

Assessing the business opportunity for royalty-free music in public spaces targeting SMEs

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The fact that music affects the way people act, behave, and feel has long been argued for. For business operating publically, this means an opportunity to enhance customer experiences and ultimately increase sales by playing background music aligned with its brand and profile. However, playing music in public spaces sets requirements on the type of music used and the rights associated with playing music publically to an undisclosed target audience.

According to a study published in *Journal of Applied Psychology* in 1999 investigating the effects of background music on supermarket customers' selection of wines, results showed that music played heavily influenced customer purchasing behaviors. Playing French music in the supermarket lead to customer choosing French wine as compared to German wine in 8 out of 10 cases. Conversely, when playing German music, customers chose German over French wine in 7 out of 10 cases (North et al., 1999). Since then, further studies have tried to clarify the effects of music in public business settings. Branding agency Heartbeats Int. published in 2011 the results of a comprehensive study questioning customers concerning their purchasing behavior when visiting stores and restaurants. While 35 % of the study respondents claimed willing to stay longer if the music was appreciated, the actual characteristics of the music played seemed to effect purchasing patterns even more. Over 80 % of the questioned customer deemed the right volume to be a decisive factor when visiting stores, but less than 20 %

thought it vital that the music was recognizable from the radio.

The prospect of offering music to businesses is far from unexplored. Ever since the 1930s when American cult company Muzak made elevator music a household business trademark, the background music industry has been regarded a potential revenue stream for many market actors (Spangenberg et al., 1993). As the digitalization of the music industry has meant a drastic increase of the public accessibility of recorded music, the consumption patterns of background music have not been left unaffected. Where many businesses claim unaware of the legal consequences from playing copyrighted music publically, the benefits from playing music in businesses have all the while been leveraged. To increase the awareness regarding the transformed music market situation and enhance the customer experiences for businesses using background music, multiple in-store music (ISM) providers have tried to gain market presence globally. While a majority of providers today offer commercial music, i.e. well-known hit music, some providers have chosen to exploit the possibilities of royalty-free music, i.e. basically unknown music, as background music alternatives in public places. As royalty-free music implies a removal of royalty payment duties for public businesses, cost item relieves for background music users have been enabled although quality maintained for royalty-free ISM solution users.

The ISM market in terms of targetable business customers is naturally as wide as unknown. Just contemplating the number of SMEs globally (Small and Medium-sized

Enterprises) potentially using an ISM solution makes the launch of a competitive ISM service extremely lucrative. According to a master thesis study conducted at the Faculty of Engineering, Lund University, investigating the business opportunity for a royalty-free ISM provider targeting SMEs, results showed that more than 23 million exclusive SME locations are targetable with an ISM solution as of today (Akervall & Laurens, 2017). The amount of SMEs were derived from the top 43 music markets in the world within 20 industry segments characterized by customer interactions involving music exposure. Given a segmentation of the ISM market using both macro economical, e.g. GDP and Internet connectivity levels, and music consumption statistics variables, e.g. music streaming revenues on each recorded music markets, results showed that the Nordic countries constituted the prime markets for a software-based ISM streaming solution. Incorporating market size and further digital music consumption trends as decisive ISM variables, the Netherlands, the UK, Australia, and the US, were all considered upcoming market segments attractive for a subscription-based ISM service. Countries showcasing a limited streaming consumption trends along with low willingness to pay for online music were suggested to be targeted with a freemium business model highly compatible with a royalty-free ISM service. Compared to ISM solution providers offering commercial music, royalty-free actors were deemed highly competitive on emerging markets due to their increased possibilities for flexible pricing strategies.

The master thesis further provided recommendations for how a SaaS (Software-as-a-Service) streaming solution should be outlined in order to attract a wide ISM customer segment in SMEs. By adding together customer behavior patterns, customer opinions on ISM solutions, and competitor analyses, as the founding bases

for how a solution should be designed, a specification regarding key characteristics and features of SaaS streaming solution was defined. The definition was highlighted by using Philip Kotler's *Three Levels of Product* framework (2009) applied on a SaaS solution, thereby clarifying which attributes of an ISM solution that was considered crucial for a successful service campaign. Results showed that SMEs valued features higher which enabled user freedom within boundaries set by the provider, exemplified by own playlist scheduling and skip song features. The necessity to include customized playlists to fit business brands as a feature was found equally attractive from an SME perspective. Features potentially adding additional benefits to service users, for instance an administrator interface, were also suggested as augmented customer value generating attributes.

Finally, as a mean to leverage a royalty-free software solution on the ISM market, go-to-market strategy actions aligned with the SaaS specification were suggested in the thesis. By emphasizing the advantages of a SaaS solution, sales and marketing channels suitable to fit its characteristics were especially accentuated. Online sales was suggested to make up for the majority of ISM customer purchases, why the solution was proposed to be specifically self-service and end-user-oriented. To gain further market traction, a royalty-free ISM provider was recommended to apply substantial organic marketing pushes. Leveraging the effects from organic SEO (Search Engine Optimization) in tandem with the formation of strategic partnerships to gain ISM market presence were particularly compelling recommendations.

In summary, for companies operating on the ISM market, a royalty-free SaaS solution could very well represent the most competitive service alternative if adequately utilized. However, as the background music industry is still growing and battles both

awareness and copyright problems, the challenges for ISM solution providers remain multifaceted and complex.

References

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