

From Engagement to Conversion
– The Impact of Free Trial and Marketing Communication on Customer Acquisition

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Abstract

As Software-as-a-Service (SaaS) becomes an increasingly popular business model, free-trial acquisition, which allows prospective consumers to explore and assess the service at no charge, is also becoming a norm for SaaS companies. However, researchers do not yet fully understand the role of consumers' usage intensity – variety and frequency – during the free-trial period or how their usage intensity interacts with marketing communication. We address this problem by studying a leading SaaS firm which entices prospects with free trials of its full-featured software service. Using the granular data of the consumers' usage behavior and the firm's marketing communications, we propose a model to examine the impact of free-trial usage, marketing communication, and the interplay between both on consumers' subscription decisions. To account for potential endogeneity, we have applied the instrumental variable method in a Bayesian framework and adopted propensity score matching to pair consumers who were exposed to firm-initiated ads with consumers who were not. We find that the variety of software downloaded by the consumer is positively associated with the consumer's conversion, and that the average frequency of launching each software, rather than the overall frequency of usage, affects the conversion. Our results also show that the impact of click-through on display ads and paid search ads is dampened during the free-trial period. Moreover, the impact of email delivery, when the free trial is available, is negatively associated with the consumer's subscription. We further decompose the analyses into weekly usage and different product choices. We hope the results will urge marketing managers in SaaS firms to re-assess their metrics to evaluate consumers' usage intensity and their marketing communication, to achieve a higher conversion rate and better allocation of marketing resources.

Keywords: free-trial acquisition, usage intensity, multi-channel marketing, Software-as-a-Service.