

How much are people willing to pay for love (on a dating app)?

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Would you rather pay for a dating app or get it for free by recommending it to friends on social media? New research from Rotterdam School of Management, Erasmus University (RSM), finds that introducing referral programmes in platforms like dating apps can significantly contribute to increasing the number of referrals at the expense of revenue.

After working with a partner company to study its social referral programmes for a few years, Dr Rodrigo Belo and Prof. Ting Li developed a model with a variety of users who differed in how much they value the platform and how much effort it costs them to invite referrals. They tested users' decisions to invite others to it, pay for it, and engage with the platform.

They found that introducing referral programmes in freemium platforms can significantly contribute to increasing the number of referrals, but that doesn't help to increase revenue. But if platforms reserve some of their premium features exclusively for paying users, they can avoid the loss in revenue.

According to Prof. Ting Li, "Increasing the requirements for referrals can work as a double-edged sword. Increasing the threshold results in more referrals and in higher total revenue. Yet, these benefits appear to come at a cost. Users become less engaged, decreasing the value of the platform for all users."

So what should a platform do?

1. Platforms using freemium business models could amplify social contagion and accelerate product purchases by explicitly requesting users to invite their friends and acquaintances. This can have important implications for the platform's bottom line.

2. Second, the increase in acquisitions and revenue from new users comes at the expense of other metrics. Platforms need to carefully assess the effectiveness of their referral programmes, closely monitor how they affect user engagement, and pay attention to the potential negative consequences. Platforms need to evaluate if the value of the new referrals could compensate for the revenue lost by those users that would have paid.

3. Third, the researchers' findings also suggest that people value having their friends on the platform. With this in mind, social referral programmes designed to enhance the shared experience of online dating (e.g., organising offline activities) could be particularly effective in increasing platform engagement.

4. Last, the findings suggest that some people aren't bothered by having to meet certain requirements to access premium features – they're keen to engage with the platform anyway. Practically, this means platforms could adjust the requirements for referrals for different user groups to increase their acquisition of users and payments without hurting levels of engagement. This adjustment could be dynamic: the platform would start by assigning a freemium plan to all users, and after assessing users' behaviour during the first few weeks, decide who gets the option of access to premium functions in exchange for making referrals.

This paper is forthcoming in Management Science, a preprint version can be found at (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3224330) SSRN under the title Social Referral Programs for Freemium Platforms.

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