

Assignment: Final Research Paper

Research Title: Wattpad Case Study - What are Critical Factors in the Transition from a Free to Freemium (Free and Premium) Business Model by Prominent Digital Content and Application-Based Communities?

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1 **Introduction**

2 In the digital age, overruled by real-time multi-media coverage (e.g. social media,
3 streaming, and broadcasting services), content delivery has become a day-to-day priority for
4 companies. Therefore, the prominence of digital content communities and applications,
5 delivering text, music, and video has continued to increase. The digital communities with user-
6 generated and specialized content are intriguing because of the substantial amount of advanced
7 and amateur artists that emerge from these communities (e.g. animators, videographers,
8 comedians, authors).

9 Many of the digital companies begin with free features and services for their customers,
10 sometimes starting with no monetization schemes, then eventually test monetization methods to
11 help pay for expenses and permit business growth. Therefore, in this paper, the characteristics of
12 free (e.g. full access to services but with in-app advertising), freemium (a combination of both a
13 free and premium model through in-app purchase and subscription options), premium (additional
14 features paid for through in-app purchases and subscriptions), and their usual coexistence within
15 prominent applications will be discussed. For most launched and developed apps, their solely
16 ‘free’ status, usually assisted by advertising strategies, is remarkably brief. Albeit, even without
17 advertising strategies, users are still warned to be cautious of free applications; many industry
18 professionals have recited the saying: “if you're not paying for the product, then you are the
19 product” (e.g. Google has been accused of profiting from their users’ data, collected from their
20 application and services). However, usually, when digital companies acquire substantial users
21 and relevance, these companies transparently transition into monetization – freemium business
22 strategies.

23 Although there are many digital content and application-based communities this paper
24 could analyze, there is a focus on the business model strategies of digital communities with
25 freemium user-generated and specialized content. This paper will analyze Wattpad, the delivery
26 of long-form writing and its transition from free to freemium pricing models. Identifying and
27 understanding their successes and failures in monetization is critical for anyone who wants to
28 work within the digital industry (e.g. entrepreneurs, intrapreneurs, associates, and facilitators). In

1 academics, the study of critical factors in the transition from free to freemium business models
2 should persuade faculties to refine teaching, project and workshop facilitation, and student
3 deliverables based on industry realities. In the digital content industry, a study of commendable
4 freemium companies can provide tips for start-ups, small and medium-sized enterprises (SMEs),
5 or big corporations who want to develop their practices.

7 **Methodology**

8 Using thematic analysis, this paper identifies, analyzes, and interprets reoccurring themes
9 within the scholarly articles derived from Scopus and coded through the data analysis software,
10 MAXQDA. After limiting search results to business management, economics, social science,
11 decision science, and other related subject areas, the initial 79 resulting articles for “Freemium”
12 and “Business Model” is reduced to 45 related articles; these articles will be used to identify
13 critical factors in the transition from a free to freemium business model within digital content
14 communities.

15 While observing the 45 derived articles within MAXQDA and several others derived from
16 the University of Toronto (UofT) library and Google Scholar, this paper identifies and highlights
17 reoccurring keywords (topics) within the articles: freemium, premium, social media, social
18 influences, online communities, methodology and results, user-generated content (UGC),
19 business models, business strategy, participation, product, and field experiment.

20 Finally, the identified and highlighted themes with MAXQDA, which are not one-word
21 topics but comprehensive ideas within the articles are: the value of premium products and
22 services, levels of participation within digital applications (e.g. content consumption, content
23 organization, community involvement, and leadership), relevance of modern advertising within
24 applications, social influence on premium subscriptions, importance of premium trial or
25 sampling strategies, premium conversion incentives, and effects of the pricing for premium
26 versions (Oestreicher-Singer & Zalmanson, 2013; Gu, Kannan, & Ma, 2018; Koch & Benlian,
27 2017). These themes are identified as critical factors in the transition from free to freemium
28 business models.

1 **Synthesize/Analyze: What are the critical factors in the Transition from a Free to**
 2 **Freemium?**

3 Alongside other scholarly articles, the principle articles mentioned identify and contribute
 4 to the list of critical factors in the transition from a free to a freemium business model:

5 Oestreicher-Singer and Zalmanson's (2013) article called "Content or Community? A
 6 Digital Business Strategy for Content Providers in the SocialAge" is one of the most cited
 7 articles derived from the researcher's "premium" and "business models" search, which has been
 8 cited 123 times according to Scopus data (Scopus, 2019). This scholarly article is relevant
 9 because of its ideologies, which still relates to the current digital content industry, like the
 10 freemium model, "in which a website offers most of its services for free while restricting only
 11 some premium features to fee-paying consumers," the fusion of social computing and content,
 12 "establishing content-related and IT-enabled social experiences for its users," "ladder" or levels
 13 of participation, and "premium offers should be aimed at users with higher levels of
 14 participation" because participation signals value creation and willingness to pay (p. 592 - 605).

15 1. Value of premium products and services

16 Currently, many digital content communities fuse social computing and content, which
 17 refers to IT-based social experiences within applications, stimulating the consumption of content
 18 (e.g. community forums, social sharing features). In the rise of hybrid social media
 19 (microblogging) and long-form content platforms, content consumption is now a social
 20 experience; therefore, value creation reflects and is dependent on users' expectation in the "social
 21 age" on high-quality social environments (Oestreicher-Singer and Zalmanson, 2013, p. 593 -
 22 595). As a result, these communities, created by digital companies, can capture and monetize
 23 their value through advertisements and premium offerings and engaging in Customer
 24 Relationship Management (CRM) through interacting with users within their unified platform.

25 2. Levels of participation within digital applications

26 In applications, content and social consumption reveal the segmentation of users and their
 27 behaviours. There are visitors, "exhibits unstructured participation," novices, "invests time and
 28 effort," regulars, "displays full commitment," and leaders, "sustains membership participation
 29 and guides interactions of others," within the content and application-based communities
 30 (Oestreicher-Singer and Zalmanson, 2013, p. 595 - 596; Kim, 2000).

1 Oestreicher-Singer and Zalmanson (2013) suggest that higher levels of participation are
2 linked to higher willingness to pay; “that is, premium offers should be aimed at users with higher
3 levels of participation” and responsive to changes in a user’s level of participation (p. 597). For
4 example, if a novice app user quickly develops into a regular user, then offering deals or
5 discounts, suggestions in moderation and not spam-like marketing, on high-quality premium
6 plans, are more likely to be appreciated. However, the magnitude of other variables, content
7 consumption, organization, involvement, and leadership are considerations in premium
8 purchasing decisions.

9 3. Criticism of “traditional” advertising within applications

10 Oestreicher-Singer and Zalmanson (2013) criticizes the first adopted revenue model of
11 digital content companies, which is advertising; “advertising is essentially “flat”; it does not
12 utilize the insights that come with a better understanding of users' behavioural dynamics in a
13 social context” (p. 597). They suggest that the levels of participation in an application require a
14 monetization strategy, a business model, that is specialized for user segments. Instead, freemium
15 business models should be sought after with the assumption that by delivering a product for free,
16 it can attract many users and facilitate their engagement, but a small portion of users, usually
17 with higher levels of participants, will be willing to pay for a premium plan.

18 One freemium strategy is offering a portion of the product or service for free and the rest
19 for a premium price. In this case, Oestreicher-Singer and Zalmanson (2013) advice that partially
20 free product and services “may result in a lower perceived value of the free content, causing
21 lower demand levels [of the premium versions]” (p. 597). Rather, having free and full access to a
22 certain product and service and reserving others for premium purchasing, increases awareness of
23 product and services. Based on the presence of a derived value, users can develop loyalty to the
24 brand and the willingness to pay for a premium plan.

25 4. Social influence on premium subscriptions

26 Freemium business models are marketing strategies. A digital company's free products and
27 services can tease or introduce the value and quality of its premium products and services. As
28 more loyal users convert to a premium plan, they often share their paid subscription experience
29 with friends or peers. Positive feedback from premium subscribers positively affects other users’
30 likelihood to pay for premium; negative feedback from premium subscribers and non-
31 subscribing peers negatively affect other users’ likelihood to pay for premium (Oestreicher-

1 Singer and Zalmanson, 2013, p. 603). Therefore, digital companies should actively counter and
2 be aware of “negative word of mouth regarding the subscription decision, either verbally or
3 observational learning” (Oestreicher-Singer and Zalmanson, 2013, p. 603). Companies can do
4 this through managing public relation, observing and responding to commentary on premium
5 products and services (e.g. posted on online forums or social media sites), and listening to
6 constructive feedback so the products and services can be improved to help entice more premium
7 subscribers.

8 Another great resource is Gu, Kannan, and Ma’s (2018) article called “ Selling the
9 Premium in Freemium,” which recognizes freemium business models as a marketing strategy.
10 “The freemium strategy serves as a marketing tool that can draw in potential customers through
11 channels such as word of mouth and organic searches. From a customer’s perspective, the
12 freemium strategy provides a costless way to sample and experience a new product or service
13 [before committing to and paying for it]” (p. 10). There are two types of freemium business
14 models referenced in the article, which are feature-limited and time-limited freemiums (Gu et al.,
15 2018, p. 11). Feature-limited freemiums (FLF) are “offering a basic version of the product with
16 limited functionality for free while charging for additional features in the premium version” (e.g.
17 Google, Wattpad, Spotify, WordPress) (Niculescu and Wu, 2014, p. 2). Time-limited freemiums
18 (TLF) “allow users free access to the full version of the software product, but only for a limited
19 period of time [sic]” (e.g. Netflix, Microsoft Office, Adobe Photoshop, Squarespace) (Niculescu
20 and Wu, 2014, p. 3).

21 After, the article engages in a feature-limited freemium field experiment with a publishing
22 company, National Academies Press (NAP), which offers free online PDF versions of all its
23 books and sells the paperback versions. During the field experiment, Gu at al (2018) “examined
24 customer downloads and purchases on NAP’s website between January 2016 and August 2016”
25 (p. 11). The results revealed that having novel premium versions (e.g. hardcover version or e-
26 book version) may lead to fewer downloads of the free PDF, premium sales are stronger for
27 books that are more popular or lower in price, and the sales of premium offering you wish to
28 dominate (e.g. e-book or hardcover) can be increased through small and not massive price
29 differences (p. 11 - 23).

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1 5. Premium sampling strategies

2 Like Oestreicher-Singer and Zalmanson, Gu et al. (2018) identify the marketing strategy in
3 Freemium pricing models; “from a customer’s perspective, the freemium strategy provides a
4 costless way to sample and experience a new product or service” (p. 10). Due to the existence of
5 free products and services and premium free trials, there is high-quality assurance and incentive
6 for converting to a premium subscription. Specifically, the availability of premium free trials
7 provides an opportunity for users to test the features of the full capacity of the application before
8 premium purchasing. Instead of the scenarios where numbers of subscriptions to the app
9 substantially decreases per month due to premium plan not meeting expectations or regarded as
10 complex, when the premium trial runs, trial and error, and personal “fit” is tested, then
11 subscription assurance and retention can be acquired earlier.

12 6. Premium conversion incentive (e.g. novelty)

13 Based on the field experiment about the premium practices of National Academies Press
14 (NAP), Gu et al. (2018) stated that for premium offers, “adding a new version (hardcover version
15 or e-book version) may lead to fewer downloads of the free PDF version” (p. 18). High-quality
16 free products and services attract users, but to profit from the acquired users, they need to be
17 converted to premium users. Digital companies with premium products and services (not just in
18 book format) should be differentiated from their free products and services through novelty,
19 originality, and in-demand offerings that appeal to its target market.

20 7. Pricing of premium plans

21 The cost of premium products and services will affect users’ willingness to pay for them.
22 Therefore, the finalized price for premium offerings should consider variables such as the
23 production cost, value creation, competitor prices, and what their target market and specific user
24 segments will be willing to pay for their product and services. For example, if a monthly and
25 yearly premium price is available, the yearly plan can have small differentiation and potential
26 discounts for users who are willing to commit to the plan, so that the yearly plan is deemed more
27 favourable to most users than the monthly plan. Many digital companies, like Wattpad, Spotify,
28 Adobe, and WordPress, have this strategy.

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1 **Wattpad Case Study**

2 Wattpad is a global user-generated and multi-platform entertainment company for stories,
3 co-founded by two Canadian engineers, Allen Lau and Ivan Yuen, launched in November 2006
4 and headquartered in Toronto, Ontario (Wattpad, 2019; Tirocchi, 2018). Essentially, it is an
5 online storytelling community, accessible and responsive on multimedia devices, for readers and
6 writers.

7 Free to Freemium Business Model

8 Initially, Wattpad was a company surviving on crowdfunding and traditional advertising
9 (e.g. selling advertising spaces within the platform). However, in December 2014, Wattpad
10 announced its new plan to help generate revenue, which is to introduce a freemium business
11 model. The company introduced paid content to the Wattpad platform. As a freemium strategy,
12 the company planned to “add new dimensions” to existing free content (Hoffelder, 2014;
13 Wattpad, n.d.). They meant adding optional, time-based, pop-up advertising to existing free
14 stories, reappearing after a few chapters, to help fund the financial support of writers.

15 Apart from monetizing on existing free content, Wattpad also planned to gain revenue
16 through adding new and full stories with original narratives and an in-app purchase strategy
17 (buying in-app coins used to read premium e-book chapters). Within Wattpad, these are called
18 “supported stories” (Wattpad, n.d.). However, the company reinstates that the app will remain
19 free and that they will continue to have free stories available. With a freemium strategy, both free
20 and premium content will exist in the app. The premium content and revenue acquired from them
21 helps the company and its writers.

22 Website and Mobile Features

23 When you sign up for or log into Wattpad, your homepage showcases collections of
24 recommended e-books (e.g. supported stories, most shared stories, editors’ choice, community
25 showcase)(Wattpad, n.d.):

26 In the top navigation bar, the discover dropdown menu contains links to collections of
27 stories arranged by genre (e.g. fantasy, paranormal, horror, fantasy) and a section for Wattpad
28 picks (editors’ choice, Wattpad Studio hits, and writing contest). The community dropdown menu
29 contains links to an interactive community forum and the “The Watty Awards,” which is an
30 award program facilitated by the Wattpad team for writers within the application. A dropdown
31 menu at the right corner called “Write” contains links to your account, where you can create a

1 story and contains stories you have saved to your library. Your account dropdown menu with a
 2 scaled-down picture of you contains links to your profile, inbox, notifications, newsfeed, library,
 3 and more. Lastly, a blue “Go Premium” is also at the top-right corner, which links you to a page
 4 about their monthly and yearly premium plan, promises an uninterrupted and ad-free experience,
 5 customizable Wattpad theme, and appreciates your support of their application. Getting the
 6 premium plan is done on mobile; there you are prompted to choose between a \$5.99 per month
 7 or \$59.99 per year premium plan (Wattpad, “Premium,” n.d.).

8 Departments & Applications

9 There are various departments and applications within Wattpad, each dealing with varying
 10 niches: Wattpad Brand Partnerships, Wattpad Labs, Wattpad Studio, Tap by Wattpad, and
 11 Wattpad Books. The Wattpad Brand Partnerships team works with “the world’s biggest brands
 12 and entertainment studios to create, curate and discover stories that penetrate pop culture”
 13 (Wattpad, “Brand Partnerships,” n.d.). The Wattpad Labs team works on emerging and
 14 innovative products for the company (e.g. Tap by Wattpad). The Wattpad Studio team discovers
 15 diverse ways that Wattpad can harness and showcase the power of storytelling in the
 16 entertainment industry (movies, TV shows, books). Tap by Wattpad is a chat-form storytelling
 17 application. Wattpad Books is an upcoming publishing imprint, where books of Wattpaders can
 18 be potentially published.

19 Multimedia Industry Impact

20 Wattpad stories are currently impacting the publishing and entertainment industry
 21 with increasing book publications, TV show, and movie adaptations deals (Wattpad.com, n.d.;
 22 Wattpad, “Brand Partnerships,” n.d.; Wattpad, “Wattpad Studios,” n.d.):

23 In the entertainment industry, Wattpad’s popular brand partners are Syfy, Paramount,
 24 Netflix, The CW, Warner Bros., Disney, and Lionsgate. *The Kissing Booth* by Beth Reekles, a
 25 Wattpad original e-book, is adapted into a 2018 Netflix film and 2013 published print and e-
 26 book. Another Wattpad original e-book is *After* by Anna Todd, which is now adapted into a 2019
 27 *Aviron Pictures* movie, became a 2014 *New York Times* bestselling book, and will be shown in
 28 movie theatres starting April 12. In the publishing industry, Wattpad’s popular partners are *Simon*
 29 *& Schuster*, *HarperCollins Publishers*, and *Macmillan* publishers, and their planning on
 30 launching their own publishing company coming soon called “Wattpad Books.” On January
 31 2019, *White Stag* by Kara Barbieri was published under Macmillan. On February 5, 2013, *Light*

1 *as a Feather* by Zoe Aarsen was published under *Simon & Schuster*, which was re-published
 2 October 9th, 2018, by *Simon Pulse*, and in October 2018 became a *Hulu* show. Other popular
 3 Wattpad brand partners are the *A Quiet Place* movie launch, National Geographic, Ben & Jerry's,
 4 Coca-Cola, and H&M. They usually participate in the Wattpad platform through writing contests
 5 and campaigns.

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Wattpad Freemium Business Model Summary

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Critical Factors	Description
Value Creation	On Wattpad, value is evident in their stories (capturing audience and brand partners attention), organized content (appreciated by users looking for an e-book to read within a specific genre or collection), community forums (e.g. users engage in insightful discussions, creative participation, and exercises like free writing and writing prompts), writing contests and campaigns with brand partners, and an annual award called “The Wattys Award,” which gives award to writers in the application with compelling and trending stories. Also, the adaptation of Wattpad original e-books as movies and published print books adds to the company’s value in a users’ perspective.
Levels of Participation	Wattpad’s novice visitors explore various features such as choosing e-books to read from the discover pages, adding e-books into their library, joining and participating in community forums, writing contests, and testing the “create a story” page. Regular visitors understand the application and tend to have features that they engage with more than others (e.g. community forum). Wattpad leaders will be users that do not just respond to content, but also produce them (e.g. e-book authors, community forum topic or discussion facilitators).

Advertising Scheme	<p>On Wattpad, advertising exists as pop-up ads within e-books, which authors can profit from, advertising placements within web pages, writing-based contents and campaigns for their brand partners (e.g. National Geographic, Ben & Jerry's, Coca-Cola, H&M). Wattpad's marketing and advertising strategies are observably not bland; they tend to be related to users' writing and topics explored in users' writing (e.g. LGBTQ+, bullying, female empowerment).</p>
Social Influence	<p>Wattpad manages brand awareness through the social sharing features available while reading their user-generated e-books (e.g. sentences in a chapter can be quoted and shared on social media sites (e.g. Twitter, Facebook, Instagram, LinkedIn). Also, there is engagement with both "Wattpad Stars" (authors from Wattpad) and "Wattpaders" (users of the Wattpad platform). On social media sites, the Wattpad team can constructively observe positive and negative commentary and feedback from users.</p>
Premium Sampling or Trial	<p>Wattpad offers a 1-week premium subscription trial before the user must choose to commit to the \$5.99 monthly or \$59.99 yearly premium plan, which is much lower than some other digital communities. For example, Spotify offers a 3-week premium trial to newbies and students, before they must choose to commit to the plan (or not).</p>
Premium Incentive (Novelty)	<p>In the \$5.99 monthly or \$59.99 yearly Wattpad premium plan, users get uninterrupted and ad-free reading and writing experience on any device. You can unlock a customizable Wattpad theme (e.g. changing theme colour and structure). Lastly, you are helping to support Wattpad, which aims to provide a free platform to create and engage with the global writing community. With your subscription, you will be supporting their ongoing mission.</p>

Premium Pricing	In the \$5.99 monthly or \$59.99 yearly Wattpad premium plan, there is an identifiable slight difference between both options. The \$59.99 yearly option means you will be paying \$1 less (\$4.99) every month. The Wattpad team is trying to entice users to convert to the yearly plan, trying to get users to commit to the more assured and prolonged payment plan.
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1 *Wattpad, 2019; Tirocchi, 2018*

3 **Conclusion**

4 Using MAXQDA, UofT library, and Google Scholar articles, this paper derives various
5 overarching themes: the value of premium products and services, levels of participation within
6 digital applications (e.g. content consumption, content organization, community involvement,
7 and leadership), relevance of modern advertising within applications, social influence on
8 premium subscriptions, importance of premium trial or sampling strategies, premium conversion
9 incentives, and effects of the pricing for premium versions (Oestreicher-Singer & Zalmanson,
10 2013; Gu, Kannan, & Ma, 2018; Koch & Benlian, 2017).

11 These overarching themes identified critical factors in the transition from free to freemium
12 business models, which are the value of premium products and services (value creation), levels
13 of participation within digital applications, presence of traditional and novel advertising within
14 applications, social influence on premium subscriptions, premium sampling or trial strategies,
15 premium conversion incentive (e.g. novelty), and the pricing strategy of premium plans.

16 In the Wattpad case study, these critical factors are explored through the long-form writing
17 (content) and entertainment industry context:

18 Value is in their compelling stories, organized content, community forums, writing contests
19 and campaigns, the annual award called “The Wattys Award,” and the adaptation of Wattpad
20 original e-books as movies and published print books. On Wattpad’s platform, levels of
21 participation are novice visitors, who are exploring various Wattpad features, regular visitors,
22 who tend to have features that they engage with more than others, and leaders, who produce
23 content within the application.

24 The advertising strategy is diverse, exists as pop-up ads in e-books, advertising placements
25 within web pages, writing-based contents and campaigns. Social Influence is managed through
26 the social sharing features, engagement with both “Wattpad Stars” (authors from Wattpad) and

1 “Wattpaders” (users of the Wattpad platform), and constructively observe positive and negative
2 commentary and feedback from users. Premium sampling is offered, a 1-week premium
3 subscription trial, before the user must commit to the \$5.99 monthly or \$59.99 yearly premium
4 plan (or not). The premium incentives are the uninterrupted and ad-free, customizable Wattpad
5 theme, and support features. Lastly, Wattpad’s premium pricing strategy is identifiable in the
6 slight differences between both premium options. The \$59.99 yearly option means you will be
7 paying 1 dollar less (\$4.99) every month; the Wattpad team is trying to entice users to convert to
8 the yearly plan, which is a more assured and prolonged payment plan. Therefore, although both
9 premium plans are great, the yearly premium plan benefits the company more.

11 **Limitations & Recommendations**

12 Although this paper focuses on Wattpad, which is long-form writing and user-generated
13 content company, there are other digital contents and application-based communities that can be
14 analyzed. The universality of the critical factors, in the transition from a free to a freemium
15 business model, derived can be properly tested (value creation, levels of participation,
16 advertising scheme, social influence, premium sampling, premium incentives, and premium
17 pricing).

18 Other related long-form writing and user-generated content companies, with similar e-
19 books, genres, community forums, personal profiles and libraries, and writing incentives, should
20 be analyzed. For example, Inkvite and Radish have identical features. Like Wattpad, Radish and
21 Invite are social writing applications with various fiction and non-fiction stories, allows users to
22 compose and publish stories, short and long, on any device, writers can gain followers and
23 feedback from global writing communities.

24 Non-related digital content-based companies like Spotify (audio content) can also be
25 analyzed to discover the universal critical factors that are affecting the digital content industry.
26 Identifying successes and failures of digital companies in the transition to a monetization
27 business model and strategy provides insights for those who are engaged with the industry (e.g.
28 entrepreneurs, intrapreneurs, associates, and facilitators). Based on research, academics can
29 refine teaching, project and workshop facilitation, and student deliverables due to conclusive
30 identifiers and results. Notable and aspiring professionals in the digital industry can engage in

1 discussions and strategic implementations within start-ups, small and medium-sized enterprises
2 (SMEs), or big corporations.

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