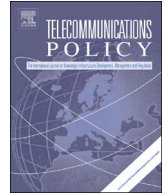




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What do consumers prefer for music streaming services?: A comparative study between Korea and US

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ABSTRACT

With the widespread use of mobile devices and increased availability of wireless networks, music streaming is replacing music downloads in the digital music industry. In the United States, streaming is still at an early stage with many different competing business models, while streaming services in Korea have converged towards a subscription-based on-demand model. This paper attempts to estimate and compare US and Korean consumers' marginal willingness to pay (MWTP) for streaming services using conjoint analysis. The attributes of advertisements, streaming mode, exclusive content, and offline usage were chosen. The results indicated that US and Korean consumers have different preferences and MWTP for product attributes. Implications for streaming services as well as the streaming industry are suggested based on the results.

1. Introduction

The music industry has been continuously evolving during the rapid development of the Internet. While online music downloading has been steadily replacing traditional offline record sales recently, music streaming is becoming an alternative business model for many online music services because of the development of mobile devices such as smartphones and increased availability of subscription services (IFPI, 2016).

Music streaming services can be classified into different types according to their revenue model and streaming mode. First, streaming services can be classified by revenue source as an advertisement-based free model or a subscription-based streaming model. Streaming service providers can generate revenue by selling advertising while offering services free of charge or by charging a monthly subscription fee to users while providing streaming without advertisements (Wlomert & Papias, 2016).

One of the issues causing controversy within the streaming industry is the profitability of the ad-based business model. While free streaming has certainly played a big role in attracting new consumers by guiding them away from illegal downloads, many are questioning if it can be a sustainable and profitable business model. In fact, even major streaming services such as Spotify and Pandora are experiencing significant losses due to the unprofitability of free users. While advertisements do translate to revenues, as free users increase, licensing costs tend to increase faster than revenues. Thus, both companies are sustaining losses although their user numbers are constantly increasing (KOCCA, 2015).

However, one business model that has become popular over recent years is the hybrid model. Most offer two types of services: one ad-based free tier and one subscription tier that charges a monthly flat-rate fee, but has no advertisements and offers additional

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benefits (Thomes, 2012). Spotify and Deezer are examples of streaming services using this business model. Their main strategy is to attract users with the free tier and then get them to upgrade to the subscription tier. However, they differ in the offerings of specific product attributes, such as music recommendation features, social networking functions, and exclusive content.

Second, streaming services can be classified as either streaming radio or on-demand streaming based on the kind of services they provide. Streaming radio allows users to choose among predetermined playlists, but they cannot listen to individual songs of their choice. On-demand streaming allows users to search and listen to individual songs of their choice in addition to choosing from predetermined playlists. Streaming radio services often employ the ad-based free model, for instance Pandora, while on-demand streaming services usually choose the subscription model, as in the case of Apple Music and Tidal.

While the rise of music streaming reflects the change of consumer behavior from ownership-based to real-time ubiquitous access, the two-tier subscription-based streaming model is becoming a popular business model for digital music services. However, which model will prevail in the market differs from country to country. On the one hand, in the relatively new US streaming market, many different models of streaming services, in terms of profit structure and product attributes, are competing for dominance. On the other hand, in the more established Korean streaming market, similar subscription-based offerings with small variations in product attributes are provided.

Furthermore, different business models have different advantages. While the ad-based free model can be more effective at attracting new consumers, the subscription model is often more profitable. Nonetheless, it is ultimately consumer preferences that determine which business model will be successful and, consequently, in which direction the streaming industry will progress. Therefore, understanding the product attributes valued the most by consumers will provide important insights into formulating an optimal business model and predicting the development of the streaming industry. Because previous research has not analyzed consumer preferences for streaming services in this context, this paper will attempt to fill the gap.

The purpose of this research is to analyze the relative importance of each attribute of music streaming services and estimate consumers' marginal willingness to pay (MWTP) for each attribute. It also aims to explore whether music streaming services will converge towards the currently dominant subscription model or whether there will be room for other types of services emphasizing different attributes. For this purpose, a comparison of Korean and US consumers might provide insights into this question, since the streaming industries of the two countries are in different stages of development. More specifically, we would like to examine if whether the rapidly changing US streaming industry will become similar to the Korean streaming industry, which has finished the transition to subscription-based on-demand streaming years ago. Thus, this paper attempts to answer the following research questions.

- 1) Which product attributes of streaming services do consumers most value, and what is their MWTP for those attributes?
- 2) Are there any meaningful differences between the attribute preferences of US and Korean consumers?

This paper proceeds as follows. An introduction to the streaming industry is given in [Section 2](#), followed by a literature review in [Section 3](#). Research design and methodology is explained in [Sections 4 and 5](#), and our empirical results are in [Section 6](#). Finally, conclusions and implications are presented in [Section 7](#).

2. The US and Korean streaming industry

2.1. The US streaming industry

Streaming has recently become an attractive field of business for digital music companies. This has led to the growth and entry of several streaming firms as well as the rapid development of the US streaming industry. First, Spotify, the Swedish music streaming service founded in 2008, is one of the firms that began the transition wave from downloading to streaming by popularizing the hybrid streaming model, which provides two different services: a free service including advertisements and a service without advertisements based on a monthly subscription fee. Earlier this year Spotify announced that it has 30 million paying subscribers worldwide, which makes it one of the global leaders in the streaming business (Mamiit, 2016).

Apple Music is the new name for iTunes, which has rebranded itself as a music streaming service. iTunes, based on a la carte downloads, was the main digital music platform for Apple for many years, but last year Apple quickly transitioned into a subscription-based streaming service by building on the acquisition of Beats Music for \$3 billion in 2014 (KISDI, 2015). Despite being a late mover in the streaming industry, Apple Music has had a significant impact on the growth of streaming, acquiring more than 10 million subscribers by early 2016 (IFPI, 2016).

Founded in 2000, Pandora is one of the pioneers of the digital music streaming industry. It has enjoyed a dominant standing in the industry with a business model offering advertisement-based streaming radio service. However, Pandora has recently been struggling because of its low profitability and high licensing costs. For example, while Pandora's advertising revenue has only grown 31% annually, content acquisition costs have increased by 90% each year (Peterson, 2015). Last November, Pandora announced that it will acquire streaming company Rdio for \$75 million. This acquisition can be interpreted as preparation for a strategic business model shift from traditional streaming radio to interactive on-demand streaming and ad-based free services to subscription services.

YouTube is also a very strong player in the streaming industry, with more than 800 million monthly music video viewers (IFPI, 2016). With its subscription streaming service, YouTube Red, YouTube grants access to both YouTube and Google Play Music, and is aggressively expanding its user base in the international market (IFPI, 2016). One advantage that YouTube has over other streaming services is licensing cost. As a neutral hosting service, YouTube enjoys an advantage over other subscription services by

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