin. In terms of this, the dynamics behind the conversion process of the user to premium customer have been researched in the study.

Methodology- The data were collected from 240 people by online survey method. Hypotheses were tested using Partial Least Squares Structural Equation Modeling (PLS-SEM).

Findings- Results indicate that when perceived value of premium version is higher, attitude towards premium version becomes positive. Also, as the perceived value of premium version increases, attitude towards free version gets negative. Another result states that when the level of personal innovativeness increases, social influence related to premium version also increases.

Conclusion- Attitude towards free version and attitude towards premium version are both related to intention to pay, however, attitude towards premium version has a stronger effect on intention to pay when compared to attitude towards free version. The key point is to balance the benefits package of free and premium versions.

Keywords: Freemium, premium, perceived value, social influence, personal innovativeness.
JEL Codes: M30, M31, L80

1. INTRODUCTION

The Freemium business models emerged in the 1980s when software companies started to offer free versions that provided limited features. Nowadays the freemium model is also approached as a pricing and marketing strategy. Freemium has been primarily conceptualized by Wilson (2006) and became one of the most characteristic business models of Web 2.0.

Psychological studies prove that individuals associate the price with the cost, no matter how small the cost is (Anderson, 2009). An individual may spend hours to search for the best price and product, however, the amount an individual saves does not comprise the time cost spent on information search and deciding. When something becomes free, individuals generally tend to ignore the cost. Freemium is an appealing choice to customers since it is a cost-free way of trying a new service. A customer can easily upgrade to special features by paying if he/she is satisfied. While the free version that provides limited features targets a

large user base and is funded by advertisements, the fundamental aim of Freemium is to gain profit from paid customers by creating user conversion. This conversation rate is the key point of success for companies that use Freemium business models. Finding balance between premium and free version is crucial for achieving conversion (Haruvy and Prasad, 1998; Faugère and Tayi, 2007; Kumar, 2014). A weak free version proposal that is unable to create a large user database and a premium version which does not ensure payment would have a high chance of failure as a model.

Most of the online service providers find the Freemium business model appealing because of creating high volume user traffic without requiring heavy promotion investments. Therefore importance of using this business model has increased both academically and practically. However, there are only limited studies focusing on the Freemium concept. This study intends to explain the factors related to the intention to pay for the paid version by focusing on a music content provider, Spotify, which offers both free and premium versions to its users.

2. LITERATURE REVIEW

The model of the study is builded on the theory of reasoned action (Fishbein, 1967), which utilizes subjective norm and attitude to predict behavioral intention. In order to explain the intention to pay for premium offer, the study extended the theory of reasoned action with perceived value and personal innovativeness variables. The literature and related hypotheses are given in the next sections.

2.1. Personal Innovativeness

Steenkamp et al. (1999) define personal innovativeness as "tendency to try new products or brands instead of insisting on the previous choices" whereas Agarwal and Prasad (1998) define the concept as "willingness to try novel information technology". Personal innovativeness also reflects the speed of innovation adaptation (Flynn and Goldsmith, 1993). Some researchers approach the concept as a personality trait and claim that personal innovativeness is the determinant of new product adaptation (Citrin et al., 2000) and reflects the willingness to experience innovations (Lin and Filieri, 2015). Measuring innovativeness varies according to the different definitions of innovativeness (Eryiğit and Kavak, 2011). Lu et al. (2005), presented the strong causal relationship among personal innovativeness, social influence and perceptual beliefs in their study. Jones et al. (2002) suggest that personal innovativeness explain technology usage behavior. O'Cass and Fenech (2003) specify that internet users who are highly innovative have high probability to have positive attitudes towards new technologies. Alan et al. (2019) found that personal innovativeness has a moderating effect on the relationship among consumer trust and behavioral intention. Those studies put forward that personal innovativeness demonstrates individuals' innovation adaptation level compared to their social environment, therefore it is expected that individuals who have the tendency to be an early adopter of innovations also affect the others. Akdogan et al. (2018) found that highly innovative consumers may pay a higher price for novel products since they have low price sensitivity. All things considered, the following hypotheses are suggested.

H1: Personal innovativeness is positively related to social influence.

H2: Personal innovativeness is positively related to attitude towards the free version.

H3. Personal innovativeness is positively related to attitude towards premium version.

2.2. Social Influence

The social influence is described as the psychological situation, subjective feelings, motivations or emotions, beliefs, values or change in behaviors that is the consequence of other individuals' real or imagined presence or actions (Latané, 1981). According to Burnkrant and Cousineau (1975), individuals use others' product evaluations as an information source about products. López-Nicolás et al. (2008) indicated that reference groups affect individuals' behavioral intentions. Phau and Teah (2009) support the direct effect of social factors on behavioral intention while Kulviwat et al. (2009) present findings on the mediator effect of social factors on the relationship among consumer attitudes and behavioral intention. Information about a product's quality shared by others directly affects consumers' evaluation (Cohen and Golden, 1972). López-Nicolás et al. (2008) proved that attitudes are affected by information provided by society. In this vein, it is hypothesized that,

H4: Social influence is positively related to perceived value of premium version.

2.3. Perceived Value

Perceived value has not been clearly defined because of its subjectivity (Khalifa, 2004). The concept of perceived value is vague, and it is related to what the customer perceived and gains (Woodall, 2003). Zeithaml's (1988) definition of perceived value is "the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given". On the other hand, Patterson and Spreng (1997) claim that value is the exchange of benefits and sacrifices that are perceived by the consumer. Woodruff (1997) explained the concept as the evaluation of products, attributes, and attribute performances. Increasing perceived value is also considered a way of creating competitive advantage (Haghkhah et al., 2020).

In line with those definitions, perceived value is higher when the desired benefits outweigh the costs. Some researchers address perceived value as a single dimension concept (Chen and Chen, 2010, Yang and Peterson, 2004, Tam, 2004; Steenkamp and Geyskens, 2006; Hu et al., 2009) while some address the subject as a multidimensional concept (Sweeney and Soutar, 2001; Sanchez et al., 2006, Heinonen, 2004; Petrick, 2002; Basaran and Aksoy, 2017). This study measures perceived value as a single dimension. Poushneh and Vasquez-Parraga (2019) found that emotional and functional value affect customers' upgrade intentions. Hsu and Lin (2015) put forward that value-for-money was affects a user's intention to purchase paid apps. In the light of these studies, customers are expected to develop reactions as a result of perceived value. Therefore the following hypotheses are suggested.

H5: Perceived value of premium version is negatively related to attitude towards free version.

H6: Perceived value of free version is positively related to attitude towards premium version.

2.4. Freemium and Premium Service

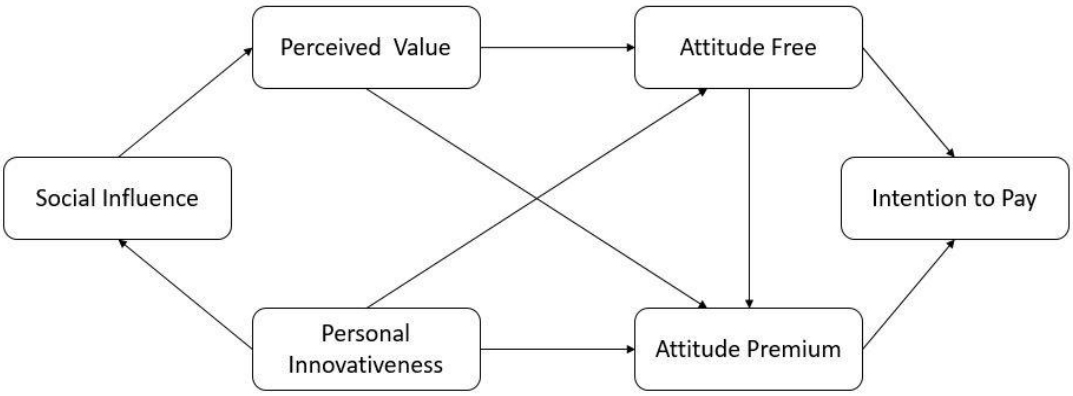
The development of the internet and proliferation of computers have brought new products and services to the market and also changed consumers' expectations (Pazvant and Faiz, 2018). One of the novel business models appeared with the improvement in the information technologies is Freemium. The literature on the Freemium business model mostly focused on the intention to convert to premium, namely, intention to pay for the premium version. Wang and Chin (2011) found that there is a positive relationship among the number of premium users that the Freemium users interact and the intention to convert to a premium version. Oestreicher-Singer and Zalmanson (2013) proved that users' engagement rate and willingness to pay for premium services are related, besides, more active users decide more quickly to be a premium after they become a user. Wagner et al. (2014) found that companies are providing Freemium services as a way to increase the chance of user conversion by bringing an intense fit between their free and premium versions. Koch and Benlian (2017) investigated the conversion probability of two different Freemium strategies. Their study found that users who started using Premium first have higher tendencies to convert to premium version compared to users who started using free first. In addition, this effect is strengthened if the functionality of premium and free versions is similar. Voigt and Hinz (2016) suggest that when a user converts to a customer who makes the early payment, users' lifetime value will be high. Hamari et al. (2017) has suggested that quality of service affects intentions to use Freemium services in a positive way and making premium purchases are indirectly related to the service quality. Furthermore, they found that the effect of quality on premium purchases is mediated by the use of Freemium. Since Freemium users usually use free version before the premium version, it is hypothesized that attitude towards free version is related to attitude towards premium version. Furthermore, the theory of reasoned action puts forward that there is a relationship among attitude and behavioral intention (Fishbein, 1967). Therefore, the following hypotheses are suggested.

H7: Attitude towards free version is positively related to attitude towards premium version.

H8: Attitude towards free version is negatively related to intention to pay for the premium version.

H9: Attitude towards premium version is positively related to intention to pay for the premium version.

Figure 1: Research Model



3. DATA AND METHODOLOGY

3.1. Sample and Data Collection

The population of this study is Spotify users. 289 people answered an online questionnaire during data collection process and all respondents were from Turkey. After eliminating respondents who never used Spotify, a sample size of 240 was obtained. In the first part of the questionnaire, questions regarding the usage of online music services, the usage of free and premium versions of Spotify and payment behavior are included. It was observed that 17.1% of the respondents were only using the free version of Spotify with limited features, 16.2% were using the premium version without trying the free version, 66.7% used the free version first and then subscribed to the premium version. It was also observed that 5% of the respondents did not pay even though they were using the premium version.

In the second part, there are 26 items and 5-point Likert scales were utilized ranging from 1(strongly disagree) to 5 (strongly agree). In order to measure attitudes towards free and premium versions of Freemium products and intention to pay, the measures developed by Teng and Laroche (2007) and adapted to Freemium users by Wagner et al. (2014) were used. Attitude towards free version scale consists of 4 items; attitude towards premium version consists of 6 items whereas intention to pay scale consists of 4 items. Furthermore; Kim et al.'s (2013) 3-item scale was used to measure perceived value, Agarwal and Prasad's (1998) 4-item scale was used to measure personal innovativeness, Lu et al.'s (2005) 5-item scale was used to measure social influence.

The third and final part of the questionnaire consists of questions regarding the demographic characteristics of the respondents. 55% of the respondents were female and 45% were male. 16.7% of the participants were aged 25 and under, 61.3% were between the ages of 26-35, 18.3% were between the ages of 36-45 and 3.7% were over the age of 46. When the education levels of the participants were analyzed, it was observed that 1.2% were high school graduates, 44.2% were associate or undergraduate graduates, and 54.6% had postgraduate degrees.

3.2. Reliability and Validity Tests

Structural equation is used by researchers to test causal relationships between latent variables. Structural equation modeling, which is widely used to analyze the cause and effect relationship between latent structures, was born in the marketing literature of the 1980s and was adopted by researchers because of the desire to test all the theories and concepts together (Hair et al., 2011). Data were analyzed with WarpPls 6.0 program. PLS-SEM, which is accepted as the most advanced approach among variance based structural equation modeling techniques, is widely used in marketing studies (Dijkstra and Henseler, 2015). When compared to covariance-based techniques, PLS-SEM has minimal demands on sample size. Moreover, PLS-SEM is appropriate for complex research models (Chin et al., 2003; Henseler and Chin, 2010) and used by researchers because of it can model latent variables, fix measurement errors and estimate all parameters simultaneously (Dijkstra and Henseler, 2015).

The study utilized WarpPls 6.0 to test the measurement and structural model. Scale reliability indicates the internal consistency of the scale and achieved when Cronbach's Alpha (CA) is equal or above 0,7 (Nunnally and Bernstein, 1994). Furthermore, composite reliability (CR) should also be equal to or above 0,7 (Hair et al., 2011). As seen in Table 3, CR and CA values of the study are satisfactory. After reliability analysis, confirmatory factor analysis was applied for validity of the scales. For achieving validity, factor loadings should be equal or above 0,5 (Hair et al., 2014) and be significant at 0,005 level (Fornell and Larckler, 1981; Bagozzi and Yi, 1988). Table 3 demonstrates factor loadings, cross-loadings and p values. According to Table 3, factor loadings are between 0.545 and 0.944 and significant (p=0, 001). Furthermore, AVE values are above 0,5, proving that there is no problem for convergent validity (Hair et al.2011). Variance Inflation Factor (VIF) values were also checked to avoid multicollinearity problems. Table 3 also demonstrates that VIF values are less than 5 as suggested by Kock (2012), showing that there is no multicollinearity in the measurement model.

In the interest of achieving discriminant validity, Fornell and Larcker criterion is checked. The square root of the AVE for each construct is greater than all of the correlations among the construct and other constructs used in the research as indicated by Fornell Larcker criterion (1981). The values in Table 2 show that Fornell and Larcker criterion is met.

Goodness of fit (Gof) was calculated for the model to test the model fit with the formula developed by Tenenhaus et al. (2005). The values %10 indicates low, %25 indicates medium, %25 indicates high goodness of fit (Wetzels et al., 2009). The calculated value for the model is 0,404, proving that the research model has high goodness of fit. APC and ARS values should also be significant to achieve the model fit (Kock, 2012). APC and ARS values are also significant as seen in Table 1.

Table 1: Model Fit Indices

Index	Results	Acceptance Boundaries	References
APC	0,309**	-	-
ARS	0,2834**	-	-
AVIF	1,055	Accept if ≤ 5; ideal if ≤ 3,3	(Hair et al., 2011; Kock, 2012)
AFVIF	2,465	Accept if ≤ 5; ideal if ≤ 3,3	(Hair et al., 2011; Kock, 2012)
GoF	0,404	Low ≥ 0,1, Middle ≥ 0,25, High ≥ 0,36	(Wetzels et al., 2009; Kock, 2012)
Notes: APC: Average Path Coefficient, ARS: Average R^2, AVIF: Average Variance Inflation Factor AFVIF: Average Full Collinearity VIF, Gof: Goodness of Fit. ""**"" indicates 0,01 level of significance.			

Table 2: Correlation between latent variables and square roots of AVEs

	PERVAL	SOCINF	ATTFRE	ATTPRE	INTEN	PI
PERVAL	**0.811**					
SOCINF	0.369	**0.745**				
ATTFRE	-0.133	0.047	**0.851**			
ATTPRE	0.616	0.197	-0.126	**0.773**		
INTEN	0.697	0.319	-0.289	0.517	**0.918**	
PI	0.128	0.094	-0.025	0.005	0.088	**0.788**
Values shown in bold font are the square roots of AVEs.						

Table 3: Scale Validation

	PERVAL	SOCINF	ATTFREE	ATTPREM	INTEN	PIIT	P value	CR	CA	AVE	VIF	R^2	Q^2
PERVAL1	(0.663)	-0.201	-0.085	-0.160	-0.480	0.017	<0.001	0.852	0,74	0.658	4630	0.226	0.219
PERVAL2	(0.694)	-0.078	0.015	-0.339	-0.544	-0.016	<0.001						
PERVAL3	(0.765)	-0.084	-0.018	-0.338	-0.151	0.007	<0.001						
SOCINF1	-0.093	(0.852)	-0.071	0.043	-0.131	-0.009	<0.001	0.860	0,795	0.555	1180	0.039	0.040
SOCINF2	0.031	(0.778)	0.019	0.019	-0.039	-0.042	<0.001						
SOCINF3	-0.113	(0.706)	0.131	0.178	-0.308	0.048	<0.001						
SOCINF4	-0.527	(0.563)	0.045	0.105	0.473	-0.039	<0.001						
SOCINF5	-0.289	(0.545)	0.026	-0.096	0.576	-0.061	<0.001						
ATTFREE1	0.222	0.024	(0.659)	-0.037	-0.132	0.022	<0.001	0.913	0,872	0.843	1210	0.091	0.083
ATTFREE2	-0.018	-0.048	(0.824)	-0.031	0.083	-0.012	<0.001						
ATTFREE3	0.268	-0.080	(0.796)	-0.041	-0.036	0.013	<0.001						
ATTFREE4	-0.311	0.071	(0.897)	0.194	0.179	0.003	<0.001						
ATTPRE1	-0.609	0.184	0.031	(0.553)	0.034	0.069	<0.001	0.898	0,862	0.597	1926	0.598	0.577
ATTPRE2	0.019	0.070	0.012	(0.662)	-0.355	-0.001	<0.001						
ATTPRE3	-0.420	0.148	-0.126	(0.699)	-0.090	0.015	<0.001						
ATTPRE4	-0.294	-0.031	0.069	(0.894)	0.196	-0.043	<0.001						
ATTPRE5	0.235	-0.077	0.138	(0.732)	-0.231	0.040	<0.001						
ATTPRE6	-0.225	0.016	0.097	(0.779)	0.286	-0.054	<0.001						
INTEN1	-0.410	0.022	0.017	0.085	(0.944)	-0.000	<0.001	0.955	0.937	0.621	3551	0.462	0.443
INTEN2	-0.159	0.008	0.065	0.031	(0.930)	-0.005	<0.001						
INTEN3	-0.382	0.152	-0.029	0.071	(0.722)	0.002	<0.001						
INTEN4	-0.370	-0.022	0.047	0.050	(0.939)	-0.022	<0.001						
PIIT1	-0.246	0.073	-0.106	0.055	0.091	(0.735)	<0.001	0.867	0,937	0.724	1031		
PIIT2	0.028	-0.121	-0.179	-0.026	-0.143	(0.591)	<0.001						
PIIT3	-0.211	0.143	0.050	0.109	0.100	(0.644)	<0.001						
PIIT4	-0.106	-0.007	0.026	0.021	0.046	(0.872)	<0.001						

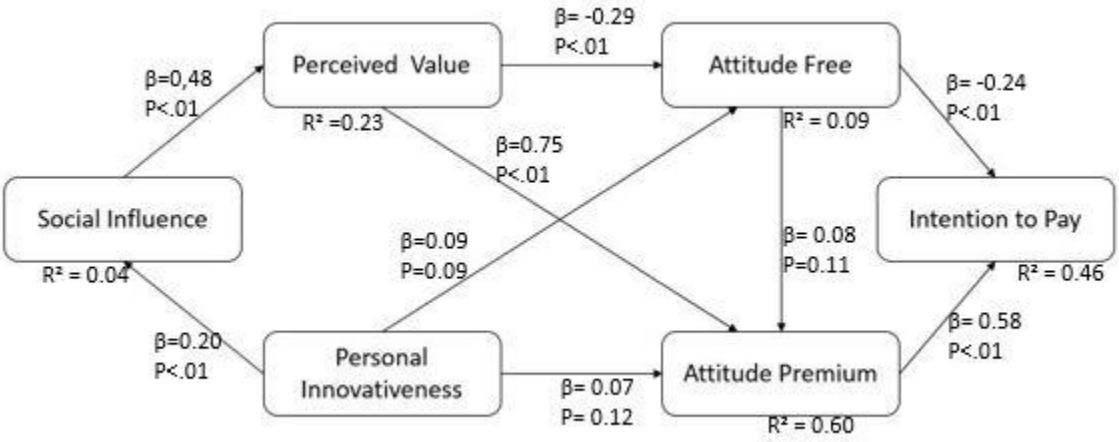
Notes: PERVAL: Perceived Value SOCINF: Social Influence ATTFREE: Attitude Free ATTPRE: Attitude Premium INTEN: Intention to Pay PIIT: Personal Innovativeness in Information Technology, p value: Significance Level CR: Composite Reliability CA: Cronbach's Alpha AVE: Average Variance Extracted VIF: Variance Inflation Factor R^2: Coefficient of Determination Q^2: Predictive Relevance
Factor loadings are shown within parentheses; loadings and cross-loadings are oblique-rotated.

Lastly, R^2 and Q^2 values were calculated to test model fit. R^2 indicates estimation power of the model and it is valued between 0 and 1. In consumer behavior studies, R^2 value is accepted high when it is over 0,20 (Hair et al., 2011). Besides, Q^2 value is expected to be over 0 if the relationships in the model have high estimation power (Weerawardena et al., 2015). R^2 and Q^2 values are satisfactory and demonstrated in Table 3.

3.3. Path Analysis

The research hypotheses were tested with WarpPls 6.0 program. The research model is defined as a reflective measurement model. The path analysis is shown in Figure 2. 6 of the 9 hypotheses are accepted at p=0,01 significance level. As seen on path analysis, the model explains %46 of the variance in the intention to pay.

Figure 2: Path Analysis



The first hypothesis of the study states that there is a positive relationship among users' personal innovativeness and social influence and the hypothesis is supported (β=0,198, p<0,001). The second hypothesis connotes that there is a positive relationship among users' personal innovativeness and attitude towards free version and the hypothesis is rejected (β=0,086, p>0,001). The third hypothesis states that users' personal innovativeness is positively related to attitude towards premium version and it is also rejected (β=0.0750, p>0,001).

The fourth hypothesis expresses that there is a positive relationship among social influence related to premium version and perceived value of premium version and the hypothesis is supported (β=0,476, p<0,001). The fifth and sixth hypotheses of the study express that there is a significant relationship among perceived value of premium version and attitudes towards free and premium versions. Results indicate that there is a negative relationship among perceived value of premium version and attitudes towards free version (β= -0,292, p<0,001) whereas there is a positive relationship among perceived value of premium version and attitudes towards premium version (β= 0,754, p<0,001). Therefore, both of the hypotheses are supported.

The seventh hypothesis of the study states that there is a positive relationship among attitude towards free version and attitude towards premium version and it is rejected (β= -0.077, p>0,001). The eighth hypotheses indicate that there is a negative relationship among attitude towards free version and intention to pay and it is supported (β= -0,243, p<0,001). Furthermore, the ninth hypothesis which presents that there is a positive relationship among attitude towards premium version and intention to pay is also supported. (β= 0,576, p=0,001). It can be concluded that attitude towards premium version has strongly related to intention to pay when compared to attitude towards free version.

The findings of the path analysis are summarized in Table 4.

Table 4: Summary of Findings Related to Path Analysis

Hypothesis	Path Coefficient (β)	Significance (P)	Std. Error	Effect Size (f^2)	Result
Personal Innovativeness → Social Influence	0.198	**<0.001**	0.062	0.039	Supported
Personal Innovativeness → Attitude Free	0.086	0.089	0.064	0.007	Not Supported
Personal Innovativeness → Attitude Premium	0.075	0.120	0.064	0.007	Rejected
Social Influence → Perceived Value	0.476	**<0.001**	0.059	0.226	Supported
Perceived Value → Attitude Free	-0.292	**<0.001**	0.061	0.085	Supported
Perceived Value → Attitude Premium	0.754	**<0.001**	0.057	0.571	Supported
Attitude Free → Attitude Premium	-0.077	0.114	0.064	0.020	Not Supported
Attitude Free → Intention to Pay	-0.243	**<0.001**	0.062	0.095	Supported
Attitude Premium → Intention to Pay	0.576	**<0.001**	0.058	0.367	Supported

4. CONCLUSION

The digital world has brought several new features, abilities and needs to consumers and markets. Rapid improvement in technology has changed many industries including the music industry. Freemium based music services have become an important player in the market with digitalization waves. Users' habit of listening to music has been strengthened with the help of music providers and earnings from online music sales have surpassed physical music sales (Pwc, 2019). Freemium business model has increased its importance not only in the music industry, but also in gaming, film, video, social media, and storage services. Therefore, freemium business model concept is noteworthy to investigate.

This research analyzes the relationships between attitude towards free version, attitude towards premium version and intention to pay for Spotify, which is a freemium based music provider. Furthermore, the relationships between social influence related to premium version, perceived value of premium version, personal innovativeness and attitude towards free version and attitude towards premium version is investigated. 6 out of 9 hypotheses are supported (p=0,01) after the analysis. Results indicate that when perceived value of premium version is higher, attitude towards premium version becomes positive (β=0.754, p<0,001). As the user enjoys the application and thinks that the benefit of the service is higher than the cost, the user develops more positive attitudes. However, as the perceived value of premium version increases, attitude towards free version becomes negative (β=-0.292, p<0,001). It should be underlined that when users have negative attitudes towards free version, their intention to pay increases (β=-0.243, p<0,001). This relationship can be explained by the reality that when users are not satisfied with the free version's limited features; they intend to pay more premium version. The key point is to balance the benefit packages of free and premium versions. The thin line between free and premium versions is considered as essential converting freemium users as Kumar (2014) indicated.

Findings also show that as users' attitude towards premium version becomes positive, their intention to pay increases (β=0,576, p<0,001). The relationship is expected since it is based on the theories that explain attitude, intention, and behavior (Fishbein and Ajzen, 1977). Another confounding finding is that there is no relationship among attitude towards free version and attitude towards premium version (β=-0.077, p=0,114). However, attitude towards free version and attitude towards premium version are both related to intention to pay. According to the results, perceived value of premium version is more important than attitude towards premium version for users. In addition, social influence related to premium price has a positive relationship with perceived value of premium version (β=0.476, p<0,001). Individuals perceive the value of premium version higher when their reference group uses or suggests using premium version. Another result reveals that when the level of personal innovativeness increases, social influence related to premium version also increases (β=0.198; p<0,001). Following this result, it can be inferred that if a services' users are open to innovativeness, premium users can be perceived as more influential. Lastly, there is no relationship among personal innovativeness and attitude towards premium version (β=0.075, p=0,120). In addition, personal innovativeness is not related to attitude towards free version (β=0,086, p=0.089). It can be said that although personal innovativeness can be used to increase social influence, this variable is not a meaningful trait to change attitudes.

Although this research has some noteworthy findings in a promising area, it also has some limitations. Firstly, this research has been carried out on Spotify. Future studies can replicate the study on other Freemium based services and include more variables. Secondly, the sample consists of users from only one country, Turkey. Other studies may include a sample from other countries to compare the results. Even with these limitations, this study is expected to shed light on the management and marketing of freemium based services by investigating the essential factors in the process of converting free freemium users to paying premium customers.

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