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Why Pay When You Can Get It For Free?

A quantitative study of the competition on the web-based music market in Sweden

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ABSTRACT IN ENGLISH

Title: Why Pay When You Can Get It For Free? A quantitative study of the web-based music industry

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Key words: Web-based music services, Buyer switching costs, Sampling, Willingness to pay, Versioning, Bundling, Consumer surplus, Network effects

Purpose: The purpose of this study is to investigate the competition on the web-based music market in Sweden.

Methodology: The research consists of a quantitative study based on empirical data collected through electronically distributed surveys. The survey consists of a maximum of 17 questions (the survey varied in length depending on what the respondent answered), which were written based on theories relevant to the purpose. The data was analyzed through the use of the statistical program SPSS with the aim of testing three hypotheses.

Theoretical perspectives: An interesting paradox when discussing web-based music consumption is that regardless of age and income levels, consumers seem to pay for web-based music despite having the ability to access it on the market virtually for free. Researchers have developed many theories on the matter of what competition could look like on such a market. Whilst some researchers claim that the competition can be explained through traditional theories, others argue that this is a market for which new business models need to be developed. A few reoccurring concepts which arise in these theories are the buyer switching costs associated with the music services, the consumers' willingness to pay for the music and whether or not web-based music services display network effects. These concepts lay the theoretical grounds for this paper.

Empirical foundation: Our population consists of people between the ages of 18-29 years who live in Sweden and use at least one web-based music service. We calculated an adequate sample size of 271 people, with a confidence level of 90 % and a margin of error of 5 %. The survey was distributed through the use of Facebook, and ultimately 263 usable responses were collected.

Conclusions: The study is to be regarded as a pilot study, and we do not aim to generalize our results upon our entire population. The empirical data we have used to test our hypotheses points toward that competition on the Swedish web-based music market is not based on price alone, but rather on other factors, such as benefit, despite music being accessible virtually for free.

SVENSK SAMMANFATTNING

Titel: Why Pay When You Can Get It For Free? A quantitative study of the web-based music industry

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Handledare: Christine Blomquist

Nyckelord: Web-based music services, Buyer switching costs, Sampling, Willingness to pay, Versioning, Bundling, Consumer surplus, Network effects

Syfte: Syftet med denna studie är att undersöka konkurrensen på den webbaserade musikmarknaden i Sverige.

Metod: Undersökningen består av en kvantitativ studie baserad på empirisk data som vi samlat in via enkäter online. Enkäten består av maximalt 17 frågor, som är skrivna baserade på relevanta teorier. Vår data analyserades med hjälp av det statistiska programmet SPSS, med syfte att testa våra tre hypoteser.

Teoretiska perspektiv: En intressant paradox angående konsumtion av webbaserad musik är att det verkar som att konsumenter oberoende av ålder och inkomstnivå väljer att betala för webbaserad musik, trots att musiken finns tillgänglig kostnadsfritt på marknaden. Det finns många teorier i ämnet om konkurrens på en sådan marknad. Samtidigt som vissa forskare påstår att konkurrens kan förklaras genom traditionella teorier, argumenterar andra att detta är en marknad där nya affärsmodeller bör utvecklas. Några återkommande begrepp i dessa teorier är t.ex. buyer switching costs, betalningsvilja för musik samt huruvida de webbaserade musiktjänsterna associeras med nätverkseffekter. Dessa koncept ligger som teoretisk grund för detta arbete.

Empiri: Vår population består av personer mellan åldrarna 18-29 år som bor i Sverige och använder minst en webbaserad musiktjänst. Vi räknade ut vår urvalsstorlek på 271 personer med en 90 % konfidensnivå med en felmarginal på 5 %. Enkäten distribuerades via Facebook, och vi fick till slut 263 svar.

Sammanfattning: Denna studie ska ses som en pilotstudie, och vi ämnar inte generalisera på hela vår population. Vår empiriska data som testas mot våra hypoteser, kan indikera att konkurrensen på den webbaserade musikmarknaden i Sverige inte är baserad enbart på pris, utan snarare på andra faktorer som konsumentnytta trots att musik finns att tillgå i princip gratis.

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1. INTRODUCTION

As a group of avid music listeners, we find the music industry to be a compelling field of study when writing our bachelor dissertation. An interesting paradox we found when discussing music is that, despite having relatively low incomes, we all choose to pay for music through web-based music services. In fact, music is one of the last things we sacrifice if money is scarce one month. We would rather substitute our normal, necessity goods with inferior goods than sacrifice our music, which could be regarded as more of a luxury good. When combining this train of thought with the knowledge we gained whilst studying the course FEKH10 Strategic Management, we put forth the questions; 'why do we pay for music when we can access it for free?' and 'how can companies compete on such a market?' These questions became the foundation for the purpose of this paper.

1.1 Practical Background

In 2014, the Internet is an essential social hub in our society. It is used for everything from information searching to shopping or dating (Hamilton, 2007). It is not strange therefore, that our music has also been swept up in the massive network we call the Web.

The music industry is one of the leading forces within the digital revolution (IFPI, 2014). The introduction of the music service Napster's¹ illegal peer-to-peer (P2P) file sharing was a milestone in the digital revolution, which later inspired several other Internet-based industries and companies in their product development (Lamont, 2013). Since the introduction of P2P file

¹ Napster is now a legal web-based music service (Lamont, 2013)

sharing to the music industry, certain actors have strived to create legal versions of what we define as 'web-based music services' that meet the new demand for cheap, accessible music. These services provide consumers with the ability to stream or download music from the Web (Dean, 2013).

Within the last decade, Sweden has proved to be one of the leading countries in the development of the web-based music industry (IFPI, 2014), and the introduction of streaming services (such as Spotify) has revolutionized the way people listen to music (Dean, 2013; Moreau, 2013; IFPI, 2014). In Sweden, consumers prefer legal music streaming to illegal downloading (IFPI, 2014). Research conducted in 2013 shows that 90 % of the paying subscribers and 70 % of the non-paying subscribers of Spotify, claim to rarely "download illegally" (IFPI, 2014: 34). For the scope of this study we will therefore solely be looking at legal web-based music services. Furthermore, we find it more pertinent from a Strategic Management point of view to examine strategic and industry development on legal markets.

There are many web-based music services available free of charge on the Swedish market, such as SoundCloud, YouTube etc. In spite of this, many choose to pay for the music they listen to through web-based music services such as Spotify Premium and iTunes Store. In fact, the number of paying subscribers of web-based music services is increasing rapidly around the world and especially in Sweden (IFPI, 2014). This gives us reason to believe that there exist value-adding activities performed by the actors in the market (i.e. the web-based music services) that make paying consumers perceive a higher consumer surplus when using fee-based services than they do when using services that are free of charge. Theory on the matter is ambiguous, making the competition on the web-based music market in Sweden an interesting subject to study.

1.2 Theoretical Background

When studying competition on web-based markets, some argue that the predominant source of competition is price, whilst others claim that it is value-based. For example, authors such as Porter (2001), Daripa and Kapur (2001) and Hamilton (2007) argue that the competition on web-based markets, for various reasons, theoretically should be price-based. Others, such as Doganoglu (2010) and Greenstein and Markovich (2012), somewhat contradict these arguments by reasoning that on information goods markets there are elements, for example 'buyer switching costs', that should cause competition to lessen in general. Theory on the matter can therefore be regarded as ambiguous. Our own deduction, prompted by our studies within Strategic Management, leads us to extract a number of theoretical concepts that affect competition in general.

First of all, the fact that people choose to pay for their music through web-based music services despite having access to free alternatives, leads us to believe that there is a relatively high 'willingness to pay' for music. That is, that they might perceive a relatively high value, or benefit, in these services. Thus, the theory of how actors create 'consumer benefit' and 'consumer surplus' that are explained by Besanko et al. (2013) are applicable when attempting to explain the competition on the web-based music market in Sweden.

Second, we considered that web-based music services often entail a number of functions which, besides its price, imply certain non-monetary investments for the consumer. For example, when using a service, the consumer can create playlists. Both creating these and learning how to do so, implies investments such as time and effort that would have to be reinvested in the case of the consumer switching to a new service (Greenstein & Markovich, 2012). Therefore, we reason that a further explanation for the competitive situation on the web-based music market in Sweden could be found in the theory of buyer switching costs.

Finally, considering the fact that web-based music services often offer functions that enable users to, for example, share songs and subscribe to each others music updates, we believe that the more users a service has, the greater its value becomes. For this reason, deriving from the theories from Besanko et al. (2013), we suggest that there is a presence of 'network effects' associated with web-based music services, which could contribute to further describing the competitive situation on the market that we are studying.

The ambiguity of the research on the subject as well as our own ideas of possible explanatory theories, encouraged us to investigate the competitive situation on the web-based music market in Sweden. Our hypotheses are based in these theories and are presented below.

1.3 Purpose and Research Question

The purpose of this study is to investigate the competition on the web-based music market in Sweden.

Our research question is as follows:

What does the competition look like on the web-based music market in Sweden?

In order to investigate our research question, we test the following hypotheses:

- *H1.* There are buyer switching costs associated with web-based music service(s) on the market
- H2. There is a high willingness to pay for legal web-based music
- H3. There are network effects associated with web-based music service(s) that create extra value for consumers

2. THEORY AND LITERATURE

In this chapter, we outline the theories and previous research that is relevant to our study. After a short definition of music as a homogeneous good, we present the theories in the following order; 2.2: The Effect of the Internet and Modern Digitization on Competition, 2.3: Consumers' Willingness to Pay and Bundling, 2.4: Buyer Switching Costs on an Information Goods Market, 2.5: Consumer Surplus and the Six Utility Levers.

2.1 Music as a Homogeneous Good

As a concept, music can be seen as highly heterogenic. There are virtually endless kinds of genres, artists and songs. Research shows, however, that music has served the same purpose for centuries (Larsen, 2011), signifying that even though the type of music may vary, the consumption of it is the same. Concurrently, on a product level (song level), recorded music can be defined as homogeneous (Daripa & Kapur, 2001; Scott Morton, 2006) in the sense that a specific recorded song is the same no matter how, when or where it is consumed (listened to). This is the case so long as the song is not altered, for example by creating a remix, in which case it is regarded as a new, unique song (Cambridge Dictionaries Online, 2014). One can argue that a song can be differentiated with respect to its quality depending on through which web-based music service it is listened to. For the scope of this paper however, we argue that it is the service that provides a packaged offer of quality, range, accessibility and other aspects that might add value to the music, and that the song itself remains the same (i.e. is homogeneous).

2.2 The Effect of the Internet and Modern Digitization on Competition

In his article *Strategy and The Internet*, Porter (2001) deems the Internet to be a complement to existing strategy. Porter (2001) deduces that companies should not discard their current strategic framework, but that they should instead adjust it to better suit the new conditions caused by the Internet. He uses his Five Forces framework to demonstrate how the Internet has influenced industry structure. He further outlines how the Internet's 'open system'² has increased consumers' accessibility to information, making it easier for actors to imitate each other increasing the threat of substitutes. Moreover, Porter (2001) states that the Internet limits actors' ability to compete with traditional factors such as geographical positioning. This results in difficulty for actors on an Internet-based market to create consumer benefit due to the leveled playing field firms must differentiate themselves in other aspects, for instance with lower prices. Porter (2001) infers that reduced entry barriers and intensified internal rivalry cause competition to shift toward price on Internet-based markets. In fact, he argues that rivals on these types of markets "compete on price alone" (Porter, 2001: 1).

This conclusion is however questioned by Hamilton (2007) in his article *Porter's: 'Strategy and the Internet' Revisited.* Whilst Hamilton (2007) agrees that the Internet has caused lower prices, he disagrees that the Internet is merely a complement to an industry. Instead, Hamilton (2007) attests that on an Internet-based market one cannot apply traditional strategic frameworks, such as the Five Forces, but rather should create new business models (Hamilton, 2007).

² An open system is a non proprietary system based on publicly known standard set of interfaces that allow anyone to use and communicate with any system that adheres to the same standards (Businessdictionary, 2014)

Besides Hamilton and Porter, several other researchers have studied the Internet's effects on strategy and competition. Daripa and Kapur (2001) argue in their article *Pricing on the Internet* that the Internet has led to an increase in information that is available to consumers as well as lower buyer switching costs. They claim that this is especially significant on homogeneous goods markets, for example on the web-based music market (Daripa & Kapur, 2001). Much like Porter (2001), Daripa and Kapur (2001) come to the conclusion that the combination of the increase in information and the lower buyer switching costs theoretically should intensify price competition.

In his article, *How Information Changes Consumer Behavior and How Consumer Behavior Determines Corporate Strategy*, Clemons (2008) suggests, in accordance with Hamilton (2007), that the increased access to information has changed consumer behavior to the extent that business strategy demands fundamental modification.

Moreau (2013) shows in his article *The Disruptive Nature of Digitization - The Case of the Recorded Music Industry* how the recorded music industry has changed over time and how it has been affected by disruptive technologies³. In particular, he focuses on how the digital revolution has changed the industry and challenged the 'traditional business model' since the introduction of the Internet (Moreau, 2013: 27). Much like Porter (2001), Moreau (2013) argues that entry barriers in the music industry have been diminished since the introduction of the Internet. He then proceeds to explain that new business models have been established in the web-based music industry, in conformance with Hamilton's (2007) and Clemons's (2008) theories. Additionally,

³ New technological innovations that unexpectedly cause older technology to become obsolete (Besanko et al., 2013)

Moreau (2013) claims that the disruptive nature of the Internet has pushed pricing to reach a price-cost equilibrium, where marginal cost (MC) is equal to marginal price [i.e. marginal revenue (MR)]. Besanko, Dranove, Shanley and Schaefer (2013) state in their book *Economics of Strategy* that when MC = MR it is often a result of perfect competition.

A further consequence of the diminished entry barriers caused by the Internet (as previously mentioned), Portnoff and Nielsen (2011) state that new entrants were able to offer a larger range of music. This differs from for example the 1990s when new releases and their prices were essentially "controlled by six large multi-divisional, multi-product firms"⁴ (Alexander, 1994: 2). Even though new music releases are still partially controlled by record labels, independent artists are now able to produce and release their music via web-based music services such as SoundCloud and YouTube (Dean, 2013). Anderson (2008) investigates the phenomenon of the increase in the range of music in his book *The Long Tail*, where he explains how web-based music retailers are able to stock all kinds of music and not just hit songs, unlike traditional retailers who were limited by for example costly shelf space and storage. He further claims that demand for music has shifted away from a small number of hit songs toward a larger supply of niche music. The web-based music services are therefore able to serve a broader customer base than traditional record stores were able to (Anderson, 2008).

In short, we can see that there is plenty of theory on the effect of the Internet and modern digitization on competition, especially when applied to the music industry. Whilst some researchers claim that traditional theories can be applied on a web-based market, others claim

⁴ The six large multi-divisional, multi-product firms are Time/Warner, Sony/CBS, Thorn/EMI, Philips-Polygram/PMG, Bertelsmann Music Group/BMG, and Matsushita/MCA.

that the introduction of the Internet creates a completely new market for which new business models must be made. The research on the area is both large and ambiguous, and the different theories often contradict each other. This makes it an interesting topic to study.

2.3 Buyer Switching Costs on an Information Good Market

Buyer switching costs exist when consumers in some manner invest in a brand-specific product or service, and switching to a substituting product or service would incur new investments (Besanko et al., 2013). These investments can involve costs such as time, money and effort and can essentially be regarded as sunk costs, which Besanko et al. (2013) say are costs that cannot be refunded. Doganoglu (2010) states that on a market where buyer switching costs are present, competition is less intense. When buyers have barriers to switching between sellers, their buyer power decreases which results in that companies' supplier power increases (as customers are already locked in). Therefore, sellers do not need to succumb to price reductions in order to gain market shares (Besanko et al., 2013). Furthermore, when a company is an 'early mover'⁵ on a market, it is more likely that buyer switching costs arise as companies use these switching costs to lock in their early-acquired market share (Besanko et al., 2013).

Greenstein and Markovich (2012: 120) state in their article *Pricing Experience Goods in Information Good Markets: The Case of eBusiness Service Providers*, that "consumers typically invest time and other resources in the information product they acquired. These investments make it costly for the consumer to switch to other alternatives – giving rise to lock-in". In other words, information goods, or more specifically experience goods, are highly prone to buyer

⁵ A company that is one of the first to offer a certain type of good or service on a specific market (Besanko et al., 2013)

switching costs (Doganoglu, 2010; Greenstein & Markovich, 2012). In their book *Information Rules: a Strategic Guide to the Network Economy*, Shapiro and Varian (1999) define information goods as products that can be digitized, for example music, software, and books. This makes it possible to define web-based music services as information goods as they are software that provide music.

An experience good is a type of information good (Greenstein & Markovich, 2012; Regner & Barria, 2009). An experience good's properties cannot be known until after its purchase (Besanko et al., 2013; Doganoglu, 2010). Doganoglu (2010) states in his article *Switching Costs, Experience Goods, and Dynamic Price Competition*, that some experience goods require repeated usage in order for the consumer to be able to evaluate the entire benefit of the product. Cheng and Liu (2012) specify that that it is sometimes the very process of evaluating an experience good that is the actual consumption of it. The nature of experience goods therefore implies pre-purchase uncertainty, which "reduces consumers' willingness to adopt the product" (Cheng & Liu, 2012: 488). Hence, information and experience goods carry a certain risk factor.

Furthermore, according to Doganoglu (2010), experience goods do not only pose negative aspects for consumers who are exposed to uncertainty in the purchase, but also for sellers. The nature of experience goods makes it difficult for companies to inform potential customers of the benefit of their experience product. This implies a greater challenge to market and sell experience goods than for example search goods[1] (Besanko et al., 2013). One way in which companies tend to attempt to overcome these issues is by 'sampling' (or product trialing), which is when companies provide consumers with a way to test their product prior to purchasing it (Cheng & Liu, 2012; Kempf & Smith, 1998; Tu & Lu, 2006).

The use of sampling facilitates the transfer of information about a product from seller to buyer. For the purpose of this paper we will not focus on the sampling of music, but on the sampling of software, more specifically, on web-based music services. This is due to the above definition of music as a homogeneous good, where we state that music as a product is the same regardless of the medium consumers use to listen to it. Tu and Lu (2006) state in their paper An Experimental and Analytical Study of On-Line Digital Music Sampling Strategies that "[p]revious studies show that offering product samplings is an effective marketing strategy to stimulate current and future consumption" (Tu & Lu, 2006: 41). Two different types of sampling of software include (1) presenting customers with the option of using an inferior or limited version to the full version, and (2) allowing consumers to test the product for a limited period of time free of charge (Cheng & Liu, 2012; Larsen, 2011; Thomes, 2013). When applied to web-based music services the first type is free of charge for the consumer, this means that it is financed through for example advertisement that is played between songs (Thomes, 2013; Tu & Lu, 2006). The second sampling type is focused on locking customers in by creating buyer switching costs, not only by getting customers to invest in the service [by for example learning its functions and creating playlists] just as a free version does, but also by offering the fully bundled service with all its value adding features (Cheng & Liu, 2012). Tu and Lu (2006) state that this is a very yielding method for companies that wish to attract new customers to the full version.

In short, buyer switching costs often occur on experience good markets (Doganoglu, 2010; Greenstein & Markovich, 2012), such as the web-based music market. Through the above mentioned types of sampling of experience goods, consumers invest time and other resources in a specific service and are therefore prone to buyer switching costs, (as they risk having to make

the same investments in a new service if they were to switch) before even having purchased the experience good (Cheng & Liu, 2012).

2.4 Consumers' Willingness to Pay, Bundling and Versioning

Willingness to pay is somewhat of an intangible concept. Essentially, it is the maximum price a consumer finds reasonable to pay for the benefit they perceive in a product. A consumer who has a low willingness to pay has a high price sensitivity and is therefore more sensitive to increases in price (Besanko et al., 2013).

Clemons (2008) provides an explanation for why the web-based music industry differs from other Internet-based industries and why people might be willing to pay for something that they have access to for free. For example, he finds that if consumers are offered a service that is "precisely what they want" (i.e. their ideal choice), their willingness to pay increases notably (Clemons, 2008: 24). In fact, Clemons (2008) states that a consumer's willingness to pay for a particular service is established through its degree of variance from their ideal choice. That is, the more similar a service is to the consumer's ideal service, the higher the consumer's willingness to pay. Furthermore, as explained by Nicholson and Snyder (2008) in their book *Microeconomic Theory: Basic Principles and Extensions* the theory of 'income elasticity of willingness to pay', implies that another determining factor of willingness to pay is the consumer's level of income. The theory entails that the higher the income, the higher the willingness to pay for normal goods. Normal goods are either necessity goods [such as food] or luxury goods [such as paid-for music services]. For inferior goods [such as instant noodles], on

the other hand, willingness to pay decreases as the income increases (Nicholson & Snyder, 2008).

After the introduction of P2P file sharing by Napster, consumers' willingness to pay on the music market was drastically reduced (Sinha & Mandel, 2008). In fact, the introduction of illegal file sharing meant that consumers' willingness to pay shifted from being a purely monetary term, to being a more conceptual one (Sinha & Mandel, 2008). Chiang & Assane (2009) call this phenomenon a 'willingness to participate', and assert that the 'price' involved in attaining illegal music are "the expected cost of avoiding enforcement, the cost of eliminating potential viruses and spyware, the expected cost of potential prosecution, and transactions costs (e.g., time) of acquiring the product" (Chiang & Assane, 2009: 514).

Legal web-based music services have drawn a substantial amount of their inspiration from illegal P2P file sharing services (Dean, 2013). Sinha and Mandel (2008) argue that by creating services that offer consumers legal music in exchange for a small sum, the legal web-based music services offer the music consumers relief from the conceptual costs (such as breaking the law) that are often associated with the illegal services. Consumers were able to avoid these conceptual costs by paying, switching the non-monetary willingness to participate in illegal music listening, to a monetary willingness to pay for legal music (Sinha & Mandel, 2008).

In order to shift consumers' willingness to pay in favor of legal services, web-based music services often implement a strategic concept called 'bundling' (Sinha & Mandel, 2008). Bundling occurs when a combination of goods and services are sold at a single price (Besanko et al., 2013; Shapiro & Varian 1999). The company Spotify for instance, uses bundling by offering 19 a monthly flat-rate subscription called Spotify Premium, where consumers can enjoy limitless streaming of music, free of nuisance costs such as advertisement (Moreau, 2013). Moreau (2013) refers to this specific model as the subscription model, and argues that it is the "most appropriate model for selling information goods in general" (Moreau, 2013: 27).

Greenstein and Markovich (2012) discuss a type of optimal pricing strategy called 'versioning'. Versioning is when a company "creates different versions of the same product" (Greenstein & Markovich, 2012: 120). This strategy has been found especially useful for companies to effectively target different customer segments with varying willingness to pay (Greenstein & Markovich, 2012). The variation between two versions can for example offer "consumers with high willingness to pay choose higher quality versions, while consumers with lower willingness to pay choose the low quality versions" (Greenstein & Markovich, 2012: 120). Versioning is also visible in the concept outlined by Thomes (2013), called the "two tier freemium model" (Thomes, 2013: 82). He explains in his article An Economic Analysis of Online Streaming Music Services, that the two tier freemium model entails that music services can offer two types of models; a free model and a 'premium model'. The first one is free of charge, and is financed by integrating advertising into the service. Consumers are not charged a monetary sum but have to endure so called 'nuisance costs' such as having to tolerate commercials in between songs or getting a poorer quality of the music (Thomes, 2013). The other one is a premium model, where consumers can pay a periodic flat-rate fee in order to avoid nuisance costs and can enjoy other benefits such as being able to listen to music offline or on an application on mobile devices such as smartphones. The difference between the two versions enables companies who apply them to meet the demands of a greater range of consumers' willingness to pay (Thomes, 2013).

In summary, the willingness to pay of consumers on the music market has changed and adapted in various ways since the music industry became web-based. Since the decline of illegal P2P file sharing and the increase in legal music streaming, willingness to pay has shifted from being nonmonetary to being monetary. Additionally, music services have started taking strategic measures such as using bundling and versioning in order to meet consumer demand and willingness to pay.

2.5 Consumer Surplus, the Six Utility Levers and Network Effects

As stated by Besanko et al. (2013), a recognized theory within the field of Strategic Management is that of 'value creation'. Value creation is easiest described as the difference between a consumer's perceived benefit of a product and the seller's costs of creating that value. The total value created is made up of two portions; 'consumer surplus' and 'producer surplus'. Consumer surplus is the portion of created value that is captured by the consumer, and consists of the difference between the perceived benefit of a product and its price. The perceived benefit of a product is highly dependent upon the individual consumer, and corresponds to his or her maximum willingness to pay for it. When comparing substituting products, a consumer will theoretically choose the good with the largest consumer surplus. The highest price a consumer would pay for a good is equal to their maximum willingness to pay, and if the price would be equal to this, the consumer surplus would be equal to zero. Consumer surplus is a highly relevant concept when studying the competition on a market, since Besanko et al. (2013: 298) state that "competition among firms in a market can be thought of as a process whereby firms, through their prices and attributes, submit consumer surplus 'bids' to consumers". Producer surplus is the difference between the price of a good and the cost of producing it, i.e. the producer's marginal revenue (Besanko et al., 2013).

There are several ways for a producer to create benefit for the consumer. In their book *Blue Ocean Strategy*, Kim and Mauborgne (2009) outline a framework consisting of six factors, called 'utility levers', to consider when looking to create benefit. Kim and Mauborgne (2009) primarily apply these levers in relation to the six stages of the buyer experience cycle (from purchase to disposal). The six utility levers are as follows:

- 'Customer Productivity' the product or service facilitates so that the customer can do something better or faster
- 2. 'Simplicity' the product or service is easy to use
- 3. 'Convenience' the product or service is easily accessible
- 4. 'Risk' the product or service minimizes the customer's financial, physical or legal risk
- 5. 'Fun and Image' the product or service appeals to the customer, for example visually

6. 'Environmental Friendliness' - the product or service does not harm the environment By applying these utility levers in different stages of the buyer experience cycle, companies can create a greater benefit for the consumer, and thus if the same price is maintained, also create a larger consumer surplus. Since consumers theoretically choose the product with the largest consumer surplus Besanko et al. (2013), it is advantageous for companies to offer consumers as large a benefit as possible in relation to price.

Another way in which actors can create value on a market is through the use of 'network effects'. Network effects are when a consumer's perception of a product's value increases as a result of other consumers using the same product (Besanko et al., 2013; Bakos & Brynjolfsson, 2000). Network effects are also closely linked to early mover advantages that exist on a market. As stated by Besanko et al. (2013:181), "in markets with network effects, the first firm that establishes a large installed base of customers has a decided advantage".

In summary, there are different ways in which companies can provide consumers with benefit through the products they offer on the market. By offering the largest consumer surplus they have a larger chance of selling more products.

3. METHODOLOGY

In this chapter we provide a description of the methods used to conduct our research. The section includes for example, our research design, course of action, as well as our limitations and generalizability.

3.1 Research Design and Theory

We have chosen to conduct an empirical, quantitative study through the use of surveys (see Appendix 2) (Bryman & Bell, 2011). We investigate the competition on the web-based music market in Sweden by collecting empirical data. The data is then codified and statistically processed, and serves as an indication of whether our hypotheses are accepted or rejected.

The ontology of our research is objectivist, stemming from the conviction that knowledge can be gathered through observation of the world around us (Bryman & Bell, 2011). That is, we study

the behavior of the web-based music market (i.e. the consumers) as evidence of what competition on the web-based music market in Sweden may look like. We use a positivist epistemology, basing our study upon the notion that knowledge can be gained through scientific testing and experimentation, in turn leading to the ability to draw conclusions in the form of generalizations and theories (Pugh, 1983).

3.2 Research Method and Data Collection

We study the behavior of individuals as they are our indicators of how the market operates. Hence, the individual is our level of analysis. To analyze the behavior of individuals we constructed a survey, consisting of maximum 17 questions (the survey varied in length depending on what the respondent answered), which was distributed electronically. Considering that our survey was distributed in Sweden, it was written in Swedish and then translated into English during the data processing for the purpose of being able to discuss it in this paper. In order to simplify the data processing and increase the comparability of results, the questions in the survey were all closed multiple choice questions (Bryman & Bell, 2011). Two possible limitations of using closed multiple choice questions are that (1) there may be a risk of losing "spontaneity in the respondents' answers" (Bryman & Bell, 2011: 251) and (2) that it is difficult to make the answers exhaustive (Bryman & Bell, 2011). To address these limitations, we included an 'other' option, where respondents were able to enter their own answer if they found that the response of their choice was missing. All questions were answered through multiple choice, with certain questions requiring the respondent to select their answer on a 'Likert scale' (Bryman & Bell, 2011).

Distributing the surveys electronically enabled us to reach out to a greater and more varied sample than we could have by distributing them physically. This was done through the use of the contacts in our respective social networks on Facebook, in order to try to get an as large sample as possible (considering our limitations). It also enables us to effectively direct our surveys towards our population of choice. However, since we only distribute the survey within our own networks, the sample will not be as varied as it would have been had we used for example a randomized database. Furthermore, collecting data electronically entails that its transfer from the data collection program Qualtrics, to the program used for data analysis, SPSS, will be easy and time efficient. The method is also cost efficient as Qualtrics has a trial function that is available free of charge (Qualtrics, 2014).

According to Bryman and Bell (2011), it is important to take certain ethical aspects into consideration when conducting research on individuals. We did this by for example ensuring respondents that the data collected would only be used within the scope of this study and that respondents would remain completely anonymous. By participating in the study, respondents are considered to have given their informed consent as they were able to exit the survey whenever they wished to do so. The study is generally not characterized by unethical aspects as it does not include for example any private or sensitive information (Bryman & Bell, 2011). It does however include a question where respondents were asked to fill out which category their occupation falls under. Any questions about private finance can be regarded as sensitive depending on the individual (Bryman & Bell, 2011). We do however allow respondents to refrain from sharing this information.

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3.3 Delimitation

Our population consists of people between the ages of 18-29 years who live in Sweden, and use at least one web-based music service. According to a report by Findahl (2013), web-based music in Sweden is primarily consumed by citizens between the ages of 12-35 years. Our delimitation is done in order to ensure that respondents are of appropriate age with regards to both ends of the spectrum of young to old. To clarify, for the purpose of this study we require respondents to be of legal age (i.e. 18 years old), meaning that they are responsible for their own finances as well as legally able to conclude contracts (Munck, 2011). For example, in order to create a Spotify account, one must have turned 18 or have parental consent, if under 18 and over 13 (Spotify, 2014). Furthermore, statistics from Statistiska Centralbyrån (2014) show that people between the ages of 18-24 and 25-29 represent the two age groups with the lowest incomes in Sweden (see Graph 7.4 and Graph 7.5 Appendix 1). A population with a high level of income would not be interesting for the purpose of this study, as people with higher income theoretically are not as price sensitive as people with lower income (Nicholson & Snyder, 2008). A population with low income and of appropriate age will therefore best serve as indicators of the theoretical elements that we aim to test.

Graph 3.3.1 below shows the distribution of occupations within our sample. As we can see, most of our respondents are University students with an income in the form of or equal to the sum of the Swedish student loan and student funding (provided by Centrala Studiestödsnämnden) This means that most of our respondents have a relatively low income and should therefore theoretically also have a low willingness to pay.





3.4 Sampling

We recognize that the population of 1 540 445 people (Statistiska Centralbyrån, 2014) is large. If time and other resources were not as scarce, it would have been optimal from a statistical point of view to perform this study on a random sample with a confidence level of 99 %. However, in order to have an as statistically correct sample as possible, we calculated our sample size with a confidence level of 90 %. A confidence level of 90 % means that there is a 10 % risk that the result is not representative of the population.

Due to the time constraint and the fact that we did not have access to information about the standard deviation of our population, we chose to calculate the sample size with the help of the statistical research solution website, pivotalresearch.ca. The estimation was made based on the size of our population, our choice of confidence level, as well as a margin of error of 5 %. The

sample size calculated was 271 people. We managed to collect a total of 294 responses, out of which 263 were usable. A usable response entails that the respondent has completed a significant portion of the questionnaire and has responded seriously (Bryman & Bell, 2011). Furthermore, according to Bryman and Bell (2011) it is also important to take the survey's response rate into account. The response rate is equal to the number of people who completed the survey out of all the people we sent it to. In this case, we received 263 usable responses out of the 872 people we sent it to, which gives us a response rate of 30.2 %.

We use two types of non-probability sampling for the purpose of our study. It would have been more statistically and scientifically correct to use probability sampling (Bryman & Bell, 2011), but considering our limited finances and time constraint, we chose to use convenience and snowball sampling instead. Convenience sampling means that data is collected through forums that are readily accessible to the practitioners (Bryman & Bell, 2011). Snowball sampling is a method where practitioners select specific contacts and ask them to distribute surveys through their respective networks (Bryman & Bell, 2011).

The combination of these two sampling methods allowed us to reach out to as many respondents as we could, considering the circumstances. Considering the risk of the sample not being diverse (as a result of our rather similar social networks), snowball sampling enabled us to gather data from a sample that we would not otherwise have been able to reach. This should theoretically give our sample a wider range of represented demographics (such as age, occupation, ethnic background) in a, once again, time and budget-efficient manner (Bryman & Bell, 2011).

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However, as the rate of collected responses began to depreciate, we discovered that some demographic categories within our sample were underrepresented compared to others. There were for example fewer respondents within the age groups 18-20 and 27-29. Considering that we, and therefore most of the people in our networks, are within the age group 22-23, it is natural that this age group is the largest due to the fact that it may be more difficult to reach out to age groups that are outside of our own. With this information in mind, we attempted to further target these age groups by contacting people within our networks who have access to individuals within these particular segments. This was somewhat effective as we received a slightly higher level of responses within these sectors. Even though the response rate within these age categories went up, they still remained underrepresented. Graph 3.4.1 below displays the results.





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3.5 Course of Action

Step 1: In the first step we identified the theories that we view as relevant to our study. This was done through the use of secondary data. We later used this information to create an outline containing our research question as well as the three hypotheses that we intend to test in our analysis. The hypotheses were based upon the theories of buyer switching costs, willingness to pay and network effects.

Step 2: Second, we constructed a survey in the data collection program Qualtrics. When we created the questions, we aimed to remain as objective as possible in order to avoid formulating both questions and multiple-choice answers in a leading manner. The questions were based on the theories that we identified in 'Step 1' so that we could test our hypotheses further ahead.

Step 3: Third, we distributed the survey as a trial survey to a few selected respondents, some of which were aware of the purpose of our study and some that were less aware. This was done in order to receive constructive feedback on our survey. The well-informed people could provide us with feedback on theoretical aspects of the study and the ones who were less informed could give valuable criticism on the survey's comprehensibility when completing it. The feedback was helpful and enabled us to adjust the survey based on the critique.

Step 4: Next we distributed the finalized survey to each of our personal social networks on Facebook. This way we were able to target a sample that we know meet the criteria for our study in a cost and time effective manner. By sending the survey to people in our personal networks, we were able to rely on respondents' moral incentive to participate.

Step 5: Finally, when the rate of collected responses began to depreciate, we identified which categories of respondents that were underrepresented and targeted these through snowball sampling. When the responses within these segments had increased we closed the survey and proceeded to analyze our data.

3.6 Data Analysis

The first step of the data analysis was transferring our data into the statistical analysis program SPSS. As it was already codified we were able to start processing in SPSS without having to take any major preparatory actions with regards to the raw data. In order to get an overview of the data and to facilitate the further analysis, we created a bar graph for each survey question. These graphs served as the basis for our preliminary analysis, from which we were later able to decide which survey questions we would like to create cross tabulations of. Thereafter we created the cross tabulations and once again proceeded to compose a preliminary analysis of these.

Once having thoroughly discussed all our graphs and tables, we selected a number of them that we thought most appropriately illustrated the theoretical elements that we aim to study with regards to the hypotheses we are testing. When creating the cross tabulations we also attempted to verify whether they were statistically significant. A few tables showed significance according to either the Chi-Squared test or Fisher's exact test. However, as our study does not fulfill the level of statistical propriety that is required in order for these tests to be relevant, we decided to refrain from claiming that any aspects of our study are statistically correct and therefore excluded the tests.

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3.7 Validity and Reliability

With respect to reliability and validity there are a number of criteria that were taken into account whilst constructing our survey. 'Reliability' is a meter of the stability of the research measure. More specifically, it addresses whether respondents' answers are consistent over time (Bryman & Bell, 2011). The nature of the web-based music industry with its ongoing digital revolution causes the studied environment to be rather erratic as it is continuously evolving. This could mean that respondents' answers are not consistent in the future (even the near future), perhaps making our study less relevant with time. We regard that our study is replicable to a certain extent, but due to the nature of the industry (as well as our limitations) the study may need revising in the future. Reliability is also concerned with whether gauges are consistent or not - that is, whether there is 'internal reliability' (Bryman & Bell, 2011). In order to ensure an as high level of internal reliability as possible, we made an effort to avoid posing questions in a leading, biased or ambiguous way.

'Validity' refers to the issue of "whether or not a measure of a concept really measures that concept" (Bryman & Bell, 2011: 159). In our case, this means whether or not our questions actually serve as indicators of our hypotheses. First of all, to establish validity, we account for 'face validity'. That is, that our survey reflects the basic concept of what we intend to study (Bryman & Bell, 2011). When constructing our survey, we attempted to ask our questions in a manner that reflects the purpose of our study. We did this in 'Step 1' in our 'Course of Action' when we secured that every question was based on a theory that we intend to test. Secondly, we attempted to ensure validity by applying 'convergent validity' (Bryman & Bell, 2011). This was done by asking control questions. These are questions that are stated differently than the original

questions but that essentially test the same elements (Bryman & Bell, 2011). If there exists a correlation between the initial and the control questions, we can theoretically draw the conclusion that the initial questions measure what they are intended to measure. Hence, the initial questions would then have validity.

3.8 Limitations

In this section of the paper, we discuss the shortcomings of our study. First of all, time and funding are two major limitations to our study as we are short of both. The aspect of our study that was most affected by our limited timeframe is our survey. In order to ensure that we had enough time to collect a sufficient amount of data and to analyze it, we wanted to distribute our survey in an as early stage of our research as possible. One of the implications of this was that we were unable to conclude our secondary data collection before distributing the survey. Consequently, when finalizing our secondary data collection we discovered that our questions did not cover all of the aspects of the theory that we intend to test. Some examples of these aspects are (1) that respondents should be asked whether the sound quality of the music they listen to is important to them and (2) that they should be asked if avoidance of nuisance costs is one of the factors that raises their willingness to pay. Thus, for future research there are some aspects worth adding to the survey for a more complete empirical study.

Another consequence that time restraint had on our survey was that we were unable to test whether or not the questions and answers in the survey were sufficiently comprehensible. Though we did send out a trial survey (as mentioned in *Step 3* above) the sample of test respondents may not have been large enough to identify all the errors in our survey, as some of

our questions proved to have been somewhat misleading. This was a limitation that we discovered in the process of data analysis. It was especially noticeable in follow-up questions to multiple response questions, for example in the question 'Have you heard of cheaper or free alternatives to the web-based music service you use today?' Given that the respondents were able to choose multiple services earlier, and that we did not specify which service the respondents should apply the question to, it could be difficult to make any deductions on such a question.

Finally, another limitation of our survey is that the first three questions in it were not forced. The consequence of this was that some of our questions had different response counts, which is the reason why certain graphs and tables show different response totals.

3.9 Generalizability

In this study, we do not aim to generalize on our entire population, but rather to study the empirical data that we have collected. Our inability to generalize is a result of the abovementioned limitations, as well as the chosen method of sampling and the insufficient amount of respondents in our sample.

Firstly, since we chose to use convenience sampling and distributed the survey through our respective networks on Facebook, our sample is not representative of our population. Although there is a certain degree of distribution of demographic factors such as ages and occupations within our sample (see Graph 3.3.1 and Graph 3.4.1 above), it is not as representative as it would have been if we would have had the time and funding to use random sampling. The sample is

therefore somewhat biased, since many of the people in our social networks on Facebook are students who study at the same University, or come from a relatively similar background as us.

Second, another factor that greatly affects our ability to generalize is the fact that our sample size of 263 respondents is less than the calculated sample size of 271. This means that our confidence level is lower than 90 %, which is the lowest recommended level, if one would want to draw conclusions on an entire population in a statistically correct manner. A sample of 263 respondents out of a population of 1 540 445 people is also intuitively a small portion.

4. RESULTS

In this chapter we first present a short summary of our empirical data. The data is then analyzed with regard to relevant theory on the subject. Finally, our hypotheses are tested based on our analysis. An important note is that our analysis is based upon the respondents in our sample, and that we are not attempting to generalize on our entire population due to the limitations outlined in 'Methodology'.

4.1 Summary of Empirical Data

The respondents in our sample are between the ages of 18 and 29 years, live in Sweden and use at least one web-based music service in order to listen to music. Our target sample size of 271 respondents was nearly reached, since we received a total of 263 responses to our survey. Consequently, as stated in chapter five, since the sample is neither completely random nor large enough, we cannot draw any general conclusions on our entire population. However, 263
respondents is a substantial amount of people and the data we have collected is still interesting and relevant, and can be used as a pilot study for future research.

We will henceforth present a summary of the empirical data we have collected. The summary contains bar graphs that illustrate the results from our survey questions along with descriptions. The data presented here will lay the grounds for further discussion in the data analysis section.

To investigate which web-based music service our respondents use we created Graph 4.1.1, below.





Which web-based music service(s) do you use?

This graph shows that Spotify Premium, (which is a paid-for web-based music service) is used by 80 % of our respondents and is therefore the most commonly used web-based music service amongst our respondents. The second and third most popular services are YouTube and SoundCloud (which are both free of charge) with 69 % and 37 % respectively.

To determine whether our respondents favor any services in particular, we asked which of the web-based music services that respondents use most often. They were asked to choose a maximum of two services that they use most frequently. Graph 4.1.2 below, shows the distribution of the web-based music services that are used most often among our respondents.

Graph 4.1.2 Web-based music services used most often



The graph shows that Spotify Premium is the most frequently used web-based music service, with 78 % of the respondents, while the second most frequently used service is YouTube with 35 % of the respondents using it.

In order to investigate how many respondents in our sample pay for the music they listen to, we asked them the question 'Do you pay for the music through the web-based music service(s) you use?' The question originally had three alternatives; 'yes', 'no' and 'do not know'. However, as no respondents answered 'do not know', this option is not shown in Graph 7.1, which can be found in Appendix 1. A majority of 76 % of our respondents pays for at least one web-based music service, which could imply that there exists a willingness to pay for music that is higher than zero. We asked the remaining 24 % of the respondents (i.e. those who are not currently paying) if they would consider paying in the future. The results are displayed in Graph 4.1.3 below.



Graph 4.1.3 Would you consider paying for a web-based music service?

The graph shows that 44 % of the non-paying respondents would consider paying for a webbased music service. The remaining respondents answered 'no' or 'do not know', with 34 % and 22 % respectively.

Respondents who answered 'yes' to the question 'Do you pay for the music through the webbased music service(s) you use?' were concurrently asked to specify which music services they pay for. A majority of 99 % (as shown in Graph 7.2 in Appendix 1) of the total number of paying respondents answered that the web-based music service that they pay for is Spotify Premium.

In order to determine which factors that cause consumers to use a certain web-based music service, we asked the following question; 'Why do you use the web-based music service(s) you use today?' Two examples of what we intended to identify are (1) whether price related aspects are important to respondents, and (2) if it is more important to them that the services provide them with value (benefit). These points could indicate what the competition on the market looks like. Graph 4.1.4 below shows the results.



Graph 4.1.4 Why do you use the web-based music service you use today?

The graph shows a broad dispersion among reasons for using a particular web-based music service. The most widely acknowledged reason is that the music is gathered in one place, as a majority of 81 % of the respondents chose this option. The second and third most recognized reasons for using a particular service is that the service enables consumers to listen to music offline and in their smartphone, with 67 % and 65 %, respectively. The fourth reason found to be important, with a 50 % response count, was that it provides the best supply of music.

In order to determine which factors create the most benefit for the music consumers, we asked respondents to select three aspects that they find to be most important in a web-based music service. Graph 4.1.5 below illustrates the results.

Graph 4.1.5 Most Important Aspects in a Web-Based Music Service



Most Important Aspects in a Web-Based Music Service

We see that 74 % of our respondents find the most important aspect in a web-based music service to be that the music is gathered in one place, the second most important aspect (59 %) that the music can be listened to on a smartphone, and the third most important aspect (55 %) that the service has the best supply of music.

Graph 4.1.6 below shows how often our respondents perceive that they listen to music. We measured the listening frequency on a Likert scale (Bryman & Bell, 2011) with five options ranging from 'never' to 'always'. The options 'never' and 'do not know' were also offered but were not selected by any of our respondents, which is why these options are not visible in the graph. When posing this question we intentionally chose not to quantify the listening frequency, but rather left it to the interpretation of the respondents. This was done because it is not the actual frequency that matters, but the perceived frequency, as we intended for it to serve as an

indicator of benefit. The concept of benefit in turn is, as stated by Besanko et al. (2013), entirely dependent upon an individual's own perception of the value that they attain from the use of a particular product or service. How often one listens to music is closely linked with how much perceived benefit one generates from music in general and is therefore also linked to one's willingness to pay for it.





As we can see, the majority of our respondents (57 %) perceive that they listen to music 'often', while 30 % claimed to listen 'always'. Only 34 out of 243 respondents (12 %) said that they listen to music 'sometimes' or 'rarely'. This means that a majority of the people in our sample listens to music rather frequently (i.e. 'often' or 'always').

4.2 Data Analysis

A thorough analysis of the empirical data collected from our survey based on relevant theories, is outlined henceforth. We present our analysis in three parts, in accordance with our hypotheses; 4.2.1 Buyer Switching Costs, 4.2.2 Willingness to Pay and 4.2.3 Network Effects.

4.2.1 Buyer switching costs

Graph 4.2.1.1 shows how often respondents pay. Streaming services usually provide consumers with a subscription pay plan, a pricing model, which Moreau (2013) claims to be the most appropriate model. Long-term pay plans such as yearly payments could create buyer switching costs, as they imply higher sunk costs for the consumer if they switch service (Besanko et al., 2013), while switching costs theoretically are lower when one pays per song or album.





Most of our respondents (92 %) who pay for music through a web-based music service pay for their music on a monthly basis. This could imply that there are higher buyer switching costs for 92 % of the respondents in relation to those who pay less often (i.e. the 4 % who chose 'one time 43 payment per song/album'), yet lower buyer switching costs in relation to respondents who pay more often (i.e. 'yearly', 'twice a year' and 'quarterly' with 1 %, 2 % and 1 % respectively). These 92 % are plausibly exposed to buyer switching costs consisting of a monthly lock-in after every payment, as well as the potential inconvenience of terminating the subscription.

Furthermore, we asked respondents the question 'If you hadn't already started using a web-based music service, which would you choose today'. The results of this question are displayed in Graph 4.2.1.2 below.

Graph 4.2.1.2 If you hadn't already started using a web-based music service, which would you choose today?



* The percentages represent the count of respondents out of the total number of respondents.

Before analyzing this graph, it is worth noting that this question's validity is questionable. When creating the question we recognized that it could be difficult to imagine oneself in a situation where one had not yet started using a web-based service. That is, to imagine that one had not

learnt how to use a service, created any playlists etc. both of which are common examples that imply buyer switching costs associated with web-based music services. Instead of posing the question in a different way, we made the decision to keep the question as it was, in order to avoid stating it in a leading manner, such as 'do you feel that the music service(s) you use today keeps you from switching to another?' With regard to this, there is a risk that there is ambiguity in our results.

As we see in Graph 4.2.1.2 above, a majority of 71 % of the respondents would not choose to use a different service than the one they use today. This could indicate that buyer switching costs are not perceived by our respondents. If they were perceived, we could expect a larger amount of people who would want to switch to another service, as they are no longer locked in by their current service. Alternatively, the implication that there are low buyer switching costs could be explained by the theory Daripa and Kapur (2001) present concerning the increase in information that is available to the consumers due to the internet. The respondents could be making an active choice to use their current service based on their knowledge of the different web-based music services on the market and regardless of whether or not lock-in effects exist. The results in the Graph 4.2.1.2 could therefore possibly indicate that respondents perceive the service that they use most often, to be the best service on the market.

After analyzing the results from the question 'If you hadn't already started using a web-based music service, which would you choose today?' in Graph 4.2.1.2, we cross tabulated it with a series of other questions in order to gain an understanding of how respondents with different perceptions of web-based music services answered.

First of all, we cross tabulated it with the question 'Was this or any of these the first music service(s) you started using?' (Results from this question alone can be found in Graph 7.3 in Appendix 1). The results are displayed in Table 4.2.1.1 below, and aim to indicate whether there are buyer switching costs on the market, which could have arisen due to a service's early mover advantage. Buyer switching costs can, as previously mentioned, arise in favor of actors who are early movers on a market (Besanko et al., 2013).

Deriving from the theory of buyer switching costs (Besanko et al., 2013), it is conceivable to say that if consumers answered that any of the service(s) they use currently is or are the first service(s) they started using *and* concurrently claim that they would choose a web-based music service that is *not* the same service as the one they use now; there could be buyer switching costs associated with their current service(s).

Table 4.2.1.1 Was this or any of these the first web-based music service(s) you started using? vs. If you
hadn't already started using a web-based music service, which would you choose today?

			If you hadn't already started using a web-based music service, which would you choose today?					
			The same service as the one I use now	One with a larger supply of music	One that is cheaper/free of charge	Other	Do not know	Total
Was this or any of these	Yes	Count	95	14	21	2	4	136
the first web-based music service(s) you started using?		% within Was this or any of these the first web- based music service(s) you started using?	69.9%	10.3%	15.4%	1.5%	2.9%	100.0%
	No	Count	82	8	9	2	8	109
		% within Was this or any of these the first web- based music service(s) you started using?	75.2%	7.3%	8.3%	1.8%	7.3%	100.0%
	Do not know	Count	6	0	3	0	2	11
		% within Was this or any of these the first web- based music service(s) you started using?	54.5%	0.0%	27.3%	0.0%	18.2%	100.0%
Total		Count	183	22	33	4	14	256
		% within Was this or any of these the first web- based music service(s) you started using?	71.5%	8.6%	12.9%	1.6%	5.5%	100.0%

* Percentages are given within each row with the totals given in the far right column.

When studying the graph above, it is worth noting that the questions that are cross tabulated, to a certain extent lack validity. When answering the question 'Was this or any of these the first web-based music service(s) you started using?', respondents had the option to choose more than one service. This means that respondents may have applied the different questions to different services they may use, which could make the foundation for the analysis of this question unreliable. There are also, as previously mentioned in the analysis of Graph 4.2.1.2, validity problems with the question 'If you hadn't already started using a web-based music service, which would you choose today?'.

According to Table 4.2.1.1 above, out of the respondents who still use the same music service as they first started using, a majority of 69.9 % says that they are satisfied with their current music service, and that they would not want to switch to another if they hadn't already started using one. This could indicate that there are no significant buyer switching costs associated with the web-based music services respondents use currently. Had a larger percentage of respondents answered that they would not use the same service as they use today, however, it could have been an indication of the existence of the lock-in effects. Furthermore, out of the respondents whose most used service *was not* the first service. This again suggests that there are no significant buyer switching costs associated with the services. Another explanation for the results from Table 4.2.1.1 (much like the reasoning explained in the analysis of Graph 4.2.1.1) could be that the web-based music service(s) that respondents use currently is/are in fact the one(s) they perceive to be the best ones on the market, regardless of whether buyer switching costs exist or not.

Nonetheless, of the respondents who claimed that the first service they started using is also their current service, there is a larger percentage of 27.2 % (10.3 % + 15.4 % + 1.5 % = 27.2 %) who would choose a different service than they use today (either a cheaper service or one with a larger supply of music), than of those who do *not* currently use the same service as the first one they started using where only 17.4 % (7.3 % + 8.3 % + 1.8 % = 17.4 %) would want to switch. This could signify that these 27.2 % of respondents are locked in by their web-based music service(s) due to buyer switching costs. The possible presence of buyer switching costs confirms the theories stated by Doganoglu (2010) and Greenstein and Markovich (2012), that these should be present on information goods markets (such as the web-based music market).

To further test whether buyer switching costs exist on the web-based music market, we cross tabulated the questions 'If you hadn't already started using a web-based music service, which would you choose today?' and 'Have you heard of a cheaper or free alternative to the web-based music service(s) you use today?' in Table 4.2.1.2. Respondents who answered the second question are currently paying for the web-based music service(s) they are using.

With Table 4.2.1.2 below, we aim to deduce possible buyer switching costs in relation to consumers' willingness to pay. If respondents claim to have heard of a cheaper alternative, and also chose to use a different service than the one they use currently in the column question, there could be lock-in caused by buyer switching costs.

			If you hadn't already started using a web-based music service, which would you choose today?					
			The same service as the one I use now	One with a larger supply of music	One that is cheaper/free of charge	Other	Do not know	Total
Have you heard of cheaper or free alternatives to the web- based music service you use today?	Yes	Count % within Have you heard of cheaper or free alternatives to the web- based music service you use today?	97 76.4%	9 7.1%	16 12.6%	1 0.8%	4 3.1%	127 100.0%
	No	Count % within Have you heard of cheaper or free alternatives to the web- based music service you use today?	33 64.7%	3 5.9%	10 19.6%	2 3.9%	3 5.9%	51 100.0%
	Do not know	Count % within Have you heard of cheaper or free alternatives to the web- based music service you use today?	13 68.4%	2 10.5%	3 15.8%	0.0%	1	19 100.0%
Total		Count % within Have you heard of cheaper or free alternatives to the web- based music service you use today?	143 72.6%	14	29 14.7%	3	8	197 100.0%

Table 4.2.1.2 Have you heard of a cheaper or free alternative to the web-based music service(s) you use today? vs. If you hadn't already started using a web-based music service, which would you choose today?

* Percentages are given within each category of responses this question.

When examining the table, we see that a majority of 64 % ((127 / 197) * 100 = 64 %) of the respondents have heard of a cheaper or free alternative to the service(s) they are currently paying for. Of these respondents, 76.4 % would choose the same service as the one they use today. This could signify that there are no buyer switching costs associated with the service(s) used by these respondents.

Additionally, it could be possible to deduce that the 12.6 % of respondents who have heard of a cheaper alternative and selected the option 'one that is cheaper/free of charge' in the column question, are currently paying more than their maximum willingness to pay. In other words, this could mean that these respondents are currently experiencing a negative consumer surplus for the music service they are paying for. This could in turn be an indication that they are locked-in due to buyer switching costs.

Linking to our purpose, this table could suggest that when selecting a web-based music service, its price is not of primary importance, insinuating that price may not be the main source of competition on the market.

4.2.2 Willingness to pay

Graph 4.2.2.1 below illustrates to which extent respondents have heard of cheaper or free alternatives to the web-based music service(s) they use today. We posed this question to respondents who answered 'yes' to the question 'Do you pay for the music through the web-based music service(s) you use?'. This was done in order to establish whether their decision to pay is an active choice, as opposed to a result of not being aware of the existence of cheaper or free alternatives on the market. This distinction is important when discussing willingness to pay in order ensure that the conclusions in our analysis to be drawn upon consumers' conscious decisions rather than unawareness. Furthermore, if consumers choose to pay despite cheaper or free alternatives being available on the market, price may not be of primary importance when choosing a web-based music service. With the knowledge that respondents who answered this question pay for the music they listen to, the graph below could indicate whether or not respondents have a high willingness to pay for web-based music.

Graph 4.2.2.1 Have you heard of cheaper or free alternatives to the web-based music service(s) you use today?



Prior to the analysis of Graph 4.2.2.1, it is worth noting that there is an issue with the formulation of this question. Even though we tried to do so, we were unsuccessful in clarifying that people who use more than one service should have applied the question only to the service(s) that they pay for, not a service that they do not pay for. This mistake left us with the risk that people who responded that they are unaware of cheaper or free alternatives, may have applied the question to a service that they do not pay for. However, a majority of 64 % of respondents who pay currently stated that they have indeed heard of a cheaper or free alternative to the service(s) they use, yet they still pay for the web-based music they listen to. Therefore the graph could indicate that respondents have a high willingness to pay for web-based music.

What also plays a role in determining consumers' willingness to pay is their level of income (Nicholson & Snyder, 2008). In order to determine whether respondents with different occupations (i.e. different levels of income) pay for the music they listen to, we created the cross

tabulation below (Table 4.2.2.1) of the questions 'What is your occupation?' and 'Do you pay for the music through the web-based music service(s) you use?'. This table should indicate whether different levels of income in fact do result in different levels of willingness to pay of our respondents. More specifically, if our results are in line with what theory states, respondents with occupations that generally yield a higher income (such as work within the private sector) should to a greater extent than respondents belonging the occupational categories with lower incomes (such as High School students without a job) pay for the music they listen to.

			Do you pay for through the web service(s)		
			Yes	No	Total
What is your occupation?	High school student	Count	2	1	3
	without a Job	Do you pay through the w service(YesCount2% within What is your occupation?66.7%Count4% within What is your occupation?66.7%Count22% within What is your occupation?66.7%Count22% within What is your occupation?66.7%Count70% within What is your occupation?74.5%Count68% within What is your 	33.3%	100.0%	
	High school student with	Count	4	2	6
	a job	% within What is your occupation?	66.7%	33.3%	100.0%
	University student with income lower than the sum of student loan and	Count	22	11	33
	student funding (2014 ca. 9000 SEK)	% within What is your occupation?	66.7%	33.3%	100.0%
	University student with income in form of or equal to the sum of	Count	70	24	94
	student loan and student funding (2014 ca. 9000 SEK)	% within What is your occupation?	74.5%	25.5%	100.0%
	University student with income higher than the sum of student loan and	Count	68	15	83
	student funding (2014 ca. 9000 SEK)	% within What is your occupation?	81.9%	18.1%	100.0%
	Unemployed	Count	4	1	5
		% within What is your occupation?	80.0%	20.0%	100.0%
	Work within the public	Count	9	0	9
	sector	% within What is your occupation?	100.0%	0.0%	100.0%
	Work within the private	Count	22	8	30
	Sector	% within What is your occupation?	73.3%	26.7%	100.0%
Total		Count	201	62	263
		% within What is your occupation?	76.4%	23.6%	100.0%

Table 4.2.2.1 What is your occupation? vs. Do you pay for the music through the web-based music service(s) you use?

*Percentages are given as the proportion of paying vs. non-paying respondents per occupation

The table shows that a majority of at least 66.7 % of respondents within each category of occupation, pay for the web-based music they listen to. The ratio of paying versus non-paying respondents do not seem to vary substantially between occupational categories variations. This could be an indication that respondents have similar levels of willingness to pay regardless of their income level, which contrasts the theory on the matter. Nonetheless, one category of respondents that diverges from the others is that of those who work in the public sector. Within this category all respondents stated that they pay for the web-based music they listen to. The fact that it is one of the categories with relatively high incomes supports the theory that higher income generates higher willingness to pay. There is however an issue of low response counts within this income sector (since there are only nine responses in this category), which means that there could be a risk of this result being an anomaly. This is also the case within for example the results of the categories 'High School student without a job', 'High School student with a job' and 'unemployed', which is why we will refrain from further analysis of the results from these categories.

Furthermore, studying the categories with higher response counts, Table 4.2.2.1 shows that even though respondents have low incomes, they still pay for the music they listen to. Even though we were not able to establish a statistically significant correlation between these variables, the table could indicate that there are varying levels of willingness to pay amongst our respondents, but that these levels are not necessarily income-dependent. More specifically, the data may indicate that respondents with relatively low incomes have a relatively high willingness to pay. This is an interesting phenomenon with regards to our study, as it contradicts the theory on income

elasticity of willingness to pay (explained by Nicholson and Snyder (2008)) but supports our hypothesis that there is a high willingness to pay for web-based music.

Willingness to pay for a certain product is based on the benefit that a consumer perceives that they gain from it. From the theory of perceived benefit and willingness to pay outlined by Besanko et al. (2013), it is possible to deduce that the more use a consumer has for a specific product, the higher the perceived benefit and willingness to pay for that particular good. Thus, a consumer who listens to music 'often' should have a higher perceived benefit of music in general compared to a person who listens 'rarely', and should therefore also have a higher willingness to pay for music. By cross tabulating the questions 'How often do you listen to music?' and 'Do you pay for the music through the web-based music service(s) you use?' we should be able to identify whether this phenomenon is consistent with our results. Table 4.2.2.2 below shows the results.

			How often do you listen to music?				
			Rarely	Sometimes	Often	Always	Total
Do you pay for the	Yes	Count	1	14	114	72	201
music through the web- based music service(s) you use?		% within How often do you listen to music?	33.3%	53.8%	75.5%	86.7%	76.4%
	No	Count	2	12	37	11	62
		% within How often do you listen to music?	66.7%	46.2%	24.5%	13.3%	23.6%
Total		Count	3	26	151	83	263
		% within How often do you listen to music?	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.2.2.2 How often do you listen to music? vs. Do you pay for the music through the web-based music service(s) you use?

*Percentages are given per category of listening frequency.

When studying the total number of respondents within the different categories of listening frequency in Table 4.2.2.2, we can see that a majority of 151 respondents (57.4 %) claim to listen to music 'often'. The second largest category consists of 83 respondents (31.6 %) who claim to 'always' listen to music. This signifies that a total of 234 (151 + 83 = 234) respondents equal to 89.0 % ((234 / 263) * 100 = 89.0 %) listen to music 'often' or 'always', possibly indicating that these respondents perceive a higher level of benefit from music listening than the respondents who listen 'never', 'rarely' or 'sometimes'.

Accordingly, when analyzing this table we can confirm our previous deduction that the more frequently respondents listen to music, the larger the proportion of paying respondents versus non-paying respondents becomes. This could indicate that the more benefit respondents gain from music listening, the higher their willingness to pay for music through a web-based music service.

Based on these findings we continued on by creating a cross tabulation that visualizes which the most important reasons for using a web-based music service are, within the different categories of listening frequency. Table 4.2.2.3 below should indicate which aspects the avid music listeners of our respondents find most important in a web-based music service. When studying the table, note that respondents were able to choose the responses 'never' and 'do not know' as well, but as none of them did so these options are not included in the table. Furthermore, the option 'rarely' with the low response count of two people is also excluded from the analysis.

			How	How often do you listen to music?			
			Rarely	Sometimes	Often	Always	Total
MostImportantReasons ^a	The music is gathered in	Count	2	21	106	62	191
	one place	% within Q4	100.0%	80.8%	72.1%	75.6%	
	It is cheap	Count	1	10	32	15	58
		% within Q4	50.0%	38.5%	21.8%	18.3%	
	It is free of charge	Count	1	7	26	5	39
		% within Q4	50.0%	26.9%	17.7%	6.1%	
	It has the best supply of	Count	1	8	78	55	142
	music	% within Q4	50.0%	30.8%	53.1%	67.1%	
	I can listen to music	Count	0	12	73	40	125
	offline	% within Q4	0.0%	46.2%	49.7%	48.8%	
	I can share music	Count	0	1	10	6	17
	friends	% within Q4	0.0%	3.8%	6.8%	7.3%	
	It gives me most value for my money	Count	0	3	5	5	13
		% within Q4	0.0%	11.5%	3.4%	6.1%	
	I can listen to music in my smartphone	Count	1	14	90	46	151
		% within Q4	50.0%	53.8%	61.2%	56.1%	
	l can listen to music in my mp3-player (which doesn't have internet connection)	Count	0	0	9	3	12
		% within Q4	0.0%	0.0%	6.1%	3.7%	
	Other	Count	0	0	4	2	6
		% within Q4	0.0%	0.0%	2.7%	2.4%	
	I can upload my own	Count	0	1	0	2	3
	music	% within Q4	0.0%	3.8%	0.0%	2.4%	
	I want to contribute to	Count	0	1	7	4	12
	music industry	% within Q4	0.0%	3.8%	4.8%	4.9%	
	I can watch music videos	Count	0	0	1	1	2
		% within Q4	0.0%	0.0%	0.7%	1.2%	
Total		Count	2	26	147	82	257

Table 4.2.2.3 Most important reasons for using a web-based music service vs. How often do you listen to music?

Percentages and totals are based on respondents.

a. Dichotomy group tabulated at value 1.

*Percentages represent the number of respondents within a given category of listening frequency that find certain reasons to be most important to consider when choosing a web-based music service, where the totals are the count at the bottom of each column.

The table above shows that respondents who listen to music 'often' or 'always' find the most important reasons for choosing a particular web-based music service to be; (1) that the music is gathered in one place, (2) that the service has the best supply of music, (3) that the service allows them to listen to music on their smartphone and (4) that the service enables them to listen to music offline. The fifth and sixth most important aspects to these respondents are that the service is cheap and that it is free of charge, respectively. However these aspects have substantially lower response counts.

A possible explanation for why the four most important aspects stated above provide respondents with benefit could be found in the theory of the Six Utility Levers created by Kim and Mauborgne, (2009). First of all, having the music gathered in one place and being able to listen to music in a smartphone increases consumers' simplicity and convenience, as these two aspects enable consumers to take all their music wherever they go. Second, a great supply of music increases consumer productivity, since it prevents consumers from having to search for music in different places. Lastly, being able to listen to music offline eliminates the consumer's risk of not being able to access their music when they do not have Internet access.

Furthermore, the fact that a large supply of music is one of the most important aspects in a music service to these respondents, corresponds to Anderson's (2008) theory of the long tail where he states that a shift in demand has caused consumers to want to be able to access a wide range of music.

The three most important aspects in a web-based music service according to respondents who listen 'sometimes' are included in the four aspects that those who listen 'often' and 'always' chose, only in a different order. The fourth most important aspect for respondents who listen 'sometimes' however, is that the music service is cheap, which is closely followed by that 'it is free of charge'. This could signify that there is a shift in levels of benefit generated by music between those who listen 'sometimes' and 'often', which in turn could indicate that this may be a

point where respondents' willingness to pay also shifts. If this is the case it could perhaps be a breaking point between consumers who use free services versus those who use paid-for services. When examining Table 4.2.2.2 once more, we can see that respondents who listen 'sometimes' are quite evenly distributed between those who pay and those who do not pay (53.8 % vs. 46.2 %). Therefore it is possible that the respondents who listen 'sometimes' represent a critical group of consumers for companies who for example use versioning, as this group could be the division point between those who use different versions of a particular service.

According to our empirical findings thus far, the more often respondents listen to music, the less important the aspect of price is. This could be an indication that benefit rather than income is the determining factor when consumers decide whether or not to pay for the web-based music service(s) they use. Combining the research by Moreau (2013) who claim that nuisance costs are associated with free versions of music services, with Sinha and Mandel's (2008) prediction that legal paid-for services offers consumers a relief from conceptual costs, we deduce that these might be one of the reasons why the majority of our respondents choose to pay, seemingly regardless of their income. Furthermore, when non-monetary factors such as benefit control consumers' buying behavior, it is generally an indication that price is not the primary force of competition on the market. This can lead to companies being unable to gain market shares by lowering their prices, which contends the theoretical definition of price competition (Besanko et al., 2013). In other words, this could be an indication that price competition does not exist on the web-based music market in Sweden, but rather that competition is based on other factors.

When further examining Table 4.2.2.3, we find that the most important aspects to find in a webbased music service, according to the majority of our respondents (those who listen 'often' or 'always'), are offered by Spotify Premium. Spotify Premium provides their subscribers with a bundled service with for example a wide range of music that can be accessed offline and in smartphones, at a single flat-rate price. Considering that Spotify Premium is the most used music service amongst our respondents, this could be an indication of the effectiveness of bundling that Moreau (2013) as well as Sinha and Mandel (2008) predict in their research.

As discussed however, some respondents do not listen to music as often. We regard this as a likely indication that the respondents perceive lower levels of benefit from music listening. Therefore, they potentially do not find the aspects in the Spotify Premium bundle to be as attractive as it appears to be to those who listen more frequently. Since these respondents perceive a lower benefit of music, they could potentially also have a lower willingness to pay for it. This reasoning could also be supported by the fact that a greater proportion of respondents within this category chose price to be more important, than the respondents who listen to music more often. Despite not being able to draw any conclusions about Spotify's strategies, when examining our secondary data, we can detect that Spotify has an approach for targeting these consumers' different willingness to pay through versioning. By offering consumers with a lower willingness to pay a different version of their service, called Spotify Free, Spotify are able to reach out to different consumer segments rather than having to choose only one segment to focus on. This is in line with Greenstein and Markovich's (2012) research finding that versioning is the strategy that is most effective for firms who wish to target different consumer segments with varying willingness to pay.

In the analysis based on Table 4.2.2.3 we saw that a majority of our respondents have a relatively high willingness to pay for music. Based on this, we anticipated that it could be interesting to explore whether these respondents have a willingness to pay that is higher than what they pay today. This was done by creating a cross tabulation of the questions 'If there were a web-based music service that had everything you value in a music service, would you pay more for it than you pay today?' and 'How often do you listen to music?'. Table 4.2.2.4 below, is intended to illustrate whether respondents with different levels of benefit (once again depending on how often they listen to music) and an implied higher willingness to pay for it (as derived in the previous discussions), would be willing to pay even more for a web-based music service that could potentially provide them with additional benefit. Besides 'yes', 'no' and 'do not know', respondents could choose the option 'I only use one service and an satisfied with it', which is expected to indicate that a respondent's willingness to pay is met, implying that the service they use today already has everything they value in a music service. Again, the option 'rarely' will not be included in the analysis due to its low response count.

			How often do you listen to music?				
			Rarely	Sometimes	Often	Always	Total
If there were a web-	Yes	Count	0	2	25	27	54
based music service		% of Total	0.0%	1.0%	12.6%	13.6%	27.3%
value in a music service, would you pay more for it than you pay today?	No	Count	0	6	28	13	47
		% of Total	0.0%	3.0%	14.1%	6.6%	23.7%
	I only use one service and am satisfied with it	Count	1	3	45	23	72
		% of Total	0.5%	1.5%	22.7%	11.6%	36.4%
	Do not know	Count	0	3	14	8	25
		% of Total	0.0%	1.5%	7.1%	4.0%	12.6%
Total		Count	1	14	112	71	198
		% of Total	0.5%	7.1%	56.6%	35.9%	100.0%

Table 4.2.2.4 If there were a web-based music service that had everything you value in a music service, would you pay more for it than you pay today? vs. How often you listen to music?

*Percentages represent the proportion of respondents given out of the total number of respondents that answered both questions (i.e. the total is given in the bottom right hand corner).

There are a number of limitations to be recognized when analyzing this table. First of all, the question 'If there were a web-based music service that had everything you value in a music service, would you pay more for it than you pay today?' was initially thought to be applied to respondents who use more than one service and value different aspects in these. The question was therefore meant to indicate whether respondents would be willing to pay more for *one* service that offered *all* the aspects that respondents found most important in the different services they used. As it turns out however, many respondents either only use one service or use one service principally and use other services as complements to their primary service. Hence, the question was stated in a manner that allowed for misinterpretation, which could show discrepancies in our analysis.

Second, it can be difficult for respondents to imagine a music service that can offer them a higher benefit than the one(s) they use today. Alternatively, it may also be difficult to imagine a service that combines the services they use today. This could once again cause discrepancies in the analysis.

Third, when respondents answered 'no' to the question 'If there were a web-based music service that had everything you value in a music service, would you pay more for it than you pay today?' the implication could be the same as when responding 'I only use one service and am satisfied with it', depending on how many services the respondent uses. The intent was for respondents to answer 'no' if they use more than one service and would be unwilling to pay more for a service that offered everything they value in a music service, and 'I only use one service and am satisfied with it' if they only use one service. Consequently, there is no way for us to determine whether respondents who only use one service selected the intended answer, 'I only use one service and am satisfied with it', or if they selected 'no'.

The largest portion of respondents (36.4 %) who answered the question 'If there were a webbased music service that had everything you value in a music service, would you pay more for it than you pay today?' claimed that they only use one service and are satisfied with it. Out of these respondents, 34.3 % listen to music 'often' or 'always' (i.e. perceive high levels of benefit from music and have a high willingness to pay for music). The fact that these respondents are satisfied with their current service could signify that this is their ideal service, or that this is very close to what their ideal service would be. If this is the case, it could be an explanation as to why these respondents have a higher willingness to pay for the service they use (than respondents whose current services are not as close to their ideal service), since theory by Clemons (2008) states that willingness to pay increases the closer a service is to the consumer's ideal. Alternatively, it could signify that the respondents cannot imagine any way in which their benefit of a service could increase (as their current service already offers everything they value in it). This could indicate that these respondents have reached their maximum willingness to pay for their particular service - in other words that the price they pay is equal to their perceived benefit of the service. Hence, if this is the case, the consumer surplus for these respondents is equal to zero. This could mean that our respondents have not chosen the product that gives them the largest consumer surplus, but rather the service that is their ideal service. This reasoning could also be applicable to the group of respondents (23.7 %) who answered 'no' when asked the question regarding whether they would pay more for a music service that had everything they value.

Furthermore, since the question requires that the respondent imagines what using a *new* webbased music service could entail, a different possible explanation for why 23.7 % of the respondents answered 'no' could be the pre-purchase uncertainty that is implied when considering the investment in an experience good. According to Cheng and Liu (2012), such prepurchase uncertainty theoretically should reduce the consumer's willingness to adopt a service, which could serve as an explanation for why these 23.7 % of respondents answered 'no'. In order to overcome such uncertainty, companies often make use of the strategic concept of sampling, which can moderate the effects of consumers' unwillingness to adopt certain products (Cheng & Liu, 2012; Kempf & Smith, 1998; Tu & Lu, 2006).

When continuing the analysis of Table 4.2.2.4 above, we see that a total of 27.3 % of respondents *would* be willing to pay more for a service that had all the aspects they find most important in a music service. Out of these 27.3 %, respondents who listen 'often' or 'always' represent 16.2 %, which is more than half of them. This result could signify three different alternatives; (1) that respondents have a higher willingness to pay (than what they are currently paying) for a service that offers more than their current service(s) (i.e. a service that provided them with greater benefit), (2) that they would pay more for a single service that combines all the aspects that they value in a music service, or (3) that the service they use currently has all the aspects that they value in a music service and would be willing to pay more for it.

As stated earlier, a majority of 76 % of our respondents pay for their music through a web-based music service. However, there are 24 % who do not currently pay for music. An analysis of the empirical data collected from this particular group is outlined hereafter.

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Firstly, we present graph 4.2.2.2, which shows how many of the respondents of the non-paying group that would consider paying for a web-based music service some time in the future.





We see that 44 % of the respondents in the non-paying group would consider paying for a webbased music service, and that 34 % of them would not consider paying. These 34 % could serve as indicators of a group of respondents with a lower willingness to pay and who, in accordance with Greenstein and Markovich (2012), therefore choose lower quality versions. An example of such a version is Spotify Free, where consumers endure nuisance costs that could contribute to this service being perceived as a lower quality service. As a matter of fact, Spotify Free is the primarily used service amongst all our respondents who do not pay (see Table 7.1 in Appendix 1). This could signify that Spotify's use of versioning through the so-called freemium model (Thomes, 2013), is effective when targeting the segment with lower willingness to pay. Furthermore, the use of versioning can be likened to the use of sampling, especially in the case of companies such as Spotify. By applying versioning, Spotify are able to target different segments of willingness to pay. The way that Spotify's freemium model is designed, much resembles a form of sampling where one version serves as a trial version (i.e. the free version, or Spotify Free) of the other (i.e. the paid-for version, or Spotify Premium). The trial version is often of lower quality than the premium version and is aimed at reducing pre-purchase uncertainty of the premium version, by allowing consumers to learn the product or service's functions and decide whether they would like to buy it or not (Tu & Lu, 2006). As outlined by Cheng and Liu (2012), this is often done in order to eliminate the risk that consumers are unwilling to adopt an experience good, due to the uncertainty of for example its characteristics and functions. This could be linked back to versioning, as the pre-purchase uncertainty that is prevented by sampling, could possibly be the low willingness to pay, which is targeted through versioning. Therefore, when targeting segments with lower willingness to pay through versioning, companies may simultaneously be increasing consumers' willingness to adopt through sampling. This could also cause consumers to be locked in to the service they have started using, which companies can take advantage of (Tu & Lu, 2006). In the meantime companies such as Spotify, often subject consumers of the free versions to nuisance costs in the shape of commercials (Thomes, 2013) that most likely aim to push them away from the free version toward their premium version. Deriving from this we believe that the 44 % of respondents who do not pay but who possibly have a willingness to do so, could be the group of respondents that would be most likely to be susceptible to these measures taken in order to persuade them to start paying.

This could mean that, for these 44 %, there is a possible willingness to pay for music that is higher than zero. It is interesting to investigate why these people have chosen not to pay despite the indications that they have a willingness to do so. Since we did not ask for the reasons behind this choice in the survey, we will only be able to discuss and analyze a few possibilities.

One possible explanation for why 44 % of non-paying respondents would consider paying but do not do so currently, might be that they do not find the consumer surplus provided by any of the music services currently on the market to be large enough. In other words, none of the companies' 'bids' of consumer surplus are high enough. In other words, the benefit level may not be high enough in relation to the price. As seen in previous research, Moreau (2013) states that users of free music services often have to endure nuisance costs, such as for example advertisement between songs. In a situation where non-paying respondents compare a paid-for music service with one that is free of charge, there is a possibility that they find the nuisance costs of the free services to be lower than the costs (i.e. the price) of the paid-for services.

Another reason for why the non-paying respondents choose not to pay despite their possible willingness to do so, could be that their income is currently too low but that they can imagine paying for music in the future if their income increases. This deduction is in line with the microeconomic theory about income elasticity explained by Nicholson and Snyder (2008). We have however observed earlier in Graph 4.2.2.1, that income does not seem to affect the majority of our respondents' willingness to pay. Therefore this seems to be a less likely explanation.

To further investigate the non-paying respondents' willingness to pay, we asked them if they would be willing to pay for a music service that offered everything that they value in a webbased music service. This was done in order to test if Clemons's (2008) theory about willingness to pay and consumers' ideal choice, could help explain some aspects of the competition on the Swedish web-based music market. The results are shown in Graph 4.2.2.3 below.

Graph 4.2.2.3 If there were one web-based music service that had everything you value in a music service, would you pay for it?



Out of the non-paying respondents, a majority of 53 % answered that they would pay for a music service that offered them everything that they value for in a music service (i.e. an ideal service). Therefore, Clemons's (2008) theory that willingness to pay for a given product increases the closer it is to the consumer's ideal, could be applicable on our respondents. This could confirm the proposed reasoning for Graph 4.2.2.2 above - that the 'bids' of consumer surpluses offered

by the music services that are currently available on the market are perceived as too low by the

non-paying respondents with a possible willingness to pay.

Table 4.2.2.5 below shows whether non-paying respondents would have a possible willingness to pay for a service that offers everything they value.

Table 4.2.2.5: Would you consider paying for a web-based music service? vs. If there were a web-based music service that had everything you value in a music service, would you pay for it?

			If there were a web-based music service that had everything you value in a music service, would you pay for it?				
					I only use one service and am satisfied with		
			Yes	No	IL IL	Do not know	Total
Would you consider	Yes	Count	20	0	5	1	26
paying for a web-based music service?		% of Total	33.9%	0.0%	8.5%	1.7%	44.1%
	No	Count	5	9	3	3	20
		% of Total	8.5%	15.3%	5.1%	5.1%	33.9%
	Do not know	Count	6	1	1	5	13
		% of Total	10.2%	1.7%	1.7%	8.5%	22.0%
Total		Count	31	10	9	9	59
		% of Total	52.5%	16.9%	15.3%	15.3%	100.0%

* Percentages are given as the proportion of respondents out of the total number of respondents who answered this question (59 people).

This cross tabulation indicates that 33.9 % of respondents who do not pay may be willing to do so for a service that offered everything they value in a service. We find it interesting that the 10.2 % who answered 'do not know' to the question 'Would you consider paying for a music service?', also answered 'yes' to the question 'If there were a web-based music service that had everything you value in a music service, would you pay for it?'. These respondents may have been unsure whether they would want pay as it may have been difficult for them to imagine why they would do so. However, when the latter question was posed, we gave them a reason (i.e. that it would offer everything they value in a web-based music service) for why they would consider

paying more, which could have made them realize that they actually would. This could indicate that the respondents who do not currently pay, yet have a possible willingness to do so (as seen Graph 4.2.2.2), could be willing to pay for a music service that offers everything that they value, in accordance with the theory of willingness to pay for ideal products [or services], proposed by Clemons (2008).

4.2.3 Network Effects

As stated by Besanko et al. (2013) and Bakos and Brynjolfsson (2000), when network effects are present, a consumer's perception of a product's value increases as a result of other consumers using the same product. Graph 4.2.3.1 shows the proportion of respondents whose friends use the same web-based music service as they do. If many respondents use the same service(s) as their friends, this could be evidence that network effects provide our respondents with greater value.

Graph 4.2.3.1 Do your friends use the same web-based music service(s) as the one(s) you use most often?



Do your friends use the same web-based music service(s) as the one(s) you use most often?

This graph shows that a majority of 87 % of the respondents answered that their friends use the same web-based music service as them. This suggests that there might be network effects that create greater value for our respondents.

In Table 4.2.3.1 below, we see which service(s) respondents use, and whether or not their friends use the same one(s). By cross tabulating these two questions, we intend to find out if there are any particular services that are associated with network effects to a greater extent than others.

Table 4.2.3.1 'Which two service(s) do you use most often?' vs. 'Do your friends use the same web-based music service as the one(s) you use most often?'

			Do your frien music service			
			Yes	No	Do not know	Total
MostOften ^a	Spotify Free	Count	27	1	4	32
		% within Q23	11.8%	6.3%	21.1%	
	Spotify Premium	Count	194	3	8	205
		% within Q23	85.1%	18.8%	42.1%	
	Rdio	Count	6	0	1	7
		% within Q23	2.6%	0.0%	5.3%	
	SoundCloud	Count	39	1	0	40
SoundC		% within Q23	17.1%	6.3%	0.0%	
	SoundCloud Pro	Count	1	0	0	1
		% within Q23	0.4%	0.0%	0.0%	
	YouTube	Count	80	4	7	91
-		% within Q23	35.1%	25.0%	36.8%	
	Web-based music	Count	2	0	2	4
	Amazon.com etc.	% within Q23	0.9%	0.0%	10.5%	
	Podcasts	Count	11	0	0	11
		% within Q23	4.8%	0.0%	0.0%	
	Download from e.g. The Piratebay.	Count	9	6	2	17
	Kickasstorrent etc.	% within Q23	3.9%	37.5%	10.5%	
	Other	Count	1	1	0	2
		% within Q23	0.4%	6.3%	0.0%	
	Free web radio e.g.	Count	3	2	2	7
	otracks	% within Q23	1.3%	12.5%	10.5%	
	Liveradio online	Count	10	2	2	14
		% within Q23	4.4%	12.5%	10.5%	
Total		Count	228	16	19	263

Percentages and totals are based on respondents.

a. Dichotomy group tabulated at value 1.

Out of the respondents whose friends use the same service(s), 85 % use Spotify Premium, 35 % use YouTube and 17 % use SoundCloud. We know from our secondary data [such as 'Let a

Billion Streams Bloom' by Dean (2013)] that these three services provide their customers with ways to connect with each other, for example by sharing playlists. It is possible that the empirical findings in this table imply that a presence of network effects could create greater value for consumers, since these functions can contribute to a consumer perceiving more benefit in the service when other consumers also use it. A possible explanation for the fact that a majority of respondents who use Spotify Premium to a greater extent have friends who also use Spotify Premium, might be the fact that Spotify, as stated by Albinsson (2014), was an early mover on the Swedish market for web-based music streaming services. According to theory about network effects, one of the advantages of being an early mover is in fact that the company can establish network effects (Besanko et al., 2013).

As a follow up question to 'Do your friends use the same web-based music service as the one(s) you use most often?' we asked the respondents who said that their friends use the same service as they do; 'How important is it to you that your friends use the same web-based music service(s) as you?'. We asked this question in order to find out whether the respondents perceive a value in the fact that their friends use the same service as them, in which case there could be evidence that network effects are an explanation for this perceived value. The answers to the question are shown in Graph 4.2.3.2 below.
Graph 4.2.3.2 How important is it to you that your friends use the same web-based music service(s) as you?



This graph shows that out of the respondents whose friends use the same music service(s) as them, a total of 43 % finds this to be 'not at all important'. This could point towards that these respondents do not perceive a greater value from network effects. In retrospect, we see that the ways in which we tested whether the network effects associated with the music services give our respondents greater value, are not completely accurate measures. This is due to the fact that we aimed to find out whether the effects were important to our respondents rather than to investigate whether they see any value in them at all. For future research, instead of asking whether respondents find that their friends use the same service(s) to be important, one could ask whether respondents use functions that are associated with network effects, which we know from our secondary data exist within many service(s). Examples of these functions, that services such as Spotify Premium offer, are that consumers can share their playlists and songs, create collaborative playlists with others, subscribe to their friends', artists' or blogs' music updates etc. (Spotify, 2014). If respondents would answer that they use any of these functions, this would most likely be a more appropriate indication of whether network effects increase the value of the service for the respondents.

4.3 Test of Hypotheses

Below we provide a summary where we apply our data analysis to test our hypotheses.

H1. There are buyer switching costs associated with web-based music services on the market Our main findings are:

- that buyer switching costs in association with web-based music services are difficult to identify
- that there is data that points toward the existence of buyer switching costs, but at large our empirical data indicates that there are no significant buyer switching costs associated with the web-based music services used by our respondents

Conclusion: We can neither accept nor reject the hypothesis 'H1' due to the ambiguity of our results.

H2. There is a high willingness to pay for legal web-based music

Our main findings are:

- that the majority of respondents pay, seemingly regardless of their level of income
- that respondents who do not currently pay may still have a possible willingness to do so
- that respondents who perceive a high benefit from music, tend to choose the web-based music service that is closest to their ideal service.

Conclusion: Our analysis points toward that hypothesis 'H2' should be accepted. However, as previously mentioned, we can only say that the hypothesis could be true for the respondents in our sample and do not aim to generalize on our population.

H3. There are network effects associated with web-based music service(s) that create extra value for consumers

Our main findings are:

- that being able to share music with one's friends does not seem to be perceived as one of the three most important aspects in a music service by a majority of our respondents
- that although a majority of our respondents use same service(s) as their friends, almost half of them claim that this is not important

Conclusion: We can neither accept nor reject hypothesis 'H3', since we have not gathered enough information about respondents' perceived value from network effects.

5. DISCUSSION AND CONCLUSIONS

In this chapter, we start by providing a conclusion of the main results from our study and answer our research question. Thereafter we discuss our own thoughts on the results, as well as some suggestions for further research within our field of study.

5.1 Conclusions

In this section we aim to answer our research question *What does the competition look like on the Swedish web-based music market*? with the help of our hypotheses.

First of all, we have learned that buyer switching costs are difficult to identify, which has resulted in our data being inconclusive. One finding that points toward the possible existence of buyer switching costs is that a majority of our respondents pay for their music through webbased music services, on a monthly basis. Furthermore, there are indications that a minority group of respondents could possibly be locked in by their current service. Although these findings point towards the existence of buyer switching costs, there is also evidence indicating the contrary. The majority of the respondents claim that they would use the same web-based music service that they use currently had they not started using one, and that they would do so in spite of being aware of cheaper or free alternatives. This is a possible indication that there are no buyer switching costs present in association with the web-based music services that our respondents use. Alternatively it signifies that respondents perceive the services they use to be the best offers on the Swedish web-based music market today. Theory states that information goods, such as web-based music services, are highly prone to buyer switching costs and that when such switching costs are present on a market, they should reduce the competition. Due to the ambiguity of our empirical results we are however, unable to draw any conclusions on whether the existence of buyer switching costs affect competition on the web-based music market in Sweden.

Second, our results point towards that consumers could have a high willingness to pay for music on the Swedish web-based music market. Though our sample is not representative of our entire population, the majority of our respondents pay for their web-based music, regardless of their level of income. In fact, our data suggests that respondents do not choose web-based music services based on the price of the music or on the consumer surplus the service offers, but rather based on which service they perceive to be closest to their ideal web-based music service. Moreover, although a portion of the respondents do not currently pay for their music, the data suggests that they may still have a willingness to do so. All in all, the suggestion that there is a high willingness to pay alludes to that actors on the web-based music in Sweden may not compete on price, but rather compete on benefit.

Third, we have not gathered a sufficiently comprehensive amount of empirical data regarding our respondents perceived value of network effects to be able to confirm or reject our hypothesis on this matter. The lack of data is due to the fact that we used inappropriate measures. However, there are some indications that we have derived from our data analysis that point toward the possible existence of network effects, although we cannot specify to which extent. Ergo, we cannot say anything about what the competition on the Swedish web-based music market looks like with respect to network effects.

In summary, the empirical data we have used to test our hypotheses points toward that competition on the Swedish web-based music market is not based on price alone, but rather on other factors, such as benefit, despite music being accessible virtually for free. Nonetheless, as previously stated, our research is at large inconclusive and should be looked upon as a pilot study on the topic. In conclusion, though our results have given an indication of what competition may look like on the Swedish web-based music market, our research question is still somewhat unanswered, but could be used as grounds for further research.

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5.2 Discussion

One of the recurring deductions in our data analysis is that the respondents seem to perceive the service(s) they currently use to be the best on the market. According to our results, the service most used amongst our respondents is the paid-for streaming service, Spotify Premium. Therefore, we deduced that Spotify Premium in fact could be the service that our respondents identify as the best on the market, leading us to wonder why this is.

Our first instinct was that Spotify was an early mover on the web-based music market (the market that we aimed to study). However, since we know that there are services that have existed on this market for a longer period of time, such as iTunes that was introduced in 2001 (Apple, 2014) and YouTube that was introduced in 2005 (YouTube, 2014), we realized that when Spotify was introduced in 2007 (Spotify, 2014), it must have created a new segment within the industry. Further implications of this include that Spotify was virtually the first of its kind on the Swedish market (Albinsson, 2014). After reading an interview by Dean (2013) with Daniel Ek, the founder of Spotify, we discovered that Spotify was introduced on the Swedish market as a reaction to the new type of demand that had been caused by the widespread illegal downloading. Spotify was able to target the critical segment of illegal downloaders and make them want to pay for the music they listened to (Dean, 2013). This resulted in the creation of a new segment of the legal music market in Sweden, where Spotify was the first mover.

Being an early mover on a market can lead to a number of strategic advantages (Besanko et al., 2013). The fact that Spotify was an early mover on the Swedish online music market, could be an explanation for Spotify's great success. The strategic advantages that we personally identified

as something we are affected by, are buyer switching costs. In the initial stages of our paper, we discussed whether or not we would consider switching to other web-based music services than the ones we currently use (two out of the three of us use Spotify Premium, whilst the third uses a combination of other services). The reasons for not switching that came up most often were that we are happy with the way our service(s) work and that we do not want to "start over and lose our music". More specifically; we do not want to have to search for all the songs we listen to and remake our playlists, on top of having to spend time learning how to use a completely new service. The effort that we put into shaping and personalizing our music acts as a cost barrier when switching between web-based music services. Therefore, a web-based music service that is first on a market can make use of such cost barriers in order to lock in their users to their service - something we believe Spotify might have done with the consumers on the Swedish web-based music market, but that we were not able to test within this study.

When collecting our secondary data, we discovered a number of web-based music services that provide very similar offers as Spotify (such as Deezer and Wimp). First of all, it is interesting to note that Porter (2001) states that the emergence of substitutes on web-based markets due to the 'leveled playing field', which could be an explanation for these services' entry on the web-based music market in general. Second, when performing our data analysis, we found that an insignificant number of our respondents actually use these services, despite them being such close substitutes to Spotify. This was an interesting result, as their degree of similarity had led us to expect a distribution between Spotify and its competitors. One of Spotify's greatest competitors, the French challenger Deezer, was also created in 2007 (Moreau, 2013), but was not introduced on the Swedish market until March, 2014 (Jakobsson, 2014). Another one of

Spotify's largest competitors, Wimp, was launched in Sweden in 2011 (Jakobsson, 2014). This information leads us to believe that an explanation for why so many of our respondents use Spotify, and so few use for example Deezer or Wimp, could be Spotify's early mover advantages.

Another interesting finding that we discovered when collecting secondary data is that the prices of web-based music services are to a certain extent regulated by a minimum price set by three (Pakman, 2014) of the six large record companies, who according to Alexander (1994) have a history of controlling several other aspects within the music industry. This could have significant impact on future competition on the market, which may be increasingly evident when the number of substituting services increase and become more similar. Theory states that the number of substitutes increase and they are increasingly similar, the competition (internal rivalry) will be fiercer. A natural occurrence on markets where this is the case is that competition may become more price-based as companies lower their prices in order to take market shares from their competitors (Besanko et. al, 2013). Moreau (2013) describes this phenomenon, explaining that the Internet has caused pricing to land at a price-cost equilibrium. When this occurs, the market should according to Besanko et al. (2013) be in a state of perfect competition. With the record labels' control of prices however, this would be impossible and could perhaps result in market failure.

5.3 Further Research

As previously stated, this paper should be considered a pilot study of what competition on the Swedish web-based music market looks like. Therefore, an idea for possible further research could be to use this study as a starting point and apply it on a greater scale. With more time and funding available, our limitations and inability to generalize could be overcome and the research could generate statistically significant results.

Furthermore, we consider it an interesting idea to investigate whether Spotify's competitors will have claimed more shares on the Swedish web-based music market in a few years from now. Hypothetically, if they have not claimed more shares one to three years from now, there could for example be indications of the theoretical elements we attempt to test in this paper, such as lock-in effects from buyer switching costs that are associated with Spotify's early mover advantage. If Deezer or Wimp hypothetically succeed in claiming market shares in Sweden, it could be an indication that the potential buyer switching costs associated with Spotify were not effective enough to lock consumers in.

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7. APPENDIXES:

Appendix 1

Graph 7.1 Do you pay for the music through the web-based music service(s) you use?



Graph 7.2 Which web-based music service(s) do you pay for?



Which web-based music service(s) do you pay for?

Graph 7.3 Was this or any of these the first web-based music service(s) you started using?



Graph 7.4 Earnings statistics, public sector (Scb.se, 2014)



Genomsnittlig månadslön efter ålder, år 2013

Källa: SCB

Sveriges officiella statistik

Graph 7.5 Earnings statistics, private sector (Scb.se, 2014)



Genomsnittlig månadslön efter ålder och kön, år 2013

Table 7.1 Which web-based music service(s) do you use most often? vs. Do you pay for the music through the web-based music service(s) you use?

			Do you pay for the music through the web-based music service(s) you use?		
			Yes	No	Total
MostOften ^a	Spotify Free	Count	0	32	32
		% within Q8	0.0%	51.6%	
	Spotify Premium	Count	194	11	205
		% within Q8	96.5%	17.7%	
	Rdio	Count	7	0	7
		% within Q8	3.5%	0.0%	
	SoundCloud	Count	36	4	40
		% within Q8	17.9%	6.5%	
	SoundCloud Pro	Count	1	0	1
		% within Q8	0.5%	0.0%	
	YouTube	Count	66	25	91
		% within Q8	32.8%	40.3%	
	Web-based music	Count	3	1	4
	Amazon.com etc.	% within Q8	1.5%	1.6%	
	Podcasts	Count	8	3	11
		% within Q8	4.0%	4.8%	
	Download from e.g. The	Count	3	14	17
	Kickasstorrent etc.	% within Q8	1.5%	22.6%	
	Other	Count	1	1	2
		% within Q8	0.5%	1.6%	
	Free web radio e.g. 8tracks	Count	4	3	7
		% within Q8	2.0%	4.8%	
	Liveradio online	Count	7	7	14
		% within Q8	3.5%	11.3%	
Total		Count	201	62	263

Percentages and totals are based on respondents.

a. Dichotomy group tabulated at value 1.

Appendix 2:

Enkät Musiklyssnande

Hej och tack på förhand för ditt deltagande! Denna enkät riktar sig till personer mellan åldrarna 18-29 år, som är bosatta i Sverige och lyssnar på webbaserad musik (exempelvis genom streaming, online musikbutiker etc.). Enkäten beräknas att ta ca. 3 minuter och ämnar att stå som grund till vår kandidatuppsats inom Strategic Management på Ekonomihögskolan vid Lunds Universitet. Uppsatsen ämnar att undersöka den webbaserade musikkonsumtionen i Sverige. All data samlas in anonymt och kommer endast att användas i samband med den här studien. Tack för visat intresse och för att ni stödjer vårt arbete!

E. Fredrikson, L. Klintner och E. Wennerberg

Om det uppstår något tekniskt problem eller ni har frågor, tveka inte att kontakta oss på aju10lkl@student.lu.se.

Vilken åldersgrupp tillhör du?

- **O** 18-20 år (1)
- **O** 21-23 år (2)
- **O** 24-26 år (3)
- **O** 27-29 år (4)

Vad är din sysselsättning?

- **O** Gymnasieelev utan extrajobb (1)
- **O** Gymnasieelev med extrajobb (2)
- Student med inkomst lägre än summan av studiebidrag och studielån (År 2014 ca. 9000kr) (3)
- Student med inkomst i form av eller motsvarande summan av studiebidrag och studielån (År 2014 ca. 9000kr) (4)
- Student med inkomst högre än summan av studiebidrag och studielån (t. ex. genom extrajobb) (År 2014 ca. 9000kr) (5)
- O Arbetssökande (6)
- **O** Arbete inom kommun eller landsting (7)
- **O** Arbete inom privat sektor (8)

Hur ofta upplever du att du lyssnar på musik?

- **O** Aldrig (1)
- O Sällan (2)
- O Ibland (3)
- O Ofta (4)
- \bigcirc Alltid (5)
- \bigcirc Vet ej (6)

Vilken/vilka webbaserad(e) musiktjänst(er) använder du för att lyssna på musik idag? (Kryssa i de alternativ som passar in på dig)

- □ Spotify Free (1)
- □ Spotify Premium (2)
- \Box Deezer Free (3)
- Deezer Premium (4)
- □ SoundCloud (8)
- □ SoundCloud Pro (9)
- \Box YouTube (10)
- □ Webbaserade musikaffärer som exempelvis iTunes Store, Amazon.com etc. (11)
- □ Magnatune (12)
- Podcasts (13)
- □ Musikblogg(ar) som exempelvis The Hype Machine, Dittomusic etc. (14)
- □ Nedladdning från exempelvis The Piratebay, Kickasstorrent etc. (15)
- □ Annan tjänst, vilken? (16)
- Gratis webbradio som exempelvis 8tracks (17)
- □ Betalwebbradio som exempelvis 8tracks Plus (18)
- **G** Rdio (19)
- □ WiMP (20)
- □ Liveradio online (21)

Kryssa i den/de webbaserade musiktjänst(er) du använder oftast (välj max två alternativ)

- $\Box \quad \text{Spotify Free (1)}$
- □ Spotify Premium (2)
- $\Box \quad \text{Deezer Free (3)}$
- Deezer Premium (4)
- □ WiMP (6)
- **G** Rdio (7)
- □ SoundCloud (8)
- □ SoundCloud Pro (9)
- \Box YouTube (10)
- □ Webbaserade musikaffärer som exempelvis iTunes Store, Amazon.com etc. (11)
- □ Magnatune (12)
- D Podcasts (13)
- □ Musikblogg(ar) som exempelvis The Hype Machine, Dittomusic etc. (14)
- □ Nedladdning från exempelvis The Piratebay, Kickasstorrent etc. (15)
- □ Annan tjänst, vilken? (16)
- Gratis webbradio som exempelvis 8tracks (17)
- □ Betalwebbradio som exempelvis 8tracks Plus (18)
- □ Liveradio online (20)

Var denna eller någon av de här musiktjänst(erna) din första webbaserade musiktjänst? Beakta den/de du valde i föregående fråga. Se till musiktjänsten som helhet, alltså oberoende av version (t.ex. 'Free' kontra 'Premium').

- **O** Ja (1)
- **O** Nej (2)
- **O** Vet ej(3)

Använder dina vänner samma webbaserade musiktjänst(er) som den/de du använder oftast?

O Ja (1)

- **O** Nej (2)
- **O** Vet $e_j(3)$

Answer If Använder dina vänner samma webbaserade musiktjänst(er) som den/de du använder oftast? Ja Is Selected

Hur viktigt är det för dig att dina vänner använder samma webbaserade musiktjänst(er) som du använder?

- **O** Inte alls viktigt (1)
- O Mindre viktigt (2)
- O Jag är neutral (3)
- O Ganska viktigt (4)
- **O** Viktigt (5)

Betalar du för musiken genom den eller någon av de webbaserade musiktjänst(er) du använder?

- **O** Ja (1)
- **O** Nej (2)
- **O** Vet $e_j(3)$

If Vet ej Is Selected, Then Skip To End of Survey

Varför använder du den/de webbaserade musiktjänst(er) som du använder idag? (Beakta alla de tjänster du använder och kryssa i de alternativ som stämmer bäst in på dig)

- □ För att jag kan ha all musik samlad på ett och samma ställe (1)
- □ För att jag inte har provat någon annan musiktjänst (2)
- □ Jag har provat andra musiktjänster men fastnade för den jag använder nu (3)
- **G** För att den är billig (4)
- □ För att den är gratis (5)
- □ För att den har bäst utbud av musik (6)
- □ För att jag kan lyssna på min musik offline (7)
- □ För att jag och mina vänner kan ta del av varandras musikupplevelser (8)
- **Given Statt helhetserbjudandet är det mest prisvärda på marknaden (9)**
- □ För att det finns en app som gör att jag kan lyssna på min musik i min smartphone (10)
- □ För att jag kan ha musiken i min mp3-spelare (som inte har möjlighet till internetanslutning eller nedladdning av musikappar) (11)
- □ Annat, varför? (12) _
- □ För att den tillåter mig att lägga upp min egenproducerade musik (13)
- □ För att jag fick prova den under en gratis testperiod och fastnade för den (14)
- **General For att jag vill bidra till finansiering till artisterna i musikindustrin (16)**
- □ För att jag kan titta på musikvideos (18)

Vilka tre aspekter är viktigast för dig att finna i en webbaserad musiktjänst? (Kryssa i tre alternativ)

- Att jag kan ha all musik samlad på ett och samma ställe (1)
- $\Box \quad \text{Att den } \ddot{a}r \text{ billig } (2)$
- □ Att den är gratis (3)
- □ Att den har bäst utbud av musik (4)
- □ Att jag kan lyssna på min musik offline (5)
- Att jag och mina vänner kan ta del av varandras musikupplevelser (6)
- Att helhetserbjudandet är det mest prisvärda på marknaden (7)
- Att det finns en app som gör att jag kan lyssna på min musik i min smartphone (8)
- □ Att jag kan ha musiken i min mp3-spelare (som inte har möjlighet till internetanslutning eller nedladdning av musikappar) (9)
- □ Annat, varför? (10)
- Att den tillåter mig att lägga upp min egenproducerade musik (11)
- Att jag kan bidra till finansiering till artisterna i musikindustrin (13)
- Att jag kan titta på musikvideos (15)

Answer If Betalar du för musiken genom den eller någon av de musiktjänst(er) du använder? Ja Is Selected

Q12 Om det fanns en webbaserad musiktjänst som uppfyllde alla aspekter som du tycker är viktiga i en musiktjänst (alltså en enda tjänst som har allt det du söker), skulle du kunna tänka dig att betala mer för en sådan än för den/de du använder i dagsläget?

- **O** Ja (1)
- **O** Nej (2)
- Jag använder bara en tjänst och är nöjd med den (3)
- **O** Vet ej (4)

Answer If Betalar du för musiken genom den eller någon av de musiktjänst(er) du använder? Ja Is Selected

Q9 Via vilka webbaserade musiktjänster betalar du för musiken du lyssnar på? (Kryssa i de alternativ som passar in på dig)

- □ Spotify Premium (1)
- Deezer Premium (2)
- □ WiMP (3)
- □ SoundCloud Pro (5)
- U Webbaserade musikaffärer som exempelvis iTunes Store, Amazon.com etc. (6)
- □ Magnatune (7)
- Device Podcasts (8)
- Annan tjänst, vilken? (9)
- **G** Rdio (10)
- □ Betalwebbradio som exempelvis 8tracks Plus (14)

Answer If Betalar du för musiken genom den eller någon av de musiktjänst(er) du använder? Ja Is Selected

Q10 Hur betalar du för musiken i din webbaserade musiktjänst?

- \square Årsvis (1)
- □ Halvårsvis (2)
- □ Kvartalsvis (3)
- □ Månadsvis (4)
- □ Engångsbetalning per låt/album (5)
- **U** Vet ej (6)

Answer If Betalar du för musiken genom den eller någon av de musiktjänst(er) du använder? Ja Is Selected

Tycker du att priset du betalar för musiken är rimligt? (Om du valt fler än en webbaserad musiktjänst, så beakta den totala summan)

- **O** Ja (1)
- **O** Nej (2)
- **O** Vet ej (3)

Answer If Betalar du för musiken genom den eller någon av de musiktjänst(er) du använder? Ja Is Selected

Har du hört talas om billigare (eller gratis) alternativ till den/de webbaserade musiktjänst(er) du använder?

- **O** Ja (1)
- **O** Nej (2)
- **O** Vet $e_j(3)$

Om du inte redan hade börjat använda någon webbaserad musiktjänst, vad hade du valt? (Kryssa i det alternativ som stämmer bäst in på dig)

- **O** Samma som jag använder nu (1)
- **O** En med större utbud av musik (2)
- En som är billigare/gratis (3)
- O Annat (4)
- **O** Vet ej (5)

Answer If Betalar du för musiken genom den eller någon av de musiktjänst(er) du använder? Nej Is Selected

Skulle du kunna tänka dig att betala för en webbaserad musiktjänst?

- **O** Ja (1)
- **O** Nej (2)
- \bigcirc Vet ej (3)

Answer If Betalar du för musiken genom den eller någon av de musiktjänst(er) du använder? Nej Is Selected

Om det fanns en tjänst som uppfyllde alla aspekter som du tycker är viktiga i en webbaserad musiktjänst (alltså en enda tjänst som har allt det du söker), skulle du kunna tänka dig att betala för en sådan?

- **O** Ja (1)
- **O** Nej (2)
- Jag använder bara en webbaserad musiktjänst och är nöjd med den (3)
- **O** Vet ej (4)