M.Sc. in Strategic Market Creation (SMC)

MASTER'S THESIS

Digital Music Distribution

Streaming services are a source of income for the music industry:
a study on consumer's behaviour and new business models

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ABSTRACT

The technological environment has always influenced the music industry, since the final product is a matter of format. New forms of music distribution have surfaced over the years, helped by the technological progress in which Internet has played a major role. This paper explores how these innovations have modified the music context, from the supply chain to the consumer's behaviour. Record labels no longer dominate the industry, because more actors are involved in the process. Direct and co-creational marketing helps record labels and artists to communicate with customers, and thanks to social media build a relationship with fans has never been so easy.

Music's distribution is entrusted to digital music providers and streaming services that are having positive results on music sales and are slowly overcoming the piracy phenomenon. The Swedish streaming service, Spotify, has quickly gained market share in the last two years, proving to be a source of income for the Scandinavian music industry. The paper also provides an empirical analysis of consumers' behaviour towards Spotify.

Introduction

The music industry has probably been the most affected by technological innovations within the entertainment industry. Every stage in the music history was characterized by the introduction of a new format of music distribution.

It started with the invention of the gramophone, which was eventually replaced by the vinyl, and then came the compact disc (CD). Till that moment, the music industry was growing fast and actually the CD represented a cash cow for the record labels, at least at the beginning. The success of the new format was followed by the increasing popularity of piracy. The phenomenon had always existed, but apparently music companies were not affected by it, till now. The situation got worse, when in 1994 a new digital format was introduced in the market, the MP3, and it started the era of file sharing through peer-to-peer services. Consumers could share tracks on the Internet and get all the music they want for free. Especially young generations were used to this kind of behaviour, since it is general knowledge that they are more familiar with technology and faster to accept changes. Since the beginning of the twenty-first century, global record sales started decreasing and it has never stopped. Many called it the "death of the music industry", but is the music industry really dead? Technology has continued to impact the music industry, in fact in 2003 the first legal digital music service entered the market: the iTunes Store. Its users can legally buy songs for $0.69, $0.99 or $1.29. In 2013, digital sales are the 39 per cent of the global music revenues. In the late first decade of 2000, a new form of music fruition was introduced: streamed music. The first one to offer this type of service was YouTube, but many other quickly arrived and many others to come. People have started to appreciate the possibility to listen to a huge catalogue of music at any time, at any place without wasting gigabyte of their hard drive. The first offering a subscription model was the Swedish Spotify. The streaming service was officially launched in 2008 and, at the time of this writing, it is present in 58 countries. Spotify offers a 20 million music library to its 40 million users and 10 million subscribers. It is considered the largest on-demand music streaming service. Apparently, streaming services are shifting consumers from pirate services to legal licensed ones that pay all the actors involved in the music creation and production process. According to IFPI's Digital Music Report (2014), in 2010, streaming services could count 8 million of subscribers, but from 2012 to 2013 the number increase of the 40 per cent, and ultimately, in 2013, 28 million people are paying subscribers to a streaming service. It appears that in 2013, digital downloads have seen a slight decline in favour of subscriptions, but the demand of digital albums' format is still an upward curve. As mentioned before, the digital share of the global music revenue corresponds to the 39 per cent, but where is the remaining 61 per cent? Performance rights, (i.e. broadcast, venues and Internet radio stations) and synchronization revenues corresponds respectively to the 7 per cent and 2 percept (IFPI, 2014). But the majority of the industry revenues come from the physical format sale, equal to the 51 per cent of the US$ 15 billion total industry value. Despite the digitalization of music, the industry can still attribute half of its revenue to physical sales. So, can we say that an industry worth $15 billion is dying? No, the music industry is definitely not dying. Actually, today more music than ever is produced and consumed, and there has never been such a wide choice of artists to listen to. But a distinction must be made: music industry does not mean record industry. It is undeniable that some record labels and physical music retailers had to struggle to remain in the business. Music companies need to adapt their business models, or even better adopt a new kind of business model in order to survive the market's changes. The purpose of this paper is to identify the business model working in the new music industry, and forecast what it is going to happen in the next years. How has the role of the record labels changed? And the artists? And music providers? And consumers? Consumer's behaviour has also changed over the years. The young generation of today, that is always be the most interesting target for the music industry, probably has never bought a CD and perceive the music like something that should be for free. A new concept of consumer marketing will be taken into consideration in order to engage the modern consumers: the co-creational marketing.

Finally, it will be analysed the industry's position of Spotify. Can the Swedish streaming service save the music? On this topic there are conflicting opinions, but in this paper it will be explain the downsides and the upsides of its business model and the future opportunities and challenges, considering actual and future competitors. A quantitative research conducted on a random sample will help to understand what it is the perception of Spottily among music consumers and which position it holds in different markets.

Problem Delimitation and Definition

Since 2001, the music industry is facing a deep crisis and music sales have never stopped decreasing, but who is to blame? Several are the causes that contributed to this situation. The music industry, within the entertainment industry, has always been deeply influenced by technological innovations, given the fact that music distribution is a matter of formats.

Many say that "music is dying", because it is not selling anymore. Is the music really dying? Is the music industry going to stop to exist in a few years? Or is it just part of the industry life cycle to witness continuous changes in the main form of the final product's distribution? Piracy, Internet, the MP3 and peer-to-peer protocols, legitimate digital music distributors and, now, streaming services have all represented reasons to blame for the music industry's decline.

This paper aims to address these questions by providing a broad overview of the historical and actual music industry. It will be analysed the role of record labels and music providers/distributors and how the consumer's behaviour has changed through the years. The "traditional" actors (e.g. record labels, physical retailers) involved in the music distribution are in need of new business models in order to be competitive in this new scenario defined by upcoming entrants. Co-creational marketing and customization of the product are key words, not only to succeed, but also to survive in the industry.

In the past recent years, consumers have being approaching a new way of music's consumption: streamed music. Spotify is the largest music streaming service worldwide, but it has to deal with two issue. Firstly, artists and right owners are not really satisfied in terms of profitability, and secondly, now that streaming music is taking profits from digital downloads, more competitors are on their ways. So is Spotify the reason of music sales' decrease?

The final part of this paper will provide an evaluation of Spotify's key success factors and competitive scenario, including a comparison between the Italian and the Danish markets' reactions to the service.

Methodology

The aim of this research is to provide an understanding of the impact that streaming services are having on the music industry sales and if the industry could actually benefit from them.

Until the appearance of the Internet, the global music market was dominated for 80 per cent by major record companies, originally called the "big five" (Graham, Burns, Lewis and Langer, 2004). Technological changes have then forced them to enhance their competitive position and revalue their business models.

The music industry was chosen because of its marketing and digital piracy context opposed to each other. Consequently, consumers' behaviour towards music intermediaries is constantly changing because of the interactive technology and that makes it a perfect environment for applying co-creational marketing. Conceptual frameworks, such as the "Tribe" concept (Godin, 2008), Economics of Free (Anderson, 2009) and The Long Tail (Anderson, 2004), are then proposed.

The first part of the research aims to provide an historical background of the music industry in order to surface any supply's chain metamorphosis over the years, in terms of structure activities, governance mechanisms, choice of actors and co-ordination structure (Hardaker and Graham, 2001). The initial hypothesis tests the need of new business models:

> *H1.* The logic of traditional business model is obsolete. The industry needs to adopt up-do-date business models adapting interactive technologies.

An in-depth literature review including music industry publications, academic articles, books and on-line publication were undertaken to provide an evaluation of the traditional supply chain model compared to the actual supply model.

Digital music sales are exponentially increasing at the expenses of physical sales, since the beginning of 2000. Also, it emerges from the study that the digital market diversifies with revenues from licensed digital services. According with the International Federation of the Phonographic Industry (2014), in 2013, subscription and advertising-supported streams account for 27 per cent of global digital revenues, increasing of 14 per cent in just two years. This statement brings to the following hypothesis:

> *H2.* Streaming services are a source of income for the music industry and piracy is decreasing.

The industry has finally agreed that streaming services help to defeat piracy and now that consumers are getting used of "renting" music instead of buying it, record labels cannot do otherwise than continuing on licensing new services. More than 450 music streaming providers are accounted internationally (IFPI, 2014), but the leader of the market is Spotify. Since 2013, the Swedish service expanded in 40 more new markets and it is now available in 58 countries. A description of the service, including its business model and architecture, is provided to lead in a wide analysis of the competitive scenario in order to identify Spotify's present and future strategy.

> *H3.* Spotify is a first mover and it is the leader of the market, because it provides added social features and advance customization to the consumer. Culture differences, i.e. familiarity with technology and Internet, influence the demand.

Lastly, the paper reports data analysis from a quantitative research conducted on consumer behaviours towards on-demand music and, more specifically, Spotify. In designing the research, a quantitative approach was chosen, because it provides accurate measurements of the investigations, in terms of brand awareness, market share, customer satisfaction, etc. (Molteni and Troilo, 2006). The quantitative research method is highly preferred when "who", "what", "where" and "when" questions are being asked (Burns, Bush, 2000). In this case the main interest was to discover when and where (in terms of preferred platforms/software/music provider) the consumer experiences music and on which device he or she prefers to do so.

Data collection

A literature review was undertaken in order to design a quantitative research based on the data analysis surfaced from a structured web-based survey administrated over social media. The indirect structured survey method was deemed to be the most efficient (i.e. low cost and little time) and suitable way to achieve the specific objectives (Molteni and Troilo, 2006). The interviewee is generally aware that the topic of the survey is online music distribution, but he or she is not informed that the purpose of the research is to determinate Spotify's competitive advantage. At the final part of the survey, the interviewee will eventually realize it. According to Tull and Hawkins (1987), the survey's preparation followed seven main decisional stages, which include preliminary decisions, decisions about content, formulation and sequence of the questions, type of answers, layout of the survey and finally, pre-test and revision. The survey included a total of ten questions, both open and closed, including a final Likert scale concerning Spotify's consumption. The questionnaire was intentionally short and quick in order to avoid a lack of collaboration after a few minutes. Initial demographic questions permitted to differentiate consumers' behaviour and familiarity with Spotify across different countries. Since it was a web-based survey, limitation concerning specific targets has surfaced, e.g. adults 40+, but the most relevant target to the purpose of the research, i.e. 18-30 years, was largely explored.

Sample selection

The survey was randomly posted on several social networks and it was internationally opened. However, the aimed target was the European 18-30 year old individual, with special interest on residents in either Italy or Denmark. The geographical location was particularly relevant according to streaming services familiarity and Spotify's time of entrance in the market.

Sample size

A sample of 100 individuals from different countries answered the web-based survey. The sample was large enough to provide relevant results to the hypothesis, nonetheless a bigger pool of answers would provide more effective data.

Music Industry Overview

History

The music industry has always been deeply related to technology.
It all started back in 1890, when the first record player was introduced: the gramophone. Thirty years later, the radio was born and the first record stores started opening all over the world.
At this point, music had all it needed to become a proper business: a delivery format (vinyl records), a delivery system (record stores), and a promotional system (radio and movies).

1950s-1980s: The Vinyl

The music business started in the 1950s and till the early 1980s the industry was characterized by increasing profits and sales. Three were the main actors: the artist, the record label, and the record store/retailer. The artist submitted his or her demo tape to the record label, which made him or her sign a contract and assigned an A&R (Artist&Repertoire). The A&R's duty was to intermediate between the artist and the record company. After recording the song or the album, the label transformed it in the vinyl record, which was then distributed to the retail channel. In this historical moment, the artist could make very few powerful decisions. In fact, the record label was also in charge of marketing the record through radio airplay. The key to be successful and make a hit was the radio.
The artist was disconnected with the music consumer, but interaction and communication between the two was not needed in order to gain popularity. The radio made everything possible and the record label had the power. What you needed was a good song and the radio would make it a hit: singles are more important than albums.
According to Rupert Perry (Owsinski, 2014, p.248), "then the Japanese came up with the transistor radio, which was portable. … That was the start of something else from a distribution point of view".

1980s-1990s: The compact disc (CD) and BCG Matrix

In 1982 a new technological change has impact the industry: the CD format is introduced in the marketplace, and it begins the transformation from analogical to digital (Kusek & Leonhard, 2005). These are probably to be considered the golden years of the business.

At the beginning, the new technology was expensive, so the labels increased the retail price on each CD and decreased the royalty rate to the artist. After a while, the initial expenses were amortized, but the retail price instead of decreasing, like it should have done, it increased. Simultaneously, artists never saw their royalty rate back.

The main reason why the "CDs' years" were so profitable and prosperous lays beyond the fact that the record labels could resell their catalogues (records form an artist before his or her most recent) to a public impatient to switch to the CD format (Owsinski, 2014). People bought music that they already own in a different format, the vinyl. From a record company point of view, production and promotional costs were now minimal, and catalogue sales increased profits.

By applying the BCG matrix (Henderson, 1970) in this historical moment, the situation is illustrated below.

<u>Dilemma</u>. It is a format with potential for success, but it needs a lot of cash for development. If it is going to get market share and grow, money should be taken from more mature products (vinyl) and spent on question mark (CD).

<u>Stars</u>. The product is at the peak of its life cycle and it is usually able to generate enough cash to maintain its high share of the market. At the end of the 70s, the vinyl was a *star*, but now the market growth rate as already slowed down, the format has translated to a *dead weight'*s position.

<u>Cash Cow</u>. The old format is in decline stage of its life and is bringing more money than it is needed to a record label in order to maintain their market share, thanks to the transitive property of CD.

Dogs (dead weight). Eventually the vinyl has reached this position, now that the CD has completely replaced it. It has a low market share and it does not have the potential to bring in more cash. It should be either sold off or managed carefully for the small amount of cash it can generate.

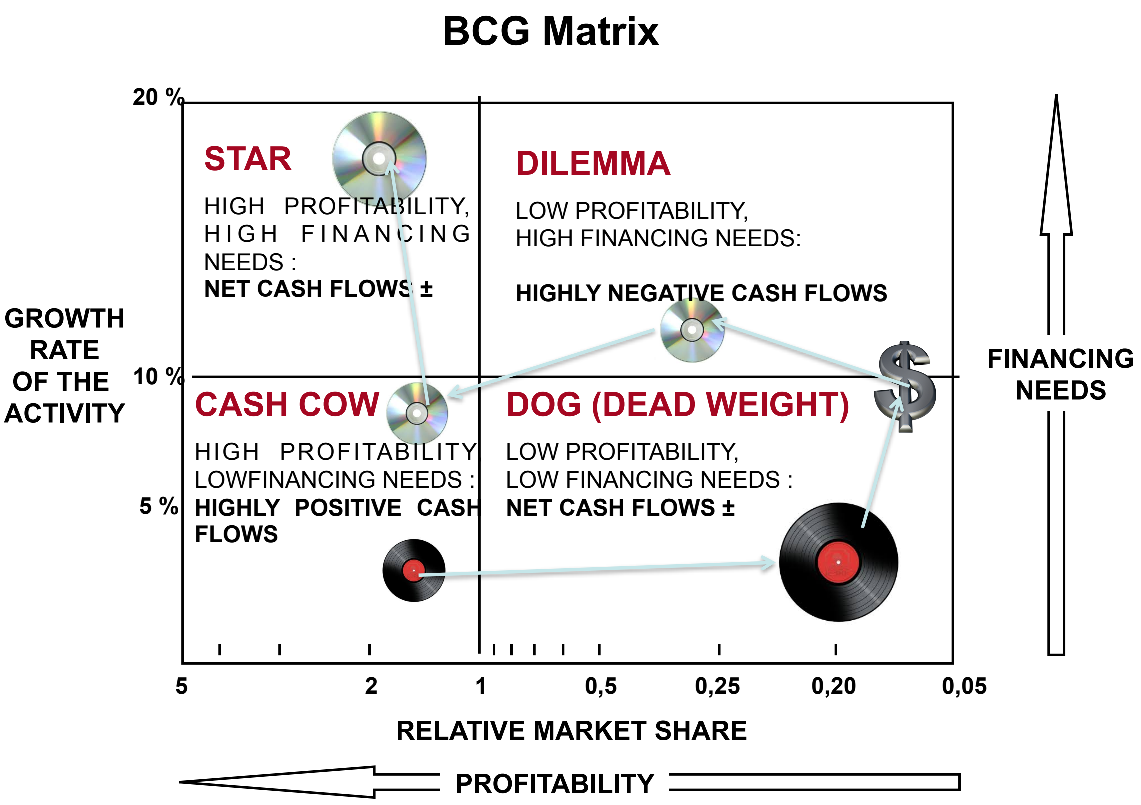


Figure 1 BCG Matrix: Transition phase from Vinyl to CD

Then, MTV arrived, and music was instantly on television, and again sales increased. MTV was the new radio, it could transform a song into a hit by placing the music video in heavy rotation. But to be successful, you needed something else: the appeal. Image became the most important characteristic of an artist. A good-looking musician is better than a talented musician. The image is more important than the content.

The music itself is overshadowed, but this is not the only reason. Switching from the vinyl to the CD implied another factor. A vinyl could be 40 minutes long, but the CD has more capacity, so the album duration increases. Many album songs sounded more like just filler. The quality perceived by consumers was definitely lower.

1990s-2000s: Internet, MP3, Peer-to-Peer and Piracy

The next technological change arrived with the MP3. It was in 1994, when the first file was shared. According to Perry (Owsinski, 2014, p.249), "to have any form of content available through a computer was a totally new form of distribution, but the difference was that the record label had no control over it."

The audio quality was not as good as the CD's one, but the MP3 codec made music easy to share, so audio quality was not an issue in consumers purchasing and listening decisions.

MP3 was joined by another new technology: peer-to-peer (P2P). Everyone could supply and receive a file from his or her computers without using a centre server.

The first P2P file-distribution systems was Napster, even if it was not exactly a P2P since it used central servers to maintain lists of connected systems and files. It offered a huge amount of music to download, and that was the reason of its popularity.

Napster was shut down in July of 2001, because of its multiple legal challenges from both artists and music industry itself, the RIAA (Recording Industry Association of America). At that time, Napster had 26.4 millions users worldwide (Owsinski, 2014).

In 1999, another service similar to Napster, was founded and its name was MP3.com. Instead of providing signed music, it featured independent music. Likewise, it was sued by Universal Music Group for copyright violations, and eventually put out of business (Owsinski, 2014).

The company was renamed Napster, after being purchased by Roxio, and then by Best Buy (an American retailer) in 2011. In June 2013, it was join to Rhapsody, a streaming-music provider and it now offer legal paid downloads and a subscription streaming service.

This was the begging of the digital age of the record industry. Peer-to-peer services promote a new form of piracy. Piracy has always existed, even back in days when the gramophone has not been invented yet and artists stole from one to another. But now, that CD burner begins to appear on every computer and blank CDs are inexpensive, everything is easier, and piracy is at a new level.

2003-Today: iTunes and the 360 deal

In order to face piracy and sales decreasing, several digital music services suggested different possibilities to labels for paid downloads, but only Apple got it right with iTunes and found a way to monetize its digital offering. Thanks to its simplicity, iTunes won the market and with the iPod was the perfect combination. Except that $0.99 per track wasn't enough to make iTunes profitable, but it helped Apple to sell hardware, that it is the company's primary business.

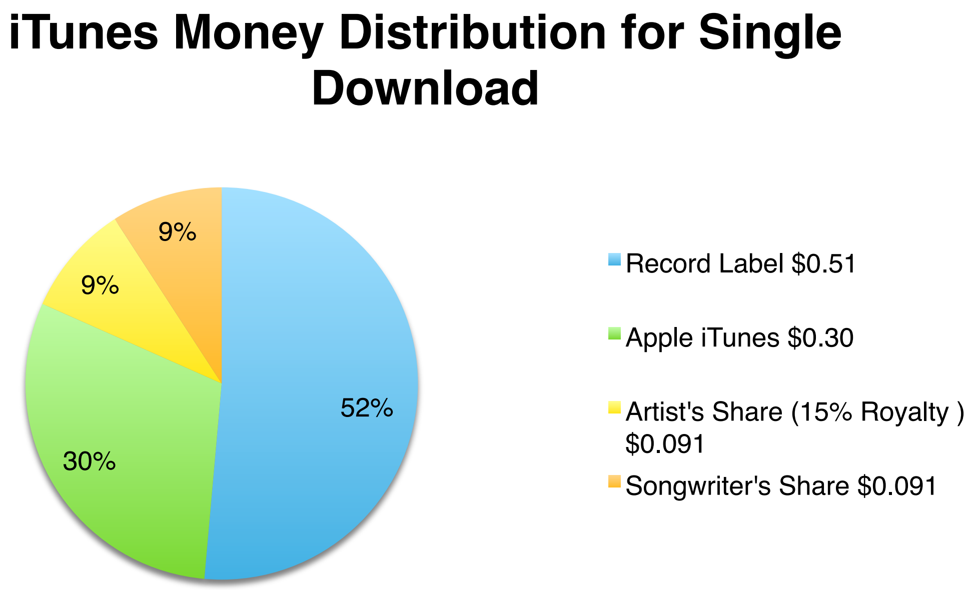


Figure 2 How the Money From an iTunes Song Is Distributed (in Cents) (Owinski, 2014, p.17)

iTunes is a management application developed by Apple that combines a media player, media library and mobile device. It was first released in January 2001, and on April 28 of 2003 the iTunes Store was launched. Since than over 25 billion songs have been downloaded.

iTunes is just the first of numerous digital music services where you can buy tracks and albums. Amazon MP3, eMusic and the upstart Google Play, are just a few of its competitors, without considering streaming services such as Spotify, Pandora, or Soundcloud, that allow you to listen to music online. According to Apple, its users spend an average of $12 a year on music. On September 18, 2013, the Cupertino based company launched iTunes Radio, the online radio that features iTunes. Like other services, it offers a free version with no ads or a premium version for $24.95 a year ads free.

Consumers' purchasing habits are changing, actually we went back to the late '50 and early '60. Music consumers can now buy only the songs that they want. A major change in the financial model that reigned for over 40 years was necessary to face the big come back of the single-purchase. Sales were cut down to less than $1.00 (the price of a download) from $10.00 (the approximate price of an album). It was not easy for the labels' financial structure.
For many years, record labels forced the customers to buy CDs, not caring if he or she was interested just in one or a few songs of the album. The consumer paid more for something that they did not want. With music service providers, such as iTunes or Amazon MP3, the user is now charged a one-off fee ($0.99) to download the song that he or she wants. It would have been a good deal for the consumer, but on the "dark" side of the Internet there were P2P networks and file sharing was tremendously popular, so legal music providers were obligated to reduce the individual digital song pricing and introduce a new pricing system. In April of 2009, a price differentiation structure was introduced. You can now buy songs for $0.69, $0.99, or $1.29. And for what concern Internet radio, the music is available to consumers only when they are online.

Record labels had to find another way to make money, so they wanted to be part of the touring business, which has always been the 90 per cent income of an artist. For this reason, they launched the "360 deal": the record label shares in the total income available of an artist, that includes publishing, merchandise, touring and music recordings.
At the same time, artist management has a much more predominant role and increments larger responsibilities. The manager has to find sources of income, handle social media, and make deals and other important activities. Meanwhile, marketing has transferred in the artist's hands, and he or she has to sale himself or herself to the public.
The music business is facing a structure's reshaping, and the artist is significant for his or her own success. He or she can communicate with the public anytime. The communication is easier and fans have a relevant role from the creation, to the promotion and marketing,

to sales of an album. The artist himself/herself makes the fans aware of music, concerts' tickets, and merchandise.

2005-Today: YouTube, Spotify and Streaming Services

Consumers transition their music consumption somewhere else. It has been said how Internet changed customers' habits and behaviours regarding the music business since the beginning of this century, and now it is even more important. From 2012, the teen demographic, that has been so determinant in last decades, prefers discovering new music on YouTube rather than on the Radio, and they actually choose Internet over TV. According to Nielsen's annual Music 360 report, two-thirds of American teens consume music mainly using YouTube. Because of its free availability, music is the No.1 content category in YouTube. It is easy to share videos on the social media and it accessible from smartphones.

Record labels have helped YouTube's success. Music companies were reluctant to authorize online streaming services like Spotify, and YouTube was the place where users could find all the music they wanted for free and legally.

Not only it was a win-win for consumers and record labels, but also unknown artists could take advantage from it. Anyone can post a video on YouTube, so upcoming musicians do not need to be signed to a major label in order to gain visibility, at least at the beginning. Not mentioning that YouTube is not a place where you can find only popular music, but there is room for every kind of music genre.

With YouTube, people get used to streamed music. From now on, it has been witnessed the proliferation of streaming services such as Pandora and Spotify, that after its introduction in the American market converted users to the "streaming state of mind".

Consumers were not only captured by the possibility to access to millions of songs, but also from the fact that they could do it legally without obstructing their computer.

How does a streaming service work? The subscriber pays a monthly fee in exchange for unlimited access to as much music as he or she want during the determinate time. The user do not own the music, but since it is available anytime, he or she does not feel the need of keep it in his or her computer, or mobile device.

Most of these services offer a "freemium" version. A freemium version is a free version of the service that gives the user the possibility to streamed all the music the he or she wants, but with the introduction of ads every a certain number of songs listen to, like Spotify. Other freemium versions give the user access to a certain number of hours of music per month, like Spotify used to do at the beginning (10 hours per month).

Now that consumers are used to streaming music, the challenging part is to make them upgrade their free version to a premium one. Streaming services pay royalties to label, publishers and performance rights organization with the majority of their revenue, and that makes the future uncertain for a lot of the services.

In this scenario, the only ones that benefit from streaming services seem to be the users. A lot of actors in the music business are not yet convinced of the profitably of these music providers.

Record labels would actually be pleased with a more-or-less monthly revenue stream in exchange of a license agreement with the service. Less satisfied appear to be artists and publishers. The artists are uncertain of the amount of money that the label collects and the one that he or she does. And publishers do not see coming a relevant income in order to cover the high administration costs.

Even if paying subscribers are increasing, it has not yet reached the mass market.

In 2013, the recording music industry was worth US$15 billion (IFPI, 2014), within the global entertainment industry (i.e. production and distribution of motion pictures, television programs and commercials along with music and audio recordings, radio, games and publishing) predicted to be worth $546 billion in 2014 (SelectUsa, 2014). Streaming services accounted for 29 million paying customers, equal to $2 billion value globally. Streaming is now profitable for everyone involved in the musical supply chain.

According to Kusek and Leonhard (2004), consuming music in the twenty-first century feels like a "utility" and music is "like water". Nowadays, and even more in the future, music's consumption will have no limitations. Back in 2002, David Bowie predicted that "the absolute transformation of everything that we ever thought about music will take place within ten years, and nothing is going to be able to stop it. I see absolutely no point in pretending that it's not going to happen. I'm fully confidant that copyright, for instance, will no longer exist in ten years, and authorship and intellectual property is in for such a bashing. Music itself is going to be like a running water or electricity (New York Times, June 2002)" (Kusek & Leonhard, 2005, p.3).

The Music Industry Life Cycle

It can now be drawn the Industry Life Cycle's curve. Like the product life cycle, the life cycle of an industry considers four phases: introduction, growth, maturity, and decline. The industry life cycle is of longer duration than the product's one (Grant, 2010).

Introduction: during this stage, music sales are small, the vinyl has just been introduced to consumers, that known little about the product, so the market penetration is low. The new technology means lack of experience, followed by high costs and production on small scale.

Growth: the vinyl is popular thanks to technical improvements and higher efficiency. The product reaches the mass market. At the end of this stage, a new format is introduced: the CD.

Maturity: the introduction of the CD causes the increase of market saturation. The new demand gives way to replacement demand: customers replace vinyl with CDs. The portability factor of the new format brings more customers. Consumers' risks have been reduced by standardization and a record label invests on production capacity.

Decline: new actors enter the market and provide technologically superior substitute products, MP3 and streaming services. Customers become increasingly informed (Grant, 2010). The demand of physical products starts to decline.

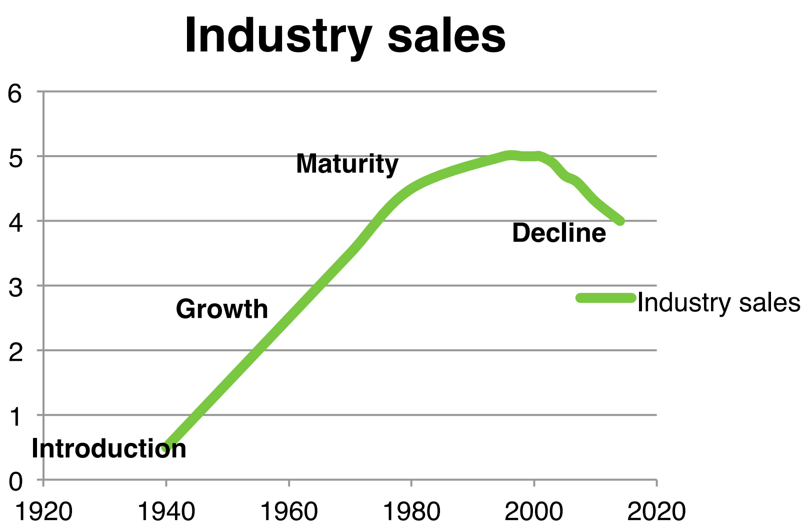


Figure 3: Music Industry Life Cycle

Toward The New Music Industry

Music Industry Supply Chain

After this deep analysis of the music industry, it is clear that the final product has changed over the years, but the distribution channels and the division of labour is stable: artist create music, record companies promote and distribute it to consumers (Graham *et al.*, 2004).

The supply chain describes how all the activities associated with the distribution and transformation of a product/good goes through the raw material stage to the final consumer (Handfield and Nichols, 1998).

According to Porter (1985), upstream suppliers (artists) provide the raw material, the company (record label) adds value and finally passing it downstream to the next actor, which can be either another company (e.g. streaming service) or the end user (consumer).

Supply chains within the music industry have undergone several transformations for what concerns the four interrelated dimensions involved (Hardaker and Graham, 2001):

i. *the structure of activities;*
ii. *the governance mechanisms;*
iii. *the choice of actors;*

iv. the co-ordination structure.

Further in this paper, it will be analysed how these transformations (e.g.: Internet, introduction of new actors in the distribution channels, record labels have no more a dominant position) have changed the traditional supply chains, according to a study of Graham *et al.* (2004). Mainly, the introduction of the Internet in the supply chains of many industries has the potential to eliminate the trade-off between richness and reach of information: everybody can communicate with everybody at no cost. (Evans and Wurster, 1997).

i. The structure of activities

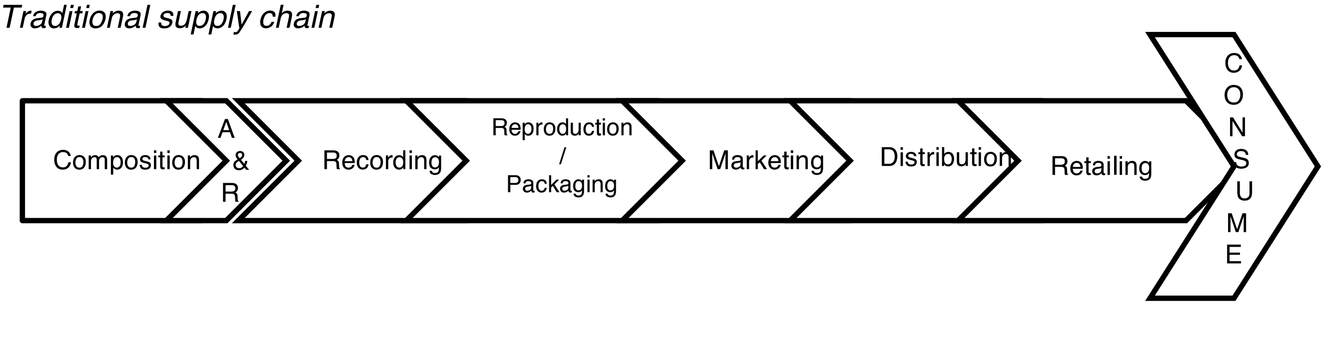
The supply chain structure represents the sequence of processes in the manufacturing process, but it is also influenced by factors such as habit and communication, chance and co-ordination constraints (Hardaker and Graham, 2001).

As widely said before, the traditional structure of activities in the music supply chain was characterized by the production of the final product (e.g. a CD) passing through several activities that include discovering an artist (A&R process), record his or her music, followed by the production of the physical product, and finally promoted and distributed (Sviokla and Rayport, 1995).

Internet has had a major impact on music distribution. Record companies have changed their strategies and now collaborate with specialist online distribution companies (Graham *et al.,* 2004).

The supply chain structure has changed as follow:

Traditional supply chain



New supply chain

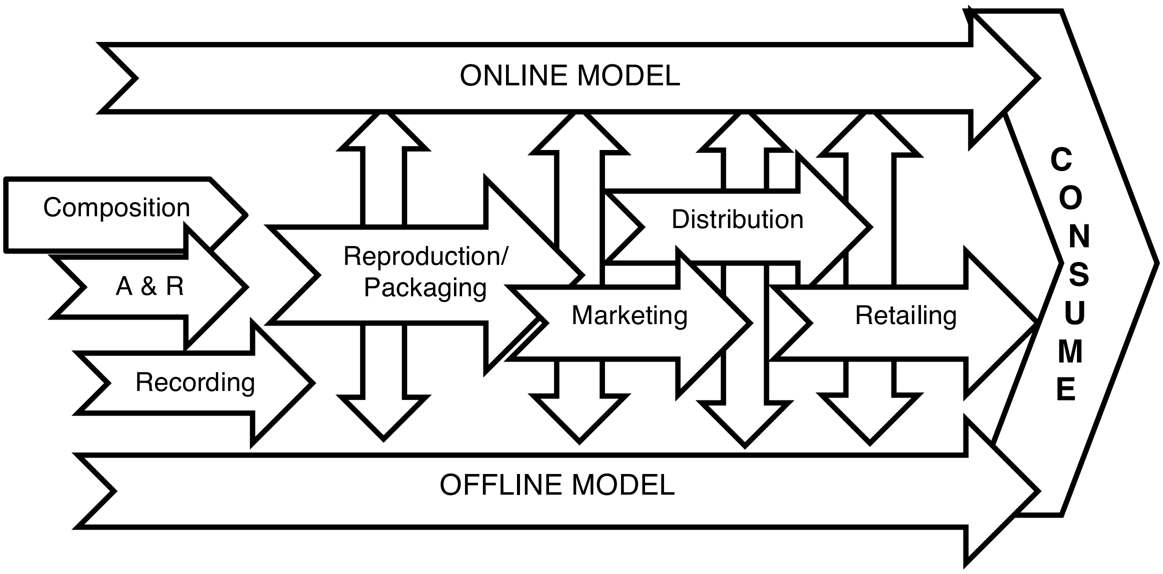


Figure 4 Traditional and new activities' structure supply chain. ***Source:*** **Adapted from Graham** ***et al.,*** **2004**

In the past, the main distribution channels were music retailers, radio and TV. It has been seen how the structure of activities has changed in the supply chain, but how have things changed for music retailer, radio and TV?

Music retailers

Several aspects contributed to the decrease of physical sales and beside of what a lot of people think, Internet was not the only one. According to RIAA statistics, physical sales decrease off by more than 78 in the past 14 years.

One of the reason that determined this decline was the limited product selection that the record stores offered. It might seems unlikely to be true, but physical retailers cannot compete with the amount of music that can be found online.

Music selection on physical retailers mainly respects the popular culture at disadvantage of the niche market.

In the 90's, large retail chains started selling CDs at lower price to get more customers into their stores. These stores became responsible for half of CD sales, and music retailer could not vie with them.

These megaretailers downsized their in-store inventory to Top 40 selections.

Digital piracy, legal digital downloads, online CD sales and megaretailers forced many of the indie record stores to shut down or to diversify their product offering with books and merchandise, for example. But in the past years, vinyl records demonstrated to be a valuable resource for indie retailers. According to Nielsen SoundScan, vinyl sales grew 32 per cent from 4.5 million units sold in 2012 to 6 million sold in 2013 (Fox, 2014). Even if it is a small market, it continues to thrive.

Radio

It has been said how important was the radio from the 50's to the end of the 90's. Then came the TV, and then came YouTube. But why consumers switched to other services to discover and listen to music?

Two were the main reasons: geographical limitations and homogenized playlist.

The radio used to be successful because each station was locally owned and it reflected the tastes of its audience. Plus, DJ has a relevant role, because they were able to choose which songs they would have play, based on their preferences.

It all started when radio consultations were hired in order to maximize profits (Owsinski, 2014). Their duty was to review their playlist and make them more "popular". Radio stations started to play all the same popular song and the DJ had nothing to do with it and was now powerless.

The need to play specific hits was due to please the advertisers. And advertisers wanted to control the selection of songs played around their advertising spot. Traditional radio is still working like this.

TV

We all remember the MTV good days. Now, MTV and its satellite channels are more about lifestyle, TV-series, reality shows than music. Not only MTV lost is influence, but also TV in general does not bring money to the music business anymore. TV appearances used to give an artist's sales a boost, but it is no longer like this. People chose Internet over TV, the view habits has changed and the demographic target is fractured.

Record labels vs. Piracy

Back in the days, record companies based their revenue on CDs sales. A CD used to cost from $10.00 up to $18.00, and when the single's based purchase came back, record labels did not do anything to help stopping the inevitable decrease of album sales. A product that was sold for $10.00, at least, cannot be replaced with one that cost $0.99 without any consequences. In addition, the album has not maintain the same value over the years. People purchased albums by impulse thanks to their appealing cover and artwork. When there was no Internet, liner notes were the only place where to find additional info about the artist. It had the additional value that now it has been lost. And recalling what it has been already mentioned, a vinyl could contain more or less 40 minutes of music, instead a CD can be filled with 76 minutes of beats. Consumers realized that 40 minutes was the perfect duration, but with the new format consumers started perceiving a lack of quality.

Labels moved from selling physical products to create value from digital formats (Perry *et al.,* 2012) and that implicates the rise of new business models (Balocco *et al.,* 2010). The new digital technologies were unknown to consumers and this implicated a reduction of consumption (Perry *et al.,* 2012). To be successful companies need a customer-orientated perspective (Öztaysi *et al.,* 2011).

However, digital downloads are not the only to blame. In 2013, digital download sales were down by 5.7 per cent, according to Soundscan, but physical sales did not increase. The literature agrees on saying that illegal file sharing of digital music and unfamiliar business models to consumers are the main causes of revenue's decrease (Bustinza *et al.,* 2013).

According to Waldfogel (2010), when tracks' market price is higher than the utility of the user, file sharing reduces music sales.

For many years, piracy was incriminated for the so-called "death of the music business". The music industry used this excuse to cover up what they were doing wrong. Referring to the old days, Parry said "we reckoned that we were losing at least 25 per cent of our business to home taping. So when people talk about "free" today, there's nothing particularly new about it, it's just a different version of the same thing" (Owsinski, 2014, p.249).

According to Bustinza *et al.* (2013), 28.2 per cent of the population is involved in illegal file sharing, but thanks to the recently introduction of subscription services, things are getting better. Two researches from Columbia University have found out in their study Copy Culture (2013), that copying or file sharing's activities are not related to music's purchase. Consumers who illegally download music purchase as many legal products that the ones who do not (Owsinski, 2014).

The New Music Industry

It is absolutely true that record sales are decreasing, but the music industry is definitely not dying. In 2013, physical sales account for more than half (51.5 per cent) of all global revenues (IFPI, 2014), while digital sales hit $5.9 billion (4.3 per cent). Music streams increased by 51.3 per cent in 2013, with Spotify reaching 40 million users and 10 million paying subscribers.

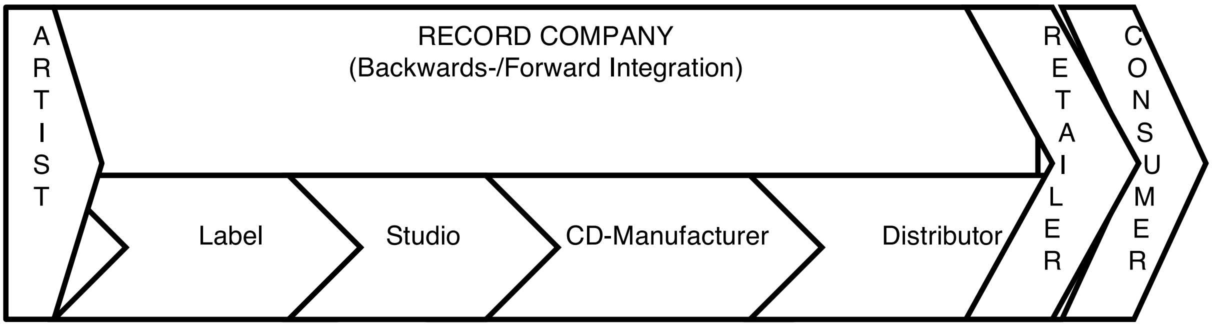
Even if listening habits have changed, consumers are still willing to pay for music that they like. As it has been witnessed with internationally known artist Adele. Her album *21* sold over 28 million of copies in two years (2011-2013). Music offering has never been so huge. Making music has become easier than ever thanks to inexpensive tools and almost everyone can make his or her own music. Artists do not need anymore to sign to a record label, if it were not for its marketing known-how.

ii. The governance mechanisms

The governance in a supply chain determinate the ownership and the control that certain actors have in the process. The traditional music industry was characterized by a vertical-integrated supply chain that corresponds to a very static situation and to a high level of inflexibility. According to Tapscott *et al.* (2000), the dominant force ties in other companies to integrate inputs and put together the final product. Consequently, the traditional music industry had high market entry costs and few distribution channels. The initial high costs are: A&R, recording, manufacturing and marketing. To dominate the supply chain were the majors that benefited of economies of scale and averaged the unit costs (Graham *et al.,* 2004).

In the modern supply chain, record labels have less governance, since there are many artists that create and distribute music on their own. The only reason that brings artists to sign with record labels is their marketing know-how (Graham *et al.,* 2004). Porter (2001, p.66) affirmed "…the Internet eliminates powerful channels and shifts bargaining power to consumers".

Traditional supply chain



New supply chain

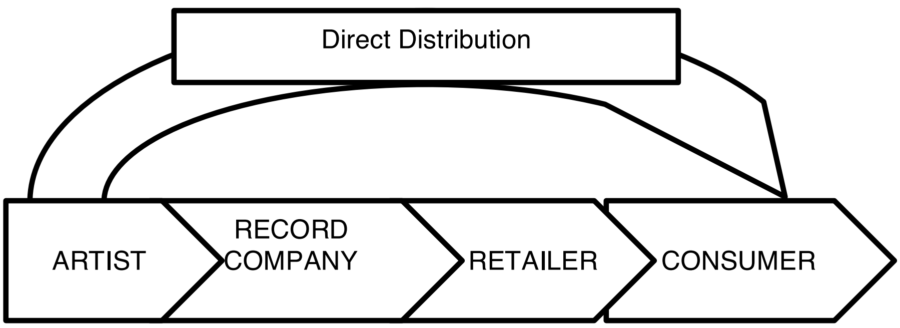


Figure 5 Traditional and new governance mechanisms supply chain. ***Source:*** **Adapted from Graham** ***et al.,*** **2004**

Online Radio

Online radio has quickly gained popularity among users and there is now a wide selection of virtual stations. According to Arbitron/Edison Research, a provider of marketing research, online radio changed our listing habits. Their *Infinite Dial 2013* reports:

- approximately 120 million people a month listen to radio online
- 45 per cent of all radio listeners have listened to radio online
- 33 per cent listens to Internet radio while working
- they listen to Internet radio because of the control and variety it provides
- Pandora is the clear radio in top-of-the-mind awareness at 69 per cent
- users listen to online radio three times longer than that watch online videos.

The services provide a specific targeted programming utilizing the vertical nature of the Internet. They need a different business model from traditional radios. To survive they need contextual ads and banner, pay-per-click, and paid search. A successful service allows you to program your own music channel, and based on your preferences you will be receiving recommendations. Doing that, Internet radio does not risk to become homogenized like traditional radios.

More Power For Managers And Promoters

Not only customers habits and music providers have changed over the years, but also the music professional figures such as managers, promoters, and the record labels themselves have seen some major changes during their life.

With the years, managers had more responsibilities and with those came more power. The artist is in need of a good manager that can take care of concert promotion, social networks and Internet promotion in general, and booking. Managers' fortune is strictly connect with the artist's success. It is in the manager's interests to make a good job, so usually the act do not need to doubt of his or her loyalty.

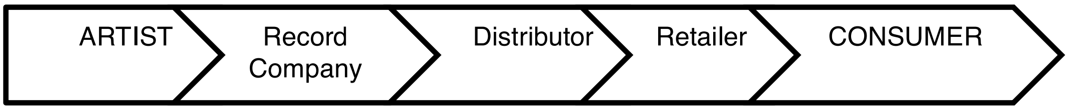
Touring has always been the main income for acts and now that record sales are not going well, it is even more essential. For this reason, promoters are more significant than what they were in the past. Their influence has a determinant role on the artist's tour success. If

tickets sell easily, it is a more influent factor than being the No.1 on the chart. But actually, financially success of records is representative of music enjoyed live.
Contrary, A&R and talent development lost their important. It is letting the Internet decide which artists have what it is needed to break into the industry. Record labels do not have much money to invest, so they let the people decide.
Digital music has dramatically changed listening and buying habits of consumers. Users are still willing to discover new music, but instead of buying it they rather sample songs from any website/music provider.

iii. The choice of actors

As mentioned before, the music industry chain was traditionally very static, because the partners involved in the process were all relatively established. According to Parikh (1999), record labels prevented artists to distribute their own material by themselves. Between the artist and the end user, three were the main actors responsible of adding costs and bring to a higher final price in order to take profit: record labels, distributors and retailers (Graham *et al.,* 2004).
But in the modern era, there is no more need of physical distribution. This is probably the biggest consequence of the Internet's impact on the music industry's supply chain.
Consumers can now produce and distribute music by themselves. Entry barriers are removed, so new companies are welcome to enter the market creating the possibility of new business partnerships. Despite this, it looks like long-term relationships are still valuable. Record labels think that it is important to maintain solid partnerships, mostly for what concern digital distribution, copyright protection and hardware production (Graham *et al*, 2004).

Traditional supply chain



New supply chain

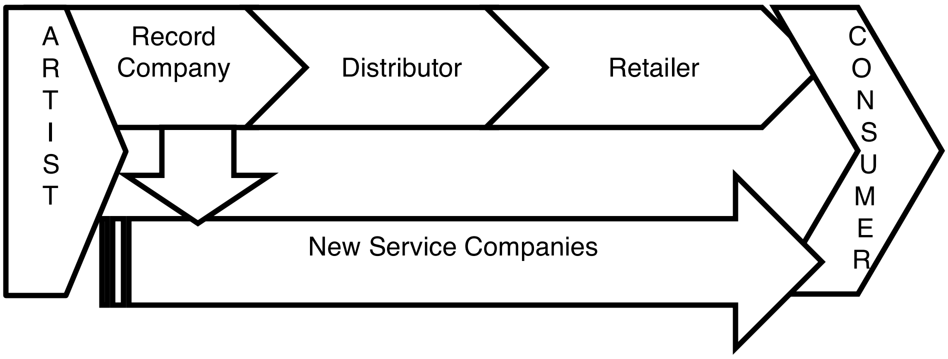


Figure 6 Traditional and new choice of actors supply chain. *Source:* Adapted from Graham *et al.*, 2004

Value Chain Of A Record Label

A business model needs to create value, deliver and capture mechanisms employed by a company to attract consumers to pay for that value, ad eventually convert it into profit (Teece, 2010). Today, record labels seek revenue from services associated to their product (Vandermerwe and Rada, 1988), such as streaming services. Every company, in order to build cost advantage, has to identify the cost structure of each activity by analysing its costs (Grant, 2010). The Value Chain analysis (Porter, 1985) will help to address a music company's resources and determinate its weaknesses and strengths.

A record label's value chain is therefore represented.

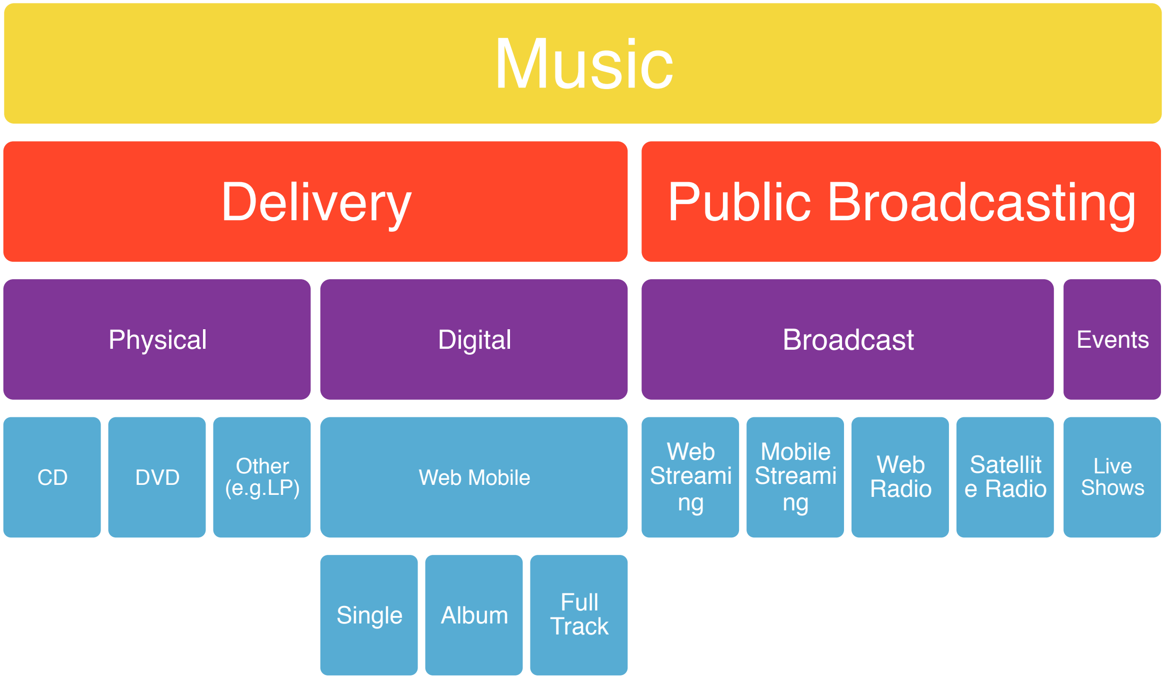


Figure 7 Record label's value chain

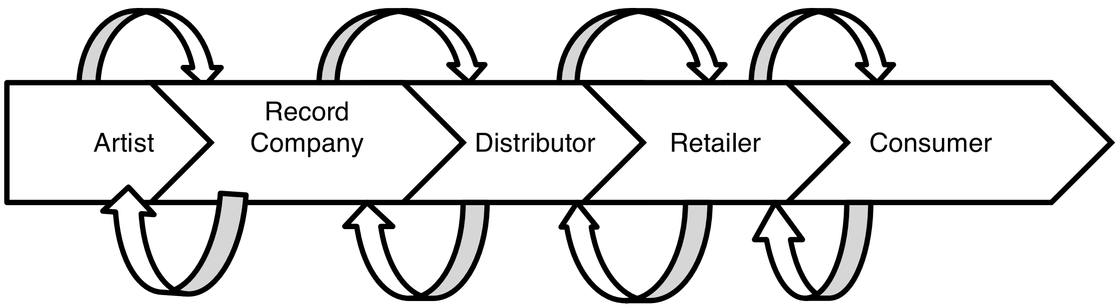
iv. The co-ordination structure

Co-ordination is extremely important to communicate orders for goods and services downstream the supply chain, to have feedback about stock levels and adjust the demand (Hardaker and Graham, 2001).

Originally, co-ordination in the music supply chain was dyadic, because of its hierarchical structure. Nowadays, there is the need to deal with several customers and suppliers.

Record labels have to build relationships with online platforms to reach digital customers (Poel and Rutten, 2000). Inevitably, the industry assisted a reduction of physical intermediaries, outsourcing of activities by majors, and a reorganization of functions (Graham et al, 2004)

Traditional supply chain



New supply chain

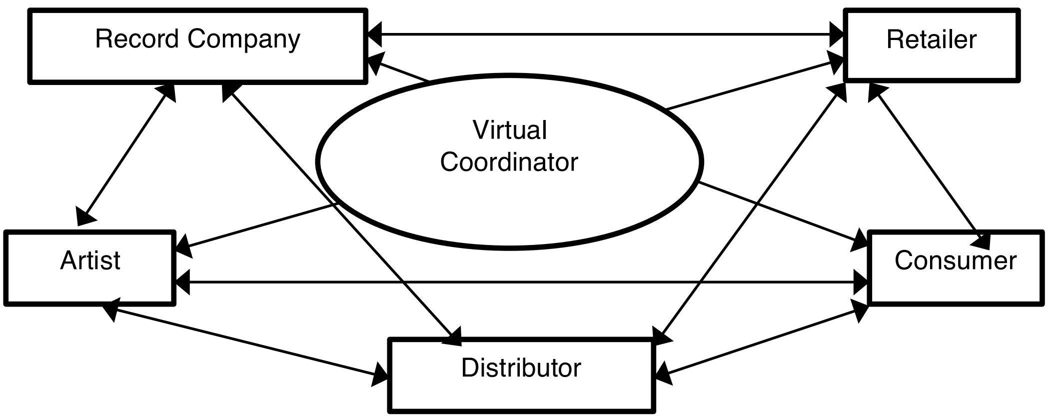


Figure 8 Traditional and new co-ordination structure supply chain. *Source:* Adapted from Graham *et al.,* 2004

Marketing In The New Music Business

In terms of marketing, the music industry has always given a major contribution thanks to its several changes in terms of consumer behaviour and interaction with technology (Gamble and Gilmore, 2013).

Starting from Kotler's definition of marketing as "a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others", it will considered in this section a new way of "making marketing" in the present music industry.

The first and also most important marketing tool for a musician, it is his or her music. Sample songs or free downloads are incredibly helpful when it comes to fan base growth and sales increment, especially for incoming acts. Several episodes proved that tracks' downloads downfall on iTunes when the free song is not available anymore.

To increase the profit, the artist can charge an additional cost to special editions, box sets, and all other kind of added-value offerings.

Creating additional value is essential. People do not buy album anymore, but they are willing to pay for added-value products. Packaging, merchandise, "double-sided", new or old alternative formats such as vinyl records, featured song and re-mixes are some of the possible way to increase the music's value.

The Long Tail

The Long Tail (Anderson, 2004) works perfectly for service such as iTunes or Amazon MP3, or even streaming services such as Spotify or Pandora. It has been proven that when a consumer is looking to a huge list of music choices in every kind of genre, he or she starts searching down "the tail" to find something else that could satisfy his or her taste. And since they are available, the consumption increases. That is the case of digital music providers, because of their incredible music selection definitively superior of the one in the record stores.

This theory can be adapted only in the case of a balanced catalogue. Basically, a catalogue cannot contain only hits and vice versa. The catalogue needs to be offset.

It is important to:

- make everything available
- cut half the price, and then lower it going down the tail
- help the customer find what he or she wants. Make it easy.

Following these simple rules, people will consume or buy older products, and their consumption will increase if they are cheaper than the new ones.

Economics of Free (EoF)

The Economics of Free (EoF) is a business model that encourages artists, or owners of a content in general, to give away something for free (Anderson, 2009). The model proves that if it is done correctly, it would increase the act's market size, and eventually his or her income.

A famous case is the Radiohead's one. On October 10, 2007, the English band released its album *In Rainbow*. The album was available only on a digital format, and customers could have paid "whatever amount they liked". In ten days, Radiohead received 1.2 million prepays, but the official figures were never released by the band's management.

According to the Internet marketing-research company comScore, 62 per cent of the participants of their research got the album for free. Twelve per cent paid between $18.00 and $12.00, and four per cent paid between $12.00 and $20.00, about the CD's cost in a physical retailer. In the end, Andrew Lipsman, comScore's senior analyst, says that Radiohead made a profit. "If [Radiohead] is getting $6.00 on average, and it's basically going straight into their pockets and their costs are minimal, it could be economically viable", the analyst said to E! Online. According to Lipsman, the band needed $1.50 from each album sold in order to break even, and since customers paid the album $6.00 on average, they should have made quite a good profit (Owinski, 2014, p.65).

Most recently, the Irish band U2 and Apple have done a similar thing. On 9 September 2014, 500 million iTunes customers were given the latest U2's album *Songs of Innocence* for free. Even if customers did not pay cent for the album, it does not mean that there were no expenses. Apple paid $100 million in royalty fees and marketing expenses (Reed, 2014) and, according to U2 manager Guy Oseary (Times, 2014), the album "was a gift from Apple to their customers". However, it has been a well studied marketing operation, in fact the album has been downloaded 77 million times (Smith, 2014) and the band has positioned in the top 10 of 14 different countries.

The Economics of Free need to be part of a bigger marketing plan to be effective. It is necessary to define infinite and scarce products: digital music is considered a infinite product, and it is easy to give it away; while scarce products include tickets, merchandise, custom CDs, and basically everything that involved a limited supply. In order to apply an effective EoF, infinite products (e.g. a song or an album) should be given away for free, and additional costs should be applied to scarce products. Doing so, music works as a marketing tool by itself: music is shared and scarce products' demand increase.

Direct marketing helps artists or record labels establish and build a relationship with its customers (Kusek & Leonhard, 2005). To keep the audience interested and exited about the music, the release schedule has a determinant importance. Music should be released at regular intervals, and the shorts the better. If the artist waits too much, the public's attention could vanish.

Since it is a single-purchase era, musicians should record fewer songs and release them on frequent intervals, instead of record a longer album and wait months or years to release it. It is all about making the fan happy, and the fan is happy when he or she is supplied with new music from his or her favourite artist.

This will not only help the act on keeping the already existing buzz around him or her, but it will get attention from a new public.

Releasing more singles will give the upcoming album an advanced exposure and publicity that will ultimately increase album sales in any format.

It has been said multiple times how the fan is important for succeeding in the music business today. But what does the artist exactly have to do?

First of all, it must be remembered that fans do not want to be marketed to. They are not buying a physical product actually, but they are paying for an experience, a status quo and a social position. They want to be informed and be heard.

The term "value co-creation" was first coined by Prahalad and Ramaswamy (2000, 2002, 2004a, b), but multiple studies after that are focused on the increasing active role of consumers in the marketing process (Bloom, 2006; Cova and Dalli, 2008; Hoffbrand, 2007; Konczal, 2008). It has been determinate several influencing factors: technological advancements in the digital age (Berthon *et al.*, 2008; Christodoulides, 2009; Jeong and

Jeon, 2008), consumers' desire of being interactive (Daugherty *et al.*, 2008) and the opposition to marketing commands (Cova and Dalli, 2008).

The present music business is driven by fans, music communities and the artists themselves (Kusek and Leonhard, 2004).

The Tribe

According to Seth Godin (2008), an artist to be successful needs to have a tribe. A tribe is his or her fan base and the act is the tribal leader. Members of a tribe are passionate of the artist's music, or of an entire genre. The tribe's leader is the most passionate of his or her music and the tribe is thirsty of communication with the artist and it is willing to follow any leader's directions.

These days, communication with the tribe is easier thanks to social media, such as Facebook or Twitter, email, and blogs. Not only the leader can communicate with the tribe, but also fans can communicate with one another and create a bound. A tribe has not a specific size, but it must have at least three members.

Sometimes it is the leader who creates his or her tribe, sometimes it is the tribe itself that finds its own leader.

A tribe differentiates from a brand, because a brand is a promise of consistency and quality, the tribe instead always follows its leader, as long as his or her persona or sound do not lack of consistency. The artist needs to have a strong sense of self-knowing.

Fans want to communicate directly with the artist, or other members of the tribe, but also a representative of the leader is good. This is when the record label arrives. It should help the artist managing his or her tribe.

A superstar needs an intense social media presence in order to hit the mass market. Social network like Facebook and Twitter help the artist create and keep the connection with the fans, while YouTube is both the delivery system and can make your music be discovered. All type of acts needs social media, from the indie musician to the superstar.

It is like direct marketing that helps the artist create a richer and more direct consumer relationship.

The role of Social Media

Social media, and more specifically social networks, dramatically changed the relationship between marketing and consumer behaviour (Hardey, 2011), since they enhance the user's participation in the value creation process (Terranova, 2000). According to Gamble and Gilmore (2013), it has been identify five typologies of co-creational marketing: viral marketing, sponsored user-generated brand (UGB) marketing, user-generated content (UGC) marketing, vigilante marketing and prosumer marketing.

Although it will be left to further researches to study how each type of co-creational marketing are exploit in the music industry, for the purpose of this paper it is relevant to say that "the level of control is directly proportional to the level of involvement for both the consumer and the organization in each of those typologies co-creational marketing" (Gamble and Gilmore, 2013).

According to Kilby (2007), marketers need to find innovative ways to interact with the digital population, in order to manage customer relationships: "a new balance between sharing and owning that shifts power from intermediaries and established stars to consumers and aspiring artists will not translate in 'to the day the music died'" (Nill and Geipel, 2010, p.75).

Involving the consumer means also keeping an email list. It allows the act to reach his or her fans in every moment and, most important, personally. Doing that, the artist will engage the fans on a one-to-one basis without the restrictions that a social network could impose you (e.g. number of characters).

On the other side, it is good to remember that too much communication can cause unintended effects. The artist should not email the fans more than once a week, otherwise it is better to post info on the official website (Owsinski, 2014).

All kind of social media are good to keep in touch with the fan base, but each one has its specific features that have to be used in the right way. Social networks, such as Facebook and Twitter, are not only useful to communicate with fans, but also as proper marketing platforms.

Facebook

Some years ago, the most important social network for music was MySpace. Facebook has replaced it in a few years and it is now an indispensable tool for musicians. The most important social network in the world has more than 1.26 billion active sets, and 700 million log in daily for about 20 minutes. "The average user is connected to 80 community pages, groups, and vents, and creates 90 pieces of the more than 30 billion pieces of content. Plus it's truly international, with 70 per cent of Facebook users outside United States, and entrepreneurs and developers from over 190 con tries build for the platform" (Owsinski, 2014, p.111).

The artist's Facebook page needs to interactive: regular, short and relevant posts.

On the marketing point of view, Facebook ads can increase awareness, comments and Likes, and even sales. They are not very expensive, you can set the price for each campaign basing on the needs and you can target your audience. Digital music services are discussing possible collaborations with Facebook in order to incorporate most-played song widgets and easier sharing (Sisario and Heft, 2011).

Twitter

Twitter is not yet intensively used for what concern music marketing, but it will be soon. It is fast, intuitive and not negatively overwhelming. Users can "tweet" 140 characters (max) posts, share and favourite other users' tweets. Artists should tweet only relevant topics regarding their music, unless they are really famous and fans are interested in every aspect of their lives.

Followers' engagement and interest are influenced by acts' actions on the social network, and there is positive association with sales. It seems that tweets with an emotional and informational content have good a influence, both for established and new artists. More simply, engaging consumers through digital social media is directly related to sales (Joshi *et al.,* 2013).

YouTube

Considering that the 90 per cent of Internet traffic is video content, it is not surprising that YouTube has become the major distribution point of music and it is now the most used website in terms of music discovery. According to some data from 2013 (Owsinski, 2013), YouTube:

- has over 1 billion unique viewers each month,
- over 6 billion hours of video are viewed every month,
- 100 hours of video content is uploaded every minute,
- is located in 25 countries across 43 languages,
- is the No.2 search engine belong Google and Google is No.1,
- it is 28 per cent of all Google searches
- and 2 billion video views per week are monetized.

According to a Nielsen Music and Midem survey of September 2010, age makes a bigger difference in consumers' music-video watching preferences than gender. Younger consumers likely consume more music videos online.

Musicians need a YouTube channel to have more chances to be discovered, not considering the fact that is also a revenue generator for record labels and artists. Google's AdSense and the YouTube's Partner Program can make a profitable income. According to Owsinski (2014), record labels can count on $1.3 billion advertising revenue generated from monthly views of music's video contents.

Social Media management

Companies specialized in social media management can offer updated tools and techniques that will help the artist take care of his or her social media network. Monitoring the buzz, measuring data and how successful is a promotional campaign is top priority.

In "Moneyball For Music: The Rise of Next Big Sound", Greenburg describes the American start up Next Big Sound as the big revolution in social media management. Launched in 2009, Next Big Sound tracks public social data and correlate them to streaming numbers and propriety sales. According to what it is written in their website, "by tracking every fan interaction across every artist in the world—from social to sales, from purchases to plays—the insights we generate can reshape the way artists are discovered, marketed, and improve the speed with which they can build lasting and prosperous careers."[1] Started as a small start up, it can now claim to collect data for and about the biggest companies in the world, among them major record labels Sony Music and Universal, and streaming giants like YouTube and Spotify.

Sponsorship

A possible to maximize revenue is sponsorship. Also know as co-branding, the artist ties his or her image to the sponsor's brand. The sponsor financially supports the act's tour, but it can have a downside. Associating his or her image to a brand, the artist is risking losing credibility with the fans. Record labels are willing to collaborate with major companies in order to decrease their costs and associate their acts with brands that deliver the same lifestyle and value proposition.

New and Old Formats: Products Life Cycle

Before the music digitalization, the only way of buying music was the retailer. There are now several more possibilities. Customers can purchase from online digital distributors, such as iTunes and Amazon MP3, or user can refer to online streaming services such as Spotify, iTunes Radio and Pandora. That means new possibilities for the artist, but also that a new distribution strategy is needed.

In 2013, global music revenues decrease of 3.9 per cent compared to 2012, but according to IFPI's numbers, the decline was severely influenced by the Japanese market, that is now facing the digital transition and dropped of 16.7 per cent. Not considering Japan, music revenue declined by 0.1 per cent and actually showed a European growth for the first time in 12 years.

With the introduction of new formats, consumers are able to choose the one that they prefer.

In this section, it will be analysed the main characteristics that differ digital download, digital streaming, CD, and vinyl, and how they contribute to the current global music sales including recent numbers[2].

[1] www.nextbigsound.com

[2] A summarised table can be found in the Appendix

Digital download

Digital downloads are an inexpensive way of music's divulgation. After the initial cost of music production, there are no manufacturing costs, so the artist can use his or her music itself to promote his or her work without suffering any other expense.
Streaming services and digital downloads allow the act to distribute the music for free, or charging a modest price, and making it instantly available.
Digital music's market is the only one growing in the music distribution, since the physical's one is definitely not improving. For the first time since 2003, digital download sales have decreased. According to Christman, in the first three quarters of 2014, digital downloads have diminished in favour of streaming subscriptions, but despite that, download stores keep gaining market share. Digital downloads maintain two downside: piracy and intangibility.
First, downloads are difficult to track and monetize, that make it easier for piracy. Luckily, this problem is being waned by streaming services.
Secondary, digital containers are intangible and music has been perceive as "for free", especially from younger generation. Not considering the obsolescence of formats such as MP3 and AAC.
Even if digital songs are good to promote your music, they are not enough. The artist still need the physical record for being reviewed or get air played by traditional broadcasters.

Digital streaming

Streaming services have become the most popular method in terms of music distribution. People have found out that paying the same amount that they used to pay for an album, more or less $10.00 on a monthly base, they can listen to as much music as they want. With no time or geographically limitations, users can listen to a library of million of tracks, and save storage space on their computer or device.
Streaming started to be popular just after the arriving of Spotify in the American market, thanks to its integration with Facebook, the Swedish service brought paid music to another level. In May 2014, Spotify claimed 40 millions users and 10 million subscribers and it is available in more than 50 countries all over the world.

Today music streaming services represent the 27 per cent of total music industry revenues and more and more customers are swiping from digital downloads to streaming providers. "One of the key hallmarks of digital music today is the high level of consumer awareness and engagement in digital services".[3]

Thanks to a study conducted by IFPI, it is demonstrated that Internet users aged 16-64 are engaged in legal digital music activities, with an astonish 77 per cent among younger consumers (16-24). Customers' satisfaction remains good and the reasons why they choose subscription services are (in order of importance): ability to listen to music for free, music's discovery and it is a legal activity.

On the other side, the main problem of streaming services, it is the cost of its content translated to payouts to publishers, songwriters, performers and record labels. It has not yet been found an agreement between all the parts involved in the process.

CD

CD format is still the main music container, even if sales are decreasing since early 2000. Contrary to the other formats previously described, CD is tangible and contains graphics and liner notes that are perceived as added value from the customer.

On the other side, it means manufacturing costs for labels, like the jewel-case tray itself and the graphic design.

From 2011 to 2013, physical format sales reduced of more or less 11 per cent, from 60 per cent to 51.5 per cent of global music revenue (IFPI, 2014). And the first half of 2014 registered a new record in terms of physical formats sales decline. According to RIAA, in the United States sales have been lower of 4.9 per cent from January to June, compering to the same time in 2013.

VINYL

Vinyl format is making its big comeback. According to Nielsen SoundScan, sales went up of a 32 per cent from 2012, reaching 6 million units sold in 2013. Someone says that audio quality is better than CDs, and others purchase them simply for their vintage

[3] http://www.ifpi.org/consumer-research.php

charming packaging. It has also a substantial collective value, so it is also seen as an investment for the future. Many artists include the vinyl format as a premium package.

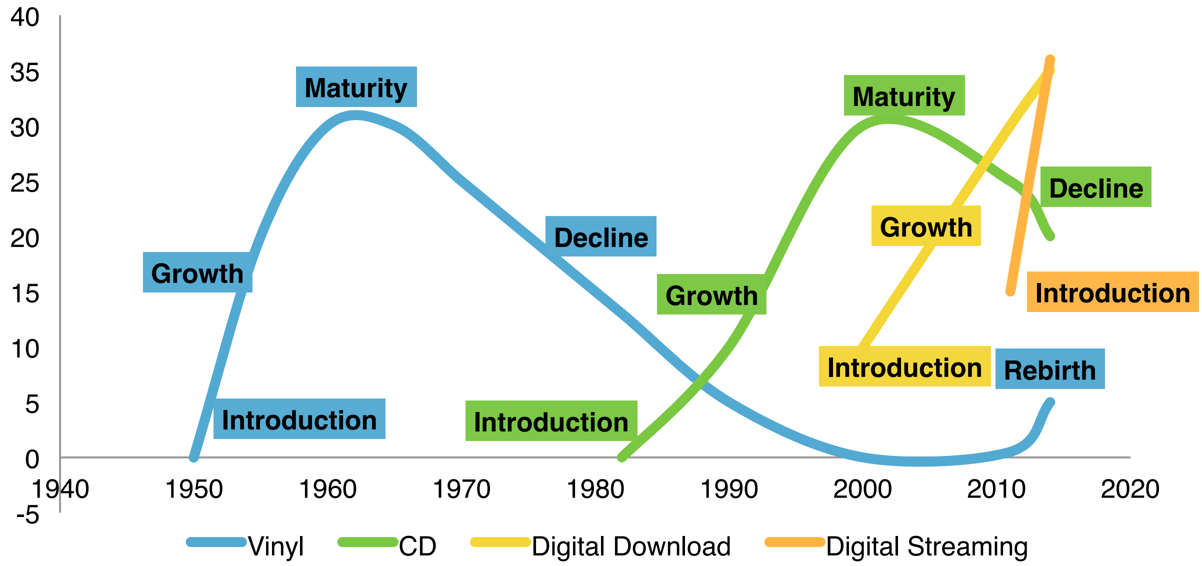


Figure 9 Product life cycle for Vinyl, CD, Digital Downloads and Streaming

Digital Music Distribution

Since the introduction of MP3, digital music distribution is the main channel for the music market. But how does it work?

There are several ways for getting music through the Internet and they all have different characteristics.

Paid downloads have been the primary revenue for many years, just to be recently overcome by streamed music. However, it still represents one of the bigger share of the industry's income.

The most popular digital music provider is iTunes and it owns the 63 per cent of the digital market place, thanks also to the featured products branded Apple (iPods, iPhones and iPad) that command the digital music player market share with the 71 per cent.

iTunes offers a multitier pricing system, from songs that goes from $0.69 to $1.29.

On February 6, 2013, iTunes hit the record of 25 billion songs downloaded for the software. On Apple's website it has been pointed out that "the iTunes Store is the world's most popular music store with a catalogue of over 26 million songs and over 25 billion songs downloaded, and is available in 119 countries. The iTunes Store is the best way for iPhone®, iPad®, iPod®, Mac® and PC users to legally discover, purchase and download music online". And Eddy Cue, Apple's senior vice president of Internet Software and Services says "averaging over 15,000 songs downloaded per minute, the iTunes Store connects music fans with their favourite artists (…) on a scale we never imagined possible."

Quite recently, iTunes has introduced its online radio, iTunes Radio, where users can benefit of the freemium version or pay an annual $24.99 fee and eliminate the ads plus storing all the purchased music from iTunes with iMatch.

Digital downloads have been recently replace in terms of popularity from subscription services. At the eyes of music consumers, the idea of paying a relatively low monthly fee and have access to millions of songs without filling their hard-drives looks as a pretty good deal. Record labels, musicians, writers and publishers have not the same opinion. It is not very clear how the income from each stream is distributed and it does not look like a profitable solution.

Each subscription type of service has its paid rate that defers from the kind of offering (on-demand or radio like) and how long the subscriber listens to the songs.

The user does not own the music, but he or she actually feels like he or she does.

Some subscription services allow the subscriber to store the music on the playback device, but if the service is discontinued or late to be paid, the file will not play.

Differently, the "freemium" model lets the user listen to music for free in exchange for playing ads at intervals, usually every 3 or 4 songs.

Streams can be differentiated in two:

- a <u>tethered stream</u> means that the user has to be connected to the Internet constantly
- a <u>non-tethered stream</u> means that the music player needs to be connected to the Internet at least once a month in order to prove it that the user has paid the fee, otherwise the music will stop playing.

The most popular subscription services are: Spotify, Pandora, Slacker, Deezer, iTunes Radio, Google Play All Access, Rhapsody, Grooveshark, Rdio.

There are two kind of streaming service:

- Noninteractive streams: it is a platform that works as an online radio station. The user cannot directly select which song is going to be played or make it repeat (e.g. Pandora). Generally, online radios pay \$0.0013 per stream for free user and \$0.0023 per stream from a paid subscriber. "This money is paid directly to SoundExchange and is paid out at a rate of 50 per cent for the owner of the copyright, 45 per cent to the featured artist, and 5 per cent to unions that represent the musicians that played on the recording" (Owsinski, 2014, p. 191).
- Interactive streams (or on-demand): the rate per stream is higher, usually between \$0.005 and \$0.007 (e.g. Spotify). In a signed artist scenario, money is directly paid to the record label, and his or her share is determinate by the their royal agreement. This is why many artists do not like streaming services.

Copyright and Publishing

Publishing has suffered major changes after the music digitalization.
The ones making most of the money from music sales have always been publishers and songwriters, not musicians. There are two kind of royalty: mechanical and performance royalties. Mechanical royalties are paid to publishers and songwriters when a song is downloaded or a CD is sold; while performance royalties are paid whenever a song is played, that include TV, radio, streaming services and movie.
Mechanical royalties have obviously suffered during the last decade, but performance royalties have exponentially improved.
An alternative way of earn money is music synchronization. Synchronization fees allow a money return every time a song is played on a movie or on TV or on the Internet (e.g. videos on YouTube). An other option, it is to associate a song to a TV show, for example, in order to get an even higher rate.

To expand revenue from streaming, another solution is to live stream concerts for sites like Concert Window and Livestream or sell the recorded show to a cable network, like Beyoncé recently did with HBO.

ROYALTY TYPE	AMOUNT PAID
Mechanical Royalty	
Physical product (CD, vinyl)	$0.091 cents per song
Digital download	$0.091 cents per song collected by the record label
Interactive On-demand Streaming (Spotify, Rdio, Deezer)	$0.005 cents per stream
Performance Royalty	
Radio	Depends on a sample survey of all radio stations, including college stations and public radio. ASCAP, BMI, and SESAC use a digital tracking system, station logs provided by the radio stations, and recordings of the actual broadcasts to determine how much a song earns
Noninteractive Streaming (iTunes Radio, Pandora, iHeart Radio)	Blanket rate of about 4 per cent of total revenue collected by ASCAP, BMI, or SESAC
Synchronization Fee	
Television & Commercials	Subject to negotiation of license fee, plus revenue via the survey from cue sheets that program producers provide to ASCAP, BMI, or SESAC, as well as program schedules, network and station logs, and tapes of the broadcast to determinate how much a song earns
Movies	Subject to negotiation of license fee
Printed Sheet Music	Subject to negotiation of license fee
Ringtones	$0.24 per sale

Figure 10 Money distribution for royalty type. *Source:* Adapted from Owsinski (2014, p.194-95)

Unfortunately, to make substantial money with streaming or radio airplay, it is need a huge number of plays. A songwriter collects $0.005 per stream and, if a publisher is involved, it remains only $0.0025 per stream. Interactive streams services, such as Spotify, deal only with record labels. It means that money for each stream is paid directly to the label that eventually will give the copyright holders their share according to their royalty agreement. As a result, it is really complicated to collect performance-fee money for digital streams. Many artists, such as Radiohead, do not support interactive streaming services arguing that their music has not being receiving the right treatment. And Jake Smith, head of Digital Services at Audiam (an online service allowing artists, publishers and labels to get paid when their music is played on digital services), claimed that in the last 12 years streaming services have failed to pay $100 million in royalties (Smith, 2014). This has happened because, each month, digital services provide a list of the songs being played to a third party, which duty is to:

- Match the sound recording to the composition
- Match the composition to the publishing administrator
- Contact the publisher
- Run the royalty formula
- Provide the statements and the interactive mechanical royalty payments to the music publisher administrator on time.

Smith affirms that some of these third party are not paying copyright holders on time or accurately. Their difficulties lie in tracking, matching and pay mechanical royalties to the right publisher.

On behalf of music services, they need two types of license to play a track: a sound recording license (from labels/distributors) and an underlying composition (i.e. the lyric and melody). Underlying composition licenses can be compulsory or direct. Compulsory licenses happen as soon as the song is released and they require the streaming service (e.g. Spotify) to send the songwriter/publisher a Notice Of Intent (NOI), which means that everytime a song is being streamed, the service owns the songwriter/publisher a mechanical royalty (e.g. during a customer's free trial of the service no mechanical royalties are due); while direct licenses simply involve a direct deal with the service.

Mechanical royalties can be tricky and many countries (e.g. the United States) are trying to improve their home-based system for paying publishers from interactive streams. For instance, the American Congress elaborated a formula for the mechanical royalty rate: "the music publishing administrator paid their pro-rata share of 10.5 per cent of the gross revenue the streaming music service makes minus the expense of public performance" (Smith, 2014). Basically the streaming services must provide the calculation of the mechanical royalty for each month.

Figure 11 Spotify royalty system. *Source:* Spotify

It would be impossible for the services to do it by themselves, so they hire a third party to administrate mechanical royalties, and it is now that the problem surfaces. Smith provides four problems/solutions:

1. Compulsory license should not exist, interactive streaming services should provide a new license solution;
2. The problem do not exist for record labels/publishers because they are paid in advance through sound recording licenses, hence they do not provide any solutions;
3. There is no transparency in the system;
4. Digital music services are not willing to invest in new license systems.

These are the main issue within the streaming services and copyright dispute, but each market has its own regulations and laws. In fact, contrary to the United States, Scandinavian markets seems satisfied of music streams results. The Swedish music industry revenues grew US$49.4 million in just three years, from 2008 to 2013. The subscription system has changed how rights holders are paid, guaranteeing artists a constant revenue stream. According to Jacob Key, vice president, digital strategy and business development of Warner Music Europe, streaming services enable a longer product life cycle. Relating to this topic, Carl Vernersson, manager of the international best-selling Swedish DJ Avincii affirms: "from a financial perspective, streaming gives songs a longer life and sustainability, meaning that you receive income over a long time. It may not be as much as when you get something peaking on a download service in the first three or four weeks. But with streaming, it generates income for ten, fifteen or twenty years, and that is royalties, not just publishing income. Looking outside Sweden, I think that once services like Spotify are established for a couple of years it will show artists that streaming is a sustainable income, not a six-month-per-album income" (IFPI, 2014, p.19).

For the artist and manager's point of view, the Swedish market has proved that streaming services have a positive impact on the music industry.

Without going too far, the Danish market provides a perfect example of mechanical royalties' management. Since 1935, Koda administrates Danish and International copyrights for music creators and publishers, when music is performed in public/Internet, by concession of the Danish Ministry of Culture. It is now provided an in-depth view of Koda royalties' administration.

The Danish market: managing copyrights with Koda and streaming

According to their website, Koda "is a non-profit collective rights management society that administers Danish and International copyrights for music creators and publishers, when their music is performed in public". The annual report states that the organization has reached a new record of EUR 103 million turnover, increasing of 8 per cent from the previous year, and keeping the costs of administration on at a historically low level.

They are now given Vision and Mission of the society, followed by Koda's value chain.

<u>Vision:</u> "KODA ensures unbeatable value for music creators and users alike"

Mission: "We want to be the best in the world at licensing national use of music. Partly through a systematic focus on our customers and partnerships, and partly by being the best at finding new sources of income for our members.

We will offer our members unique and high-quality services that target their individual needs.

We want to maintain the most efficient administration possible, measured on all relevant points."

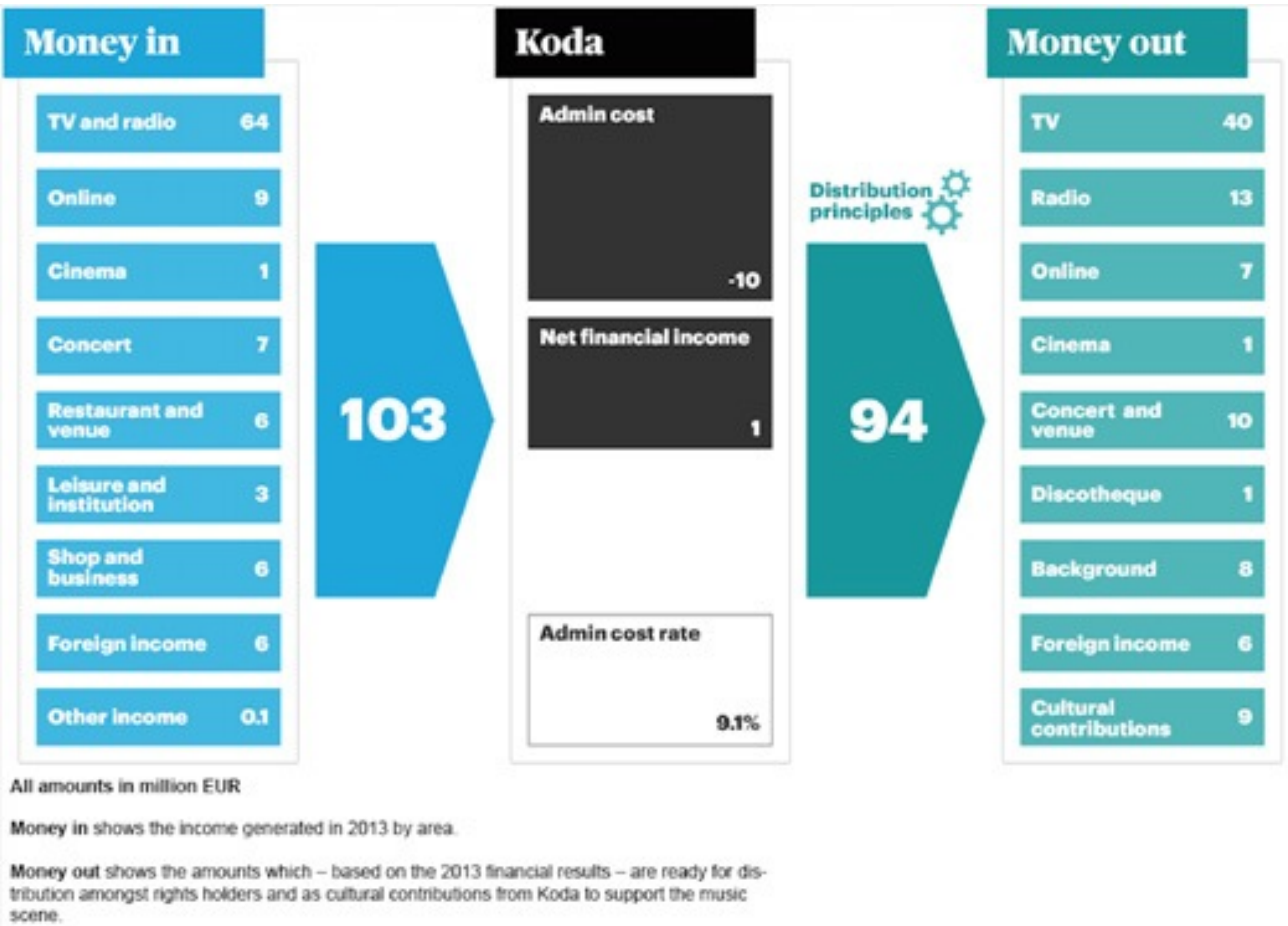


Figure 12 Koda's value chain reported in Koda Annual Report 2013

Koda ensures its members, copyright holders, i.e. music creators, to get paid when their music is played in public. They also administrate mechanical rights on behalf of NCB

(Nordic Copyright Bureu), i.e. the copyrights involved in recording and producing musical works on CD, DVD, video and other song carrying media.

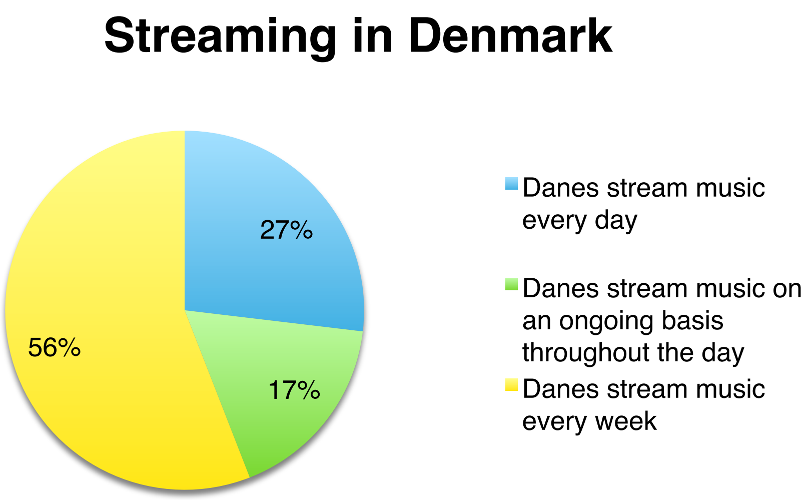
It will be now consider how KODA treats mechanical copyrights, more specifically music on Internet. The organization distributes payments for music bought online, e.g. music streamed or available for download from a website and music on streaming services. Each type of music's consumption is defined by a different way of collecting and distributing payment.

For the purpose of this paper, the focus is on streaming on demand, music downloads and Internet radio. In the table is reported how much each of these activities pay Koda in order to play music of its members, according to their website.

ROYALTY TYPE	FEE
Streaming on Demand	12 per cent of the consumer end price (less VAT). However, a minimum of DKK 0.11 (approx. EUR 0.0148) per stream will apply. In addition to this, a monthly minimum fee of DKK 569.95 (approx. EUR 76) is charged.
Music Download	12 per cent of the consumer end price (less VAT). However, a minimum of DKK 0.49 (approx. EUR 0.0657) per downloaded track will apply. In addition to this, a monthly minimum fee of DKK 1500 (approx. 201) is charged.
Internet Radio	15 per cent of the gross turnover when the radio plays music 100 per cent of the time. The fee is reduced proportionately in relation to the amount of music, as one tenth of the music percentage. Thus, if the music percentage is 50, the fee is 7.5 per

	cent of the turnover. The fixed monthly minimum fee is DKK 1815.22 (approx. EUR 245) for 250 simultaneous users with 24 hours of transmission a day. Different minimum fees apply to non-commercial internet radio, for radios with a low music percentage or for radios with few potential user.

A recent research conducted by KODA, carried out via a YouGov panel in February 2014, studied Danes' behaviour towards streaming services. Licensed music services were first introduced in the Danish market in 2010, and since than they have become a major source of music's discovery, second only to the radio. According to Koda Annual report (2014), one in four Danes stream music every day, and among the youngest audience (12-17 years) no less than 61 per cent stream music every day. 30 per cent listen to music via Spotify, TDC Play, and/or WiMP "every day" or "often".



The same study noticed that Danes use streaming services mainly, because they can have access to a large quantity of music, and secondary because they can discover and listen to new artists. Consequentially, for 34 per cent of Koda's respondents, the discover of new music brings to linked purchases, such as concert tickets, merchandising or the music itself. That means that streaming positively impacts music related purchase.

The Danish population investigated, consider main characteristics of a good streaming services the accessibility to a large music catalogue, high audio quality and the service should be free. From the study, it emerges that the respondents are less interested in whether copyrights holders are in fact paid. Although only 16 per cent consider this important, the percentage has increased by 60 per cent from 2010, so that raises good expectations for Koda's members. In this regard, more Danes are paying for the music they listen to. The percentage of Danish paying subscribers is increased by 45 per cent since September of 2012, and more or less half of it over the last year.

Danish consumers' habits in music's consumption have also changed in terms of device. In 2014, 60 per cent of them use their mobile phone to listen to music.

The final part of this paper will provide a quantitative research concerning consumer's behaviour among different nationality that will validate Koda's findings.

Spotify

Spotify is a music streaming service that in the past years gained worldwide popularity. It was founded by Daniel Ek and Martin Lorentzon in 2006 and, as mention on its website, the aim is "to help people listen to whatever music they want, whenever they want, wherever they want".[4] In fact, the name Spotify comes from the combination of two words: "spot" and "identify". It is considered to be a "legal and superior qualitative alternative to music piracy" (Haupt, 2012).

On May 21, 2014, Spotify released a statement by founder and CEO Daniel Ek saying that they "had an amazing year, growing from 20 markets to 56 as people from around the world embrace streaming music" (updated to 58, with the recent addition of Brazil and Canada), "and 10 million subscribers is an important milestone for both Spotify and

[4] http://www.spotify.com/us/about/what/

the entire music industry. We're widening our lead in the digital music space and will continue to focus on getting everyone in the world to listen to more music."[5]

Spotify is a peer-assisted music streaming service that allows users to access to a large catalogue of music that includes over 20 million songs.

The Swedish service much differs from its competitors. Spotify is a music player with an experience much more similar to a common music player, like iTunes. Users can download the client software developed by Spotify, which is freely available and the program starts running on their computers. It is available for all the main operative systems, Windows, OS X and Linux, and for many smartphone platforms as well. Spotify is a combination of a peer-to-peer protocol and client-server access. Smartphones' users do not actually use the peer-to-peer protocol, but they use client-server streaming. Spotify was the first streaming service to not use a web browser plug-in or Adobe Flash for streaming, in fact most of the other services, such as Pandora or Last.fm, have no peer-to-peer component. Thanks to P2P technology, Spotify manages to avoid server workload and bandwidth requirements. Further typologies of music providers are music locker services (e.g. Amazon and Google), i.e. services that give access only to content previously purchased and/or downloaded.

Users sign up to Spotify, after downloading the most recent version of the service, and to do so a Facebook account is required, but clients are free to set up the connection with the social network later in the process. Then, the software starts importing local storage data, like MP3, MP4, M4A and M4R.

By default, Spotify will initially start playing the user's songs and then the client will be able to choose new music from the "What's New" page or find music using the search box or simply browsing. The listener is allowed to change songs, shuffle or repeat tracks, browse other music while listening, etc. basically he or she can listen to any track at any time.

In order to facilitate consumer's experience, Spotify includes a general search box for locating music. Results are divided into different sections: "Top Hit", tracks, artists,

[5] https://press.spotify.com/us/2014/05/21/spotify-hits-10-million-global-subscribers/

album, playlists and user's accounts. In addition to that, Spotify website provides a guide to advanced searching.

But the key success factor of the program is its interaction with social features that facilitate sharing and following other users' activity in real time. Users can organize music into playlists, which can be modified at any point and shared with other users, but most importantly, they are synchronized across all the user's devices.

Spotify has been the first service to provide this kind of offering and it is consider a first mover.

First mover strategy

First mover is called a company that manufactures and sell a product before anyone else. Spotify is a first mover in terms of music streaming services with subscriptions base. The company advantages to be a first mover are:

+ Establish reputation as an industry leader: Spotify is the largest licensed music service with 40 million users and 10 million paying subscribers;
+ Move down the learning curve to assume cost leadership position: it established a $9.99 monthly fee to access unlimited music. Follower competitors need to adjust to this price in order to be appealing for consumers;
+ Earn temporary high profits from leading buyer group: although Spotify's profits are not quite high yet, up to now it is the only company offering this kind of service making profit;
+ A company that sets the standard can "lock-in" the customers which gives it the possibility to further reinforce the standard with complementary products: a large customers base allows Spotify to improve its service, e.g. Facebook connection or new apps become features. More people using the service generate more traffic and content's creation (e.g. Playlists) increase.

Being a first mover also consider some disadvantages:

- Late movers imitate the technological advances of other thus keep research and development costs low: Spotify's followers can now implement their services with similar feature and adopt similar business models;
- Keep risks low by waiting until a new market is established: consumers needed time to approach streamed music, since it represents a new way of music's consumption. They are now fully committing to it;
- Take advantage of the first movers' natural inclination to ignore market segments: Spotify initially entered only a few markets to later expand. Followers can now directly enter all markets.

The Innovation Process

In many mature industries resources and development (R&D) expenditure is below 1% revenue, but they can be highly innovative in terms of product and process innovations (Grant, 2010). The music industry can be considered a mature industry.

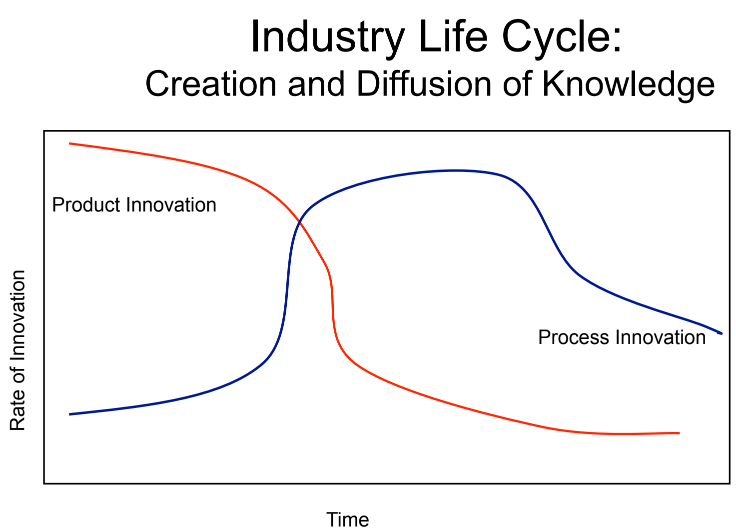


Figure 13 Industry Life Cycle: Creation and Diffusion of Knowledge

Competitive advantage in technology-based industries can be separated in two categories: invention and innovation.

Invention is the creation of new products and processes through the development of new knowledge or form new combinations of existing knowledge.

Innovation is the initial commercialization of invention by producing and marketing a new good or by using a new method of production (Grant, 2010). Once introduced, innovation diffuses through consumers because they become familiar with it, and through suppliers because they imitate. But not all inventions become innovations.

Spotify can be considered a incremental innovation (Tidd and Bessant, 2009), because it combines P2P with client server access, offering a new way of music fruition: "renting", instead of buying it. It is not a radical innovation, since it is not the first streaming provider ever existed (e.g. video or YouTube).

		Core concepts	
		Reinforced	Overturned
Linkages between core concepts and components	Unchanged	Incremental Innovation	Modular Innovation
	Changed	Architectural Innovation	Radical Innovation

Figure 14 A framework for defining innovations (Sørensen, 2012, p.121)

Innovation is not necessarily profitable (Grant, 2010). It depends on the value it creates and if the value is shared between customers and suppliers. Spotify is not making profit in all its market yet for two reasons: users need to adapt and licensing costs are high. For this kind of service, it is necessary a huge market share in order to be profitable. At the time of this writing, Spotify is making profit only from Scandinavian countries and the Netherlands, but according to McDuling (2014), at the end of this year the Swedish service will see positive signs also from the UK and others.

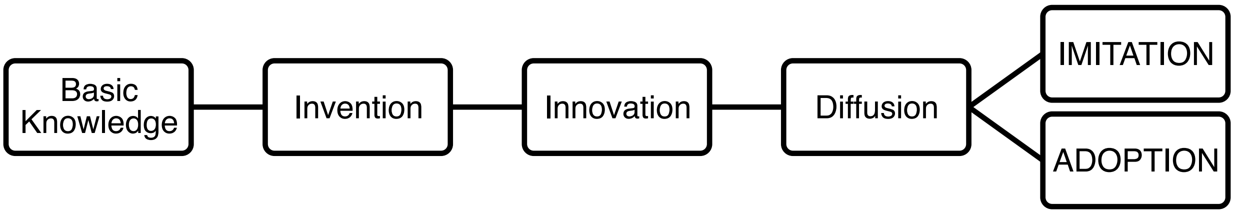


Figure 15 The development of technology: from knowledge creation to diffusion (Grant, 2010, p.298)

This last section of the paper will provide a internal and external analysis of Spotify and the industry environment that will eventually combine in the SWOT analysis. Further, data analysis of a quantitative research regarding consumers' behaviour and Spotify's consumption will be provided.

It is now describe Spotify's business model and strategy. Business model much differs from strategy (Chesbrough and Rosenbloom, 2002). A company's business model starts from value creation for consumers and it assumes a limited cognitive knowledge and it refers to other firms' success; strategy aims to capture and sustain value, by using analytics tools based on available and reliable information.

Internal analysis (Strengths and Weaknesses)

Business model: the subscription system

A music provider needs to differentiate its offerings in order to prove its value to customers (Burn and Ash, 2005). Spotify's users can choose between two different subscription options:

Free version: the user has unlimited access to the entire music library of Spotify from all devices, without any restrictions except from audio quality (160 kbps). The free client admits advertisement insertions during his or her listening session. Internet connection is required, otherwise only in-stored music will be played.

Premium version: the user has unlimited access to the entire music library of Spotify from any device, on high-quality audio. For $9.99/€9.99 a month, the service is ads free and it runs also offline.

Free Trial: to free users is offered a 30-days-trial of the Premium version aiming to lock-in the consumers.

Support from experts is always available in the Help section on Spotify's website, and real time updates or announcements regarding the software are communicated through their official Twitter's account. In addition to that, Spotify's users can help each other through the Spotify community on its website or on the Facebook's page.

The Architecture

In this section, it will be explain how the users are allowed to follow artists, other users activity and playlists, in real time.
Spotify's catalogue has a "Millions and Millions Served" (e.g. McDonald's) philosophy. It provides millions of songs to millions of consumers. It would take "more than 80 years of non-stop listening" to get through it all and new music is being added every day (Haupt, 2012).
This variety of music connected to this kind of interaction through users, it is "supported by pub/sub, a popular communication paradigm that provides a loosely coupled from interaction among a large number of publishing data sources and subscribing data sinks".[6]

[6] P. Eugster, P. Felber, R. Guerraoui, and A. Kermarrec, "The many faces of publish/subscribe," ACM Computing Surveys, 2003.

As mentioned before, users can "follow" a variety of three topics and be updated with the correspondent publication of events.

Playlists. Playlist are the most important Spotify's feature. They are curated by genre, mood, news item and they allow the user to collect and remember music tracks, discover new music, and create mixes for experimentation (Haunt, 2012). Playlist have a URIs system that allows users to subscribe to other users' playlists (Setty *et al.,* 2013) or professionally curated ones by diverse music sources. Users can customize playlists according to his or her own tastes whenever he or she prefers and then share it with the community. Only the creator of the playlist can modify it with the exception of "collaborative playlists", where two or more users are able to change the playlist and they are synced with any modifications through notifications.

Playlists updates. Notifications are delivered to the user via friend feed. The pub/sub system is responsible of Playlists' information synchronization across all the Playlist subscribers' devices (Setty *et al.,* 2013).

Friend. Signing in through their Facebook account, users can integrate their profile with their Facebook's friends that own a Spotify's account. The Spotify do not automatically follow new friends, but they will show up as main topics. If a user did not integrate his or her Spotify account with Facebook, he or she can be followed through playlists, and then eventually the account or by using Spotify username.

Friend feed. Users can always be update with friends' activity through Facebook's publications or checking the left side of Spotify.

Artist pages. There are pages dedicated to each artist on Spotify and users can receive notification about new releases or events. Sources such as AllMusic and

MusicBrainz, are in charge of providing, respectively, biographical information and images, and track and album tags (Haupt, 2012).

Artist pages. Any change in artists' activity (e.g. album release, playlists, events) is notified to his or her followers.

Notifications are delivered to online users, but it is also possible to inform offline users through email.

Spotify also feeds its users with recommendations, that could be music or friends related. Spotify use a listening data-driven method. That means that the users themselves produce a folksonomy or create a system of associations (Haupt, 2012).

Basically, the software refers to the user's listening activity to elaborate association between songs, and find similar tracks that could satisfy the listener's interest. This method can provide unsuitable results when relating with unknown artists (there is not sufficient data to elaborate any results) or, contrary, very popular artists (people listen to them, without being related to their music genre).

The pub/sub system is basically the connection between publishers generating publication events with subscribers. The music streaming service is hosted across several data-centres referred to, currently, three sites: Stockholm, London and Ashburn (USA) (Setty *et al.,* 2013).

The architecture of the service consists of: subscribers, publishers, and two core components, the Pub/Sub Engine and the Notification Module, that enhance users to have social interactions.

All contents coming from subscribers and publishers are generated from four services in form of URIs:

1. The Presence Service: receives friend feed generated by users;
2. The Playlist Service tracks playlists modifications elaborated by users;
3. The Social Service manages the social relations between users incorporating Facebook's information;
4. And Artist Monitoring Service generates publication events regarding the artist.

Publication events are delivered to the subscribers in form of Notification Type:

- In-client notification: while Spotify is running, a red bell on the top-right corner of the software reports incoming notification;
- Push notification: notifications on mobile devices;
- Email notification: when a user is not online the notification is send via email.

Technology and protocol

What make Spotify unique are speed, user control and device syncing. Subscribers can listen to music on any device, synchronize and combine playlist with previously purchased songs, and premium users can play tracks offline as well.

Audio streams are encoded using Ogg Vorbis, with different audio quality: 90 kbps, 160 kbps and 320 kpbs (Goldmann and Kreitz, 2011). By default, average audio quality corresponds to 160 kpbs, but premium users have access to high quality music, unless such a version of a track is not available.

Spotify's reaction time for beginning a song after the user has pressed the play button of 265ms (Kreitz and Niemelä). It is almost faster than playing local audio files on comparatively slow hard drive.

Thanks to its P2P nature, the Swedish service gathers 8.8 per cent (on average) of its data from Web servers, i.e. network trackers that defines who has what music, 35.8 per cent comes from peer-to-peer networks and 55.4 per cent from local cached data (Haupt, 2012).

A TCP (Transmission Content Protocol) has an open connection to a Spotify server to keep down playback latency. During the connection, the user is authenticated by the client software (Zhang *et al.,* 2013).

Kreitz and Niemelä affirm that a combination of the client server and P2P paradigms is a good solution for music streaming services, in terms of user-relevant performance measures and in reducing server costs. And this is possible using TCP as transport protocol. Since the demand of streamed music is increasing, streaming services need to develop user satisfaction measurement, improve play out strategies and make the most of P2P overlays in respect of interests between users.

External analysis (Opportunities and Threats)

Key Success Factors

Porter's Five Forces analysis allows to "identify those factors within the firm's market environment that determine the firm's ability to survive and prosper—its key success factors" (Grant, 2010, p.86). First, the company has to understand its customers' needs, second how it can survive competition.

What do customers want?

- Diversity of customer preferences in terms of music genre;
- Customers are willing to pay a premium price for higher quality, customization, portability of the service, and other benefits;
- Mass market highly price sensitive.

How do firms survive competition?

- Low entry barriers;
- Fast imitation;
- High level of competition;
- Competitors looking for market share.

Key success factors:

- Customization at a low costs;
- Availability on different devices;
- Speed of response to customers' needs.

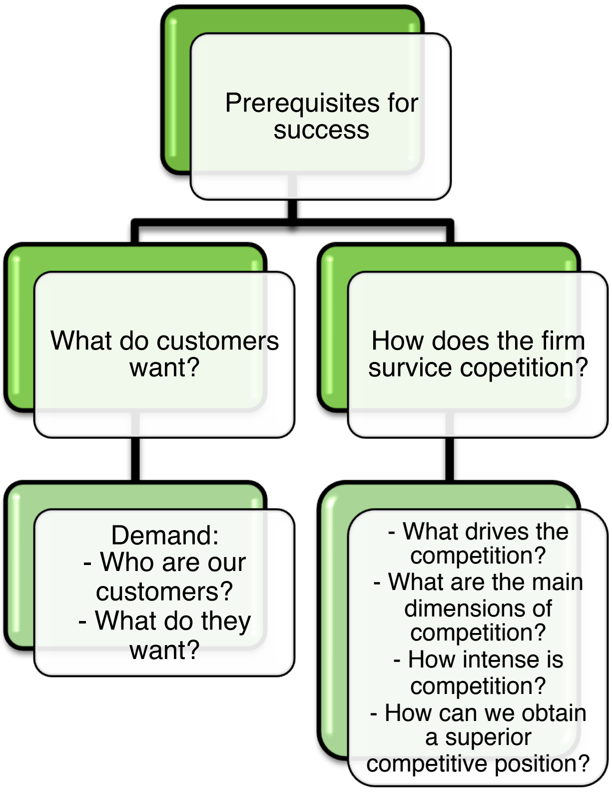


Figure 16 Identifying key success factors

Spotify's competitors

Pay-per-download	Subscription	Ad-funded	Internet Radio
amazon MP3 emusic	napster. Rhapsody		PANDORA SOUNDCLOUD Grooveshark

The External and Internal analysis: SWOT

It is now possible combine the internal analysis and external analysis into the SWOT framework. SWOT analysis identifies strengths, weaknesses, opportunities, and threats of a company, in this case Spotify. Strengths and weaknesses refer to the internal environment over which Spotify has control, and they respectively refer to those areas where the company has competitive advantage and disadvantage. On the other side, opportunities and threats relate to the external environment.

The analysis will help to determinate Spotify's strategy considering environment's changes and its competitors, turn threats into opportunities and weakness into strengths.

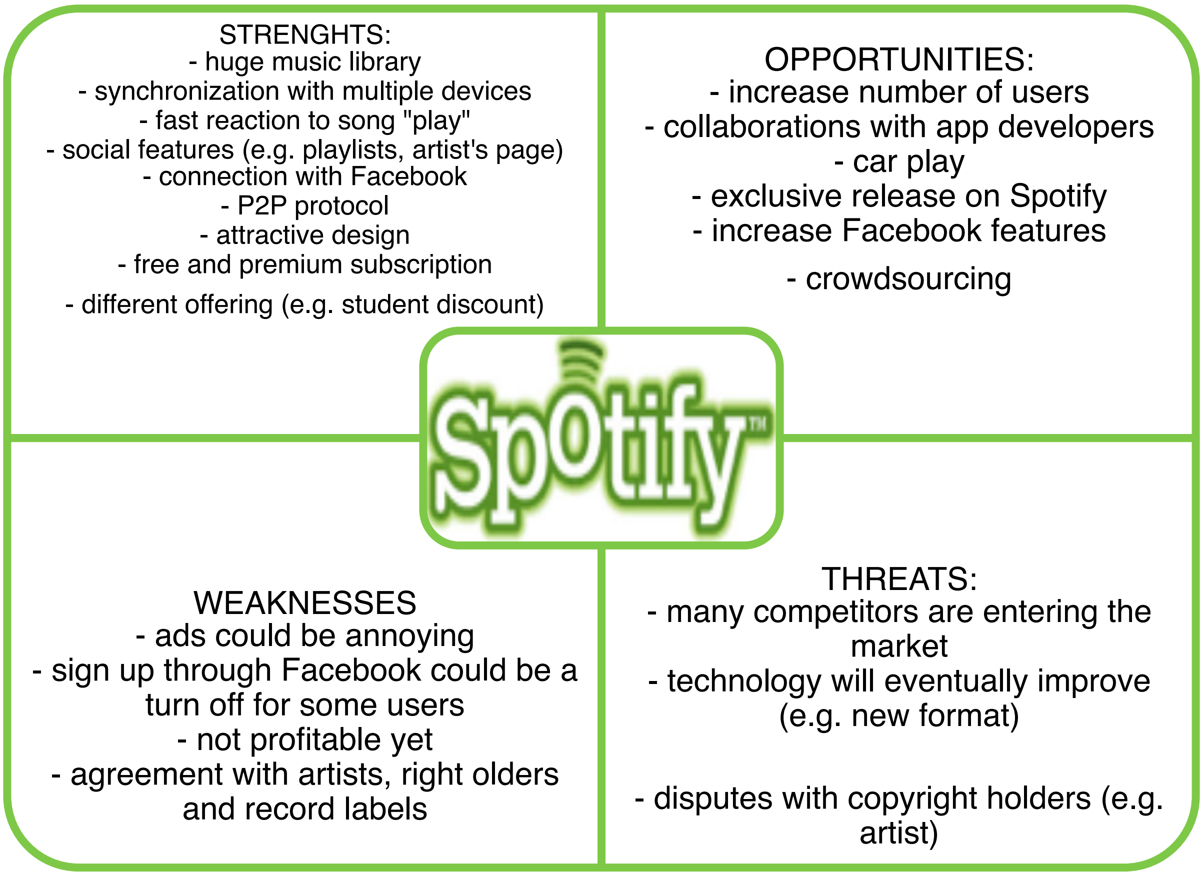


Figure 17 Spotify's SWOT analysis

Competitor Behaviour: Spotify vs. Apple's Beats

It has already been mentioned that Spotify could soon be threatened by a new competitor: Apple's Beats.

Apple has recently acquired Beats, the iconic headphone's producer. Beats is already well known in the music industry thanks to its famous owner, the rapper Dr.Dre.

The company has launched the streaming service Beats Music on January 21, 2014 without having much success. Apple Inc. on 1 August 2014 acquired Beats Electronic and Beats Music, and apparently Beats is already benefiting from being part of the Cupertino's family (Nasdaq, 2014). It seems legit to think that soon Apple will launched

its own music streaming service unifying the successful iTunes with Beats Music. iTunes has 885 million users (Smith, 2014) and the U2's leader Bono Vox has recently said that the band will help Apple to reach 1 billion subscribers, according to an interview with Dave Fanning on Irish radio station 2FM. The singer thinks that, in the future, digital downloads will include additional content that will transform user's experience.
Concerning to Spotify, Bono said: "[One billion users is] 1/7 of the earth's population. If 1/10 of those people were to be part of a subscription service like Spotify has, and I'm a huge Spotify fan, at $10 a month… Do the math. That's a billion a month. That's $12 billion dollars. That's bigger than the entire music business coming out of one company. Even if it was 5%, now musicians are suddenly in a game that people are ready to pay for, their lives are changed".[7]

Thanks to a framework for predicting competitor behaviour, it will be now analysed Apple future conduction in the streaming services' market relating to his current strategy.

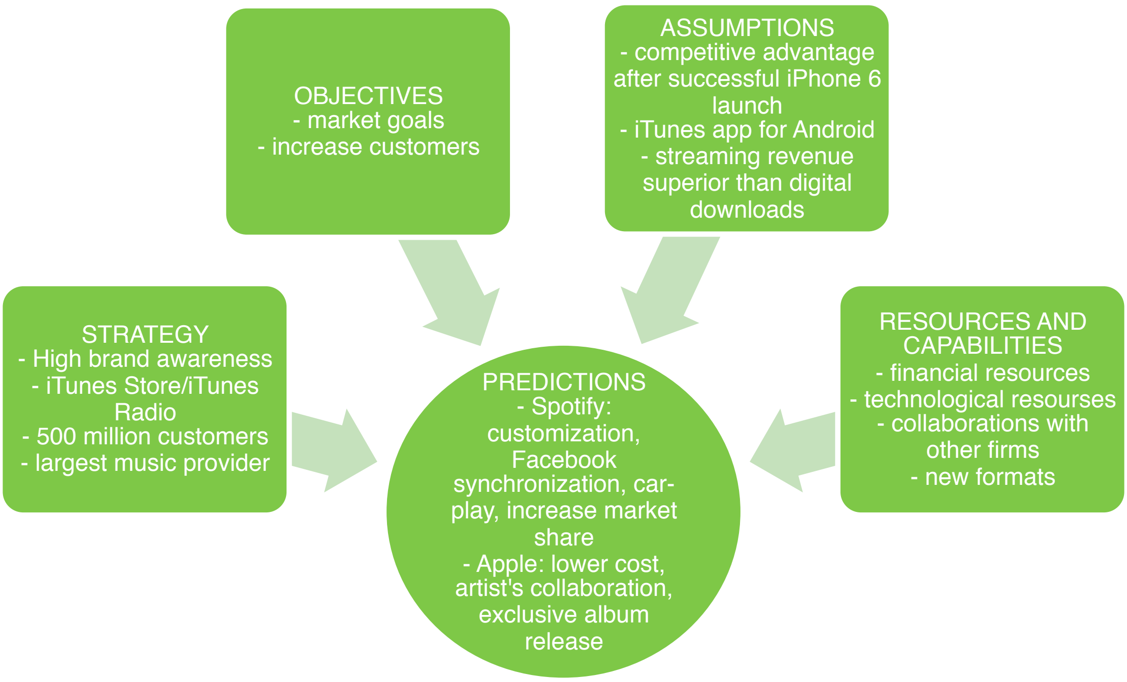


Figure 18 A framework for competitor analysis

[7] Smith, C. (2014, October 3). *This is how Apple plans to beat Spotify.* From BGR: bgr.com

Strategy – How is Apple competing?

Apple is already competing in the music industry with iTunes Store (digital downloads) and iTunes Radio (Internet Radio). iTunes Radio was launched in the late 2013, and it immediately proved to be a valid competitor for the American largest Internet radio Pandora. But according to the Pandora/ASCAP rate court hearing (Billboard, 2014), "Pandora has continued to grow despite the presence of iTunes Radio."[8]

iTunes Radio is a ad-supported service that allows its user to create stations based on songs, artists, or genres for free. To remove the ads, customers can pay a $24.99 monthly fee and buy iTunes Match. According to Apple, iTunes Store can claim 500 million customers and thank to them, its Internet Radio in only 8 months quickly gain awareness growth (Hill, 2014).

Objective – What are Apple's current goals? Is performance meeting these goals? How are its goals likely to change?

Apple is certainly driven by market goals, firstly, and then eventually financial goals. The company is the leader in digital music distribution, not mentioning its position in the computer hardware/software and electronics industry. Its brand awareness is high and the aim to be present in multiple market does not seem to change. Firms that aim primary to attain market share are likely to be more aggressive (Grant, 2010).

Assumptions – What assumptions does Apple hold about the industry and itself?

These assumptions are conditioned by Apple's perceptions of itself and the environment.

After the successful recent launch of the iPhone 6 and iPhone 6 Plus, the company is aware of its good position in order to break into new market.

This is probably the reason why Apple is allegedly considering to launch an Android version of the iTunes app, in the light of the faster growth of Android's devices compared to the iPhone (Heath, 2014). According to Christman for Billboard (2014), "the surprising

[8] http://www.billboard.com/biz

discussions are part of a multi-pronged strategy to deal with the double-digit decline in U.S. download sales at Apple's iTunes Music Store".

Several sources affirm that Apple is discussing with record label for lower cost of music, and this is probably a clue of its willingness of enter the music streaming market, not considering the fact that digital downloads sales have decrease in favour of streaming services' subscriptions.

<u>Resources and Capabilities</u>– What are Apple's key strengths and weaknesses?

Record labels have previously made agreements with Apple to license their music, so this will put the company in a favourable position. Furthermore, Apple do not lack of capital to invest in new collaborations, acquisitions (e.g. Beats) or technological innovations. In this regard, U2 are co-working with Apple on creating a new way to play interactive music on devices, transforming the user's experience (Smith, 2014).

<u>Predictions</u> – What strategy changes will Apple initiate? How will the competitor respond to our strategic initiatives?

Apple Beats entering the market will certainly shake up Spotify's strategy. The Swedish service has already allowed its free version's users to access the music from their smartphones with the aim of gaining new consumers and brand awareness (Sandoval, 2013). According to Fool (Nasdaq, 2014), most of the users pay a premium model in order to get added value on their mobile device, so this seems to be the most lucrative business.

Apple already accounts for more than 40 per cent of U.S. recorded music revenue, and despite Spotify is the most popular subscription base service at the moment, it will not be easy to maintain this position with Apple entering the market. Spotify should concentrate its efforts on bringing the service's customization to a next level. It is less dangerous to increase ads than to reduce customization, by a statistically derived amount.

Two of the main competitive advantages of Spotify are: playlists and the connection with Facebook. Bringing the users to post their playlist on the social network, involving them in some sort of contest, i.e. the playlist's creator with most Likes gets a concert ticket or a free month of Spotify, will Increase brand awareness and users' traffic.

As proven by the qualitative research conducted for this paper and with Koda's study, consumers listen to the music when they are on the move (e.g. travelling). That brings to next possible strategy. Spotify is already supported by Volvo, Parrot and Sync and, as claimed on their website, "with our mobile app, your phone can act as your Spotify receiver on most newer car stereo systems. Just plug it into the auxiliary jack or connect wirelessly if your system is Bluetooth-enabled. If you are a Premium subscriber, check out how to active your playlists for offline listening. This ensures your music can go even where the Internet can't". If Spotify could extend this possibility to all its users it would be a major competitive advantage.

On the other side, Apple is thinking of decreasing the monthly fee ($10) of a couple of dollars, in order to take Spotify's leading position. Regarding the possible entry in the streaming market of iTunes, a major label said to a Billboard's source (2014) that "when you buy a song for $1.29, and you put it in your library, iTunes might send an e-mail pointing out that for a total of, say, $8 a month you can access that song plus all the music in the iTunes store. It's all in the 'what if' stage."

Empirical analysis

This final section of the paper is dedicated to the empirical analysis emerged from the quantitative research. The purpose of the research was to investigate consumer behaviours towards on-demand music and, more specifically, Spotify. As discussed in the methodology of the paper, a quantitative approach was chosen, because it provides accurate measurements of the investigations, in terms of brand awareness, market share, customer satisfaction, etc. (Molteni and Troilo, 2006). The quantitative research method is highly preferred when "who", "what", "where" and "when" questions are being asked (Burns, Bush, 2000).

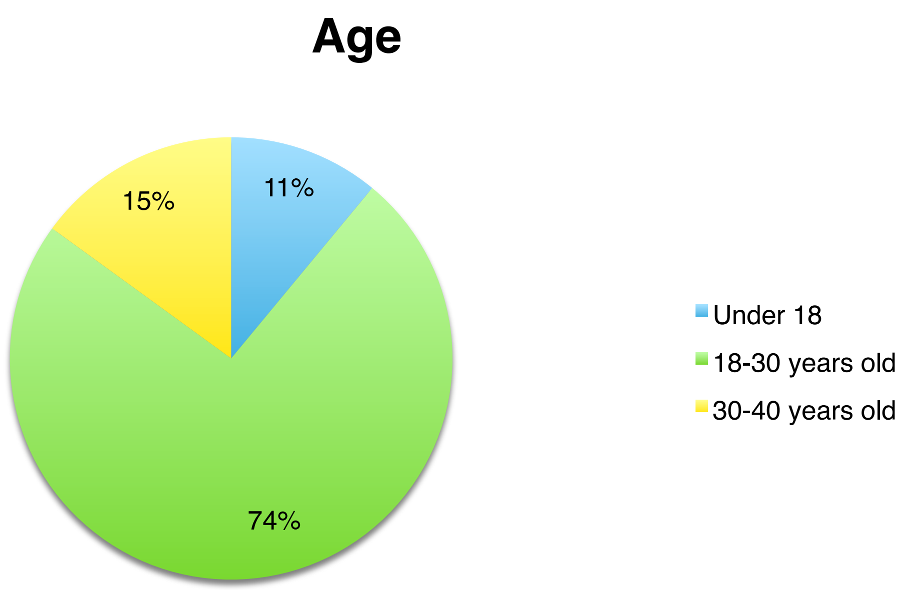
A structured web-based survey was distributed across several social networks, such as Facebook and Twitter. Younger generation are more likely to consume music online (Nielsen and Midem, 2010) and thanks to a study conducted by IFPI, 77 per cent among younger consumers (16-24) are engaged in legal digital music activities over the Internet.

Since the aimed target of the quantitative research was 18-30 years old music consumers, it was an intentional choice to administrate the survey among social media.

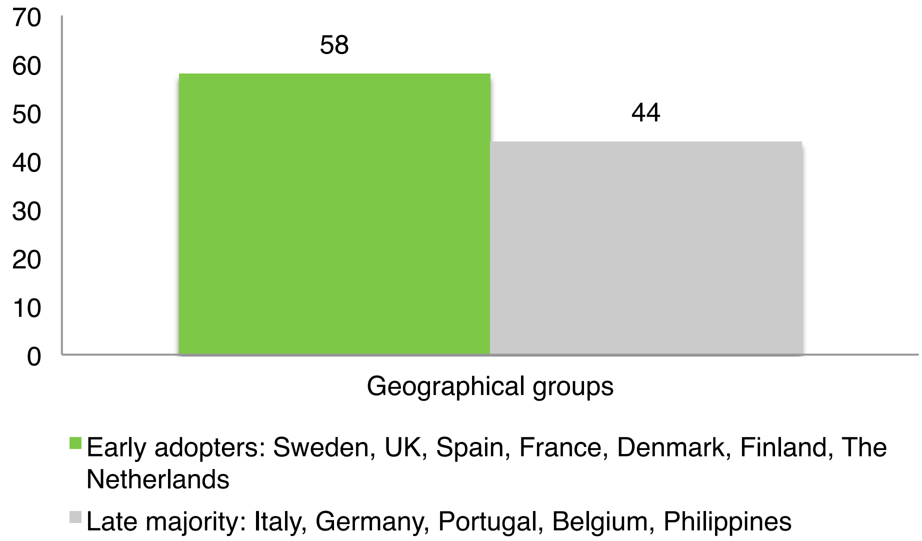
The indirect structured survey method was deemed to be the most efficient (i.e. low cost and little time) and suitable way to achieve the specific objectives (Molteni and Troilo, 2006). The interviewee was aware that the topic of the survey is online music distribution, but he or she is not informed that the purpose of the research is to determinate Spotify's competitive advantage. The survey included a total of ten questions, both open and closed, including a final Likert scale concerning Spotify's consumption.

Data collection and discussion

A sample of 100 individuals from different countries answered the web-based survey, including 57 female and 43 male, but five interviewee did not complete the survey. The gender did not proven to be an influential factor on consumer's behaviour. The target between 18-30 years was highly represented.

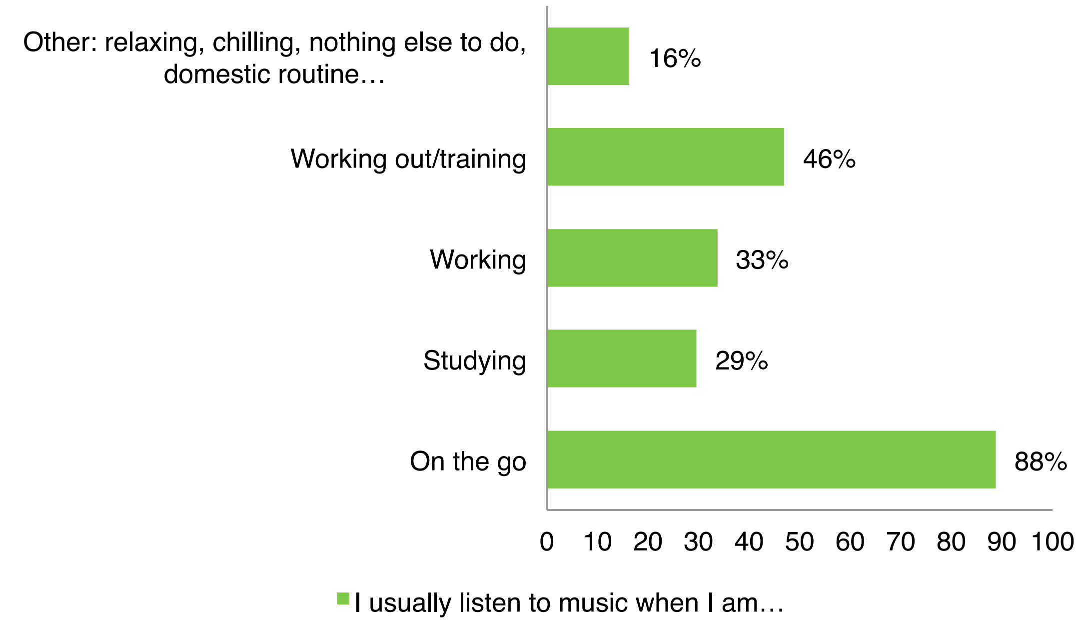


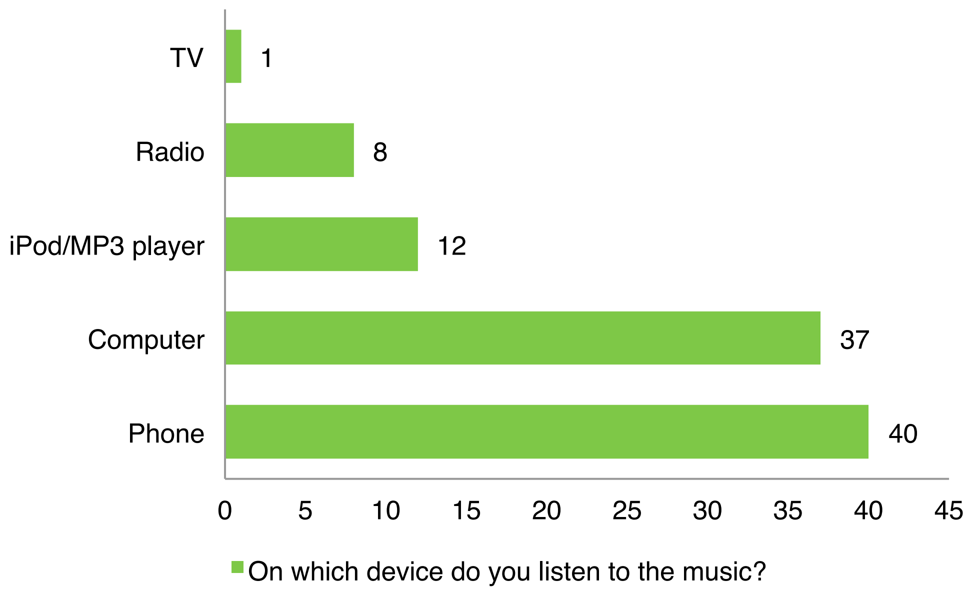
One of the purposes of the research was to investigate diverse consumer's behaviour, in terms of music consumption, within different countries. As it has been said repeatedly, streaming services have gained market share only in the past three years. Since Spotify is a first mover, it has been consider its time of entrance in each market as the moment when consumers started to get familiar with these kinds of services. For convenience reasons, countries will be divided in two main segments: early adopters and late majority. Spotify was launched in late 2008, and at the time it was available in Scandinavia, France, Spain and the United Kingdom. Only six years later the Swedish service is available in 58 countries. Further in the analysis, the markets that were entered in the initial years (late 2008-2011) will be considered "early adopter" and the remaining (2012-2014) will be considered "late majority". The majority of the data are coming from Denmark (30) and Italy (33), for this reason they have been chosen as representative market of each group.



The segmentation has considerable value in terms of Spotify profitability. It has been said several times that licensed digital services labour to get profit, but according to IFPI (2014), Scandinavia is having a positive impact from streaming service revenues, with Denmark being one of the world's most digital nations with 63 per cent of sales coming from streamed music. The Netherlands and, according to the Guardian (2014), the United Kingdom are the only non-Scandinavian countries to follow this trend. A part from Spain and France, the group of the "early adopters" is making profit from streaming services.

Most of the interviewee (74 per cent) considered themselves heavy music consumers and 87 per cent agreed on saying that they usually listen to the music when "on the go", (e.g. travelling, driving, walking from A to B) showing a preference for mobile devices. According to this, the next question aimed to individualise the most preferred device to listen to music and 40 per cent of the respondents affirm that the phone is the most commonly used device, but computer is highly preferred as well by 32 per cent. On the opposite side, TV is the least favourite device, noting that ten years ago MTV would have probably secured TV a first place. That highlights how technology changes have influenced the industry. TV is preceded by Radio and iPod/MP3 player, 8 per cent and 12 per cent respectively. Phone and computer clearly dominate the group. It is also interesting to see that iPod/MP3 player, that can play only digital downloads, has only 12 per cent, implying that consumers are swiping to streaming music.

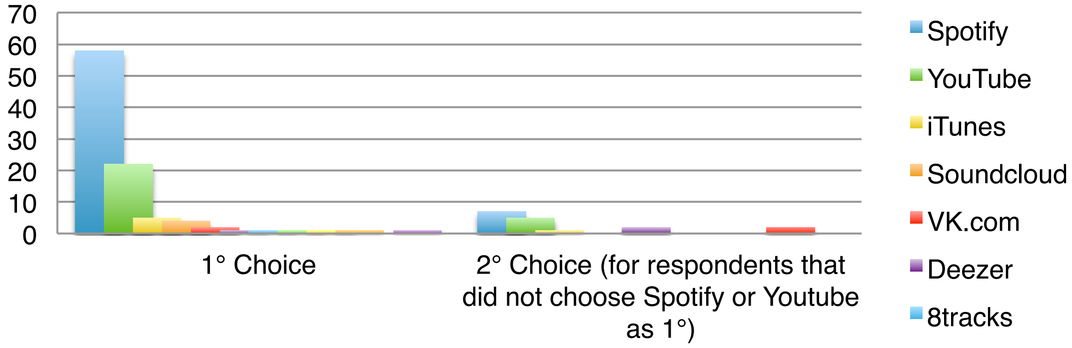




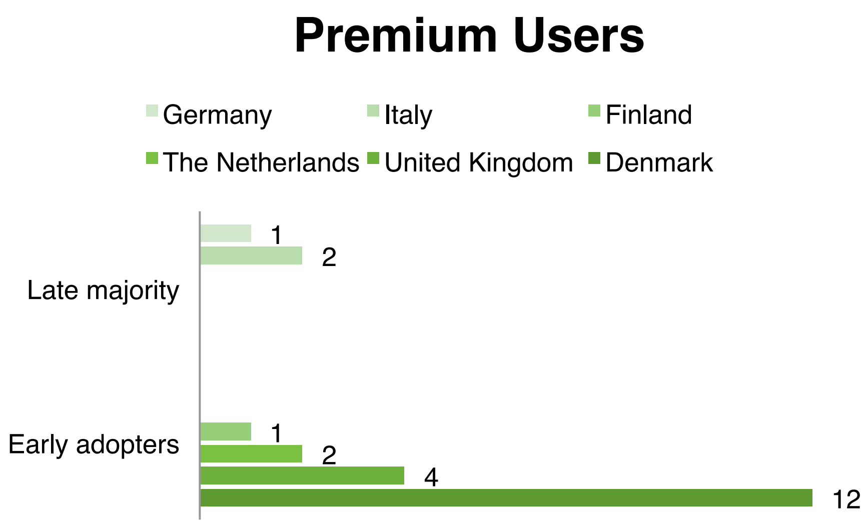
As the first part of the survey manly focused on consumer behaviour in listening to music, the next section concentrated on Spotify's competitive position and key success factors.

The interviewee was asked to name the first two services/software/websites that he or she came up with when thinking to online music. With an astonishing 52 per cent, respondents firstly said Spotify followed by 22 per cent saying YouTube. As second choice, the two services swapped their positions; YouTube was the second preference for 52 per cent and Spotify for 15 per cent. In any case, there was no competition for the other services/software/websites nominated. To be remarked that the question generally asked "services/software/websites" in order to not direct any answers to streaming services. Interviewee who did not choose Spotify or YouTube as first option said, in order of preference: iTunes (5 per cent), Soundcloud (4 per cent), VK.com (2 per cent), and Deezer, 8tracks, Grooveshark, Pirate Bay, Shazam, rockol.it (1 per cent each). For a more in-depth analysis, it has been explored the answers of who did not pick Spotify or YouTube as first choice (17 per cent) in correlation of his or her country of residence. First of all, among 17 per cent, 10 per cent do not have a Spotify's account. Their choice is probably correlated to a non-familiarity with the service. While the remaining 7 per cent have a free account, within 5 per cent choosing Spotify as second preference anyway and 2 per cent choosing Deezer and play.com, but it must been said that their first choice was iTunes that is not a direct competitor of Spotify, since it does not include steamed music.

It can be deducted that most of the respondents who did not choose Spotify as first preference, do not have a Spotify account so it is not caused by a low customer's satisfaction, but mainly from country of residence (e.g. Spotify is not available in that country or they preferred national music provider not competitive in the global market).



The next and final part of survey was dedicated exclusively to Spotify features. It was first asked the interviewee if he or she do not or do have a Spotify account, and in that case if it was a free or premium account. More than half of the respondents (52 per cent) have a free account, 22 per cent have a premium account, and 24 per cent do not have a Spotify's account. To the last ones was asked to end the survey, since their answers would have not been reliable to the purpose of the research. Within the 22 premium users, only three live in the "late majority" geographical group while the remaining are all coming from the "early adopters".



The last question was a Likert scale including ten statements regarding Spotify's features.

As expected, it emerges that premium users consider adverting on Spotify annoying and they rather pay a monthly fee because of that. Contrary, consumers with a free account remain neutral to advertising, they do not think it is worthy to pay $9.99 monthly to avoid it.

It has been discussed in this paper, that Spotify is trying to become more social by connecting with Facebook and offering social features. It was considerated appropriate to investigate if consumers consider these features as determinant in choosing the service among others. Surprisingly, users do not find these options attractive, but 66 per cent agreed on saying that they "use Spotify to discover new music" and 56 per cent "can always find the music they are looking for on Spotify". It has been deducted that the main key success factor is Spotify music library rather than the possibility to create and share playlists with friends or track artists. But the most powerful results come from the following statements: "I get to know new people on Spotify" and "I prefer to listen to streamed music, rather than downloaded it". The first sentence refers to the possibility to make new friend through Spotify's inbox and 78 per cent of respondents disagreed with the statement. It has been suggested two possible reasons: users are not aware of this option (i.e. Spotify frequently advertises the feature during listening session) and/or they do not think Spotify as a social network or as a place of interaction with other users.

But the most interesting result for the purpose of this research and for the music industry's point of view surface from the last statement. 64 per cent of the respondents prefer listen to streamed music, rather than download it. This means that more than half of consumers have already shifted from digital downloads to streaming services. It was highly represented from recent data that streaming subscriptions are increasing at the expenses of digital download, but this high percentage make forecast that subscriptions will increase exponentially, and maybe they will almost replace downloads, eventually.

Final Conclusion and Further Research

Technology has always had a major impact on the music industry over the years. Most recently, music streaming services have again transformed the industry supply chain and consumers behaviour towards music's consumption. It is appropriate to say that Internet has contributed the most to change the supply chain's nature of the industry. From 1950 to 2000, music business was dominated by majors. They were in charge of music's creation, distribution and consumption. When Internet teamed up with file sharing over peer-to-peer system, everything became digital and piracy took another form.

Since 2001, physical format sales are decreasing and so are doing global revenues. For several years, record labels blamed piracy, illegal file sharing and digital downloads, but even if they contributed in some way to this downfall of sales, they are not the only causes. In order to maintain their supremacy's position, labels preferred not seeing the technological changes as something that would have inevitably transformed the industry, but as a "bad" and illegal behaviour of consumers. "The most successful business do not waste time negating the new" (Kusek and Leonhard, 2005, p. 8). In the meantime, Apple designed the first legal platform suited for digital formats' distribution: iTunes Store. At that point, labels had no other choice than licensed their music, since it was preferable to piracy. The increasing consumer's knowledge about digital formats and distribution channels has dramatically contributed to change the industry's supply chain. Consumers are back to the "single-purchase", because CDs are too pricy and many physical retails are obliged to close down. New distribution channels arise, such as YouTube, Amazon MP3, and Internet Radio, and other lose their importance, such as broadcasted radio and TV.

The role of the costumer has never been so important than in this new era of the music business. It is essential to develop, care and feed the fans. The fans or the tribe is connected to one another, and the music is what connects them and the artist. It is the artist's duty to develop his or her relationship with the fans and the most powerful marketing tool in this case is word of month and direct communication. At the same time, online communication needs to be integrated to offline communication and be part of the same strategic plan.

Fans are involved in the entire process, from music creation, release and distribution. They represent the best advertising for the artist. For this reason, co-creational marketing is extremely important these days. Involving the consumers has never been so easy. Social networks, and Internet in general, allow the artist to maintain a personal connection with his or her fans, that will unconsciously say what it is needed to improve by simply telling what they want and what they likes. Musicians need to give "their" people insights that make feel them special, in order to gain their loyalty and to grow the tribe.

The latest entrance in terms of distribution channels are streaming services. The first licensed digital service was the Swedish Spotify developed back in 2006, but launched 2008. Initially available in just a few countries, including Scandinavia and the United Kingdom, is today present in 58 markets. With 10 million paying subscribers and 40 million active users, Spotify is the largest music streaming service around the world. It is difficult for these kind of services to make profit. In this particular case, the 70 per cent of Spotify's revenues go to record labels, that eventually pay copyright holders, and the 30 per cent is not enough to make a profit. But things are changing. Spotify has proved to be profitable in the Scandinavian market, with Denmark being one of the most digital countries in the world, and from recent data, the Netherlands and the United Kingdom are joining the group. It seems that as soon as consumers are getting familiar with the service, it can make profit. In the past six years, Spotify's brand awareness has exponentially grown, so it is fair to think that users of other countries will be now faster on approaching the service. The past year has seen streaming revenues increasing at the expenses of digital download sales, that for the first time since 2001 have decreased. But music global revenues are actually stable (not considering the Japanese market, that is living the digital transition). The quantitative research have proven that consumers prefer listen to streamed music rather than download it. Synchronization with several devices is also very important, since users want to listen their music anywhere, anytime with no limitations, preferring the phone to any other device. Spotify is manly chosen over other services, because of its music catalogue and because of its competitive advantage of being a first mover. According to the research, consumers are not really much interested in social features, such as sharing playlists with friends, but the sample could have not be representative enough.

Spotify has laid the foundations for other services to enter the market. It is pretentious to think that it will be easily leading the market in the future years, especially now that Apple is threatening to launch its own streaming service. On the other said, the difficulty of making a profits from streaming can discourage upcoming competitors. The Swedish service can definitely account on its large market share, that it is difficult to achieve from new entrants, but it must offer something more in order to not be outclassed by iTunes, that can already claim 500 million customers. Understanding customers' behaviour is essential in order to enlighten market segments, target value propositions and identity the company's position among the competitors.

Customization, portability and a large selection of high quality music are the key points in order to beat the competition. Bringing Spotify on subscriber's cars should be the next step. The service has already teamed up with some car's brands, but the option is very limited at the moment. Make Spotify the new radio. The radio option of the service is still pretty weak compares to the American giant Pandora, so this is definitely something that should be improved. Correlated to this, it would be interesting to investigate if users would like to have an option of "traditional" radio on Spotify. Consumers still value the role of DJ and the human connection. Likewise, artists could be "DJ for one hour" on Spotify radio and play the music they like. These are the kind of feature that fans/consumers are looking for.

Streaming services ensure profits to copyright holders through mechanical royalties. Each country is governed by its own laws and regulations concerning royalties' share, but not all the markets have figurate out a punctual and fair system of royalties' payment. Denmark (Koda) provides a good example of copyrights' management for many other markets. Streamed music's popularity does not seem to stop increasing, and for the health of the industry, record labels, artists and copyright holders should welcomed streaming services and license their music. Eventually, another way of distributing music will rise, but until then let's streaming save the music!

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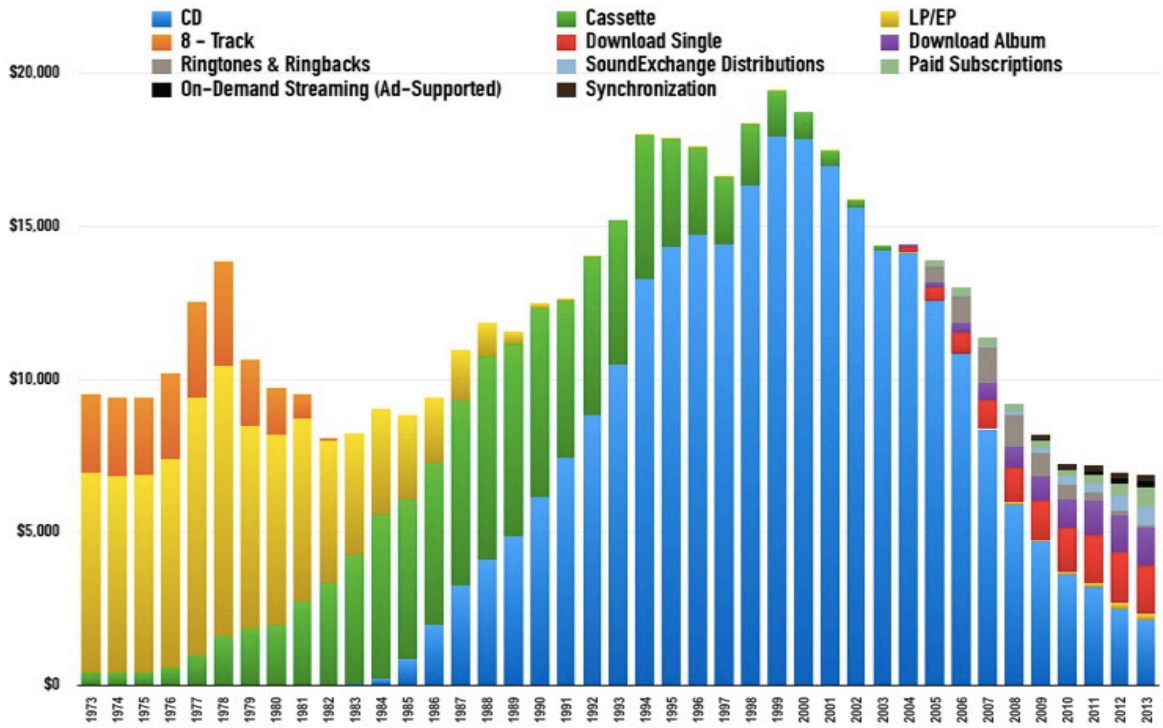
Appendix

1. Inflation Adjusted 2013 Dollars (1973 to 2013). US$ In Million. *Source:* RIAA

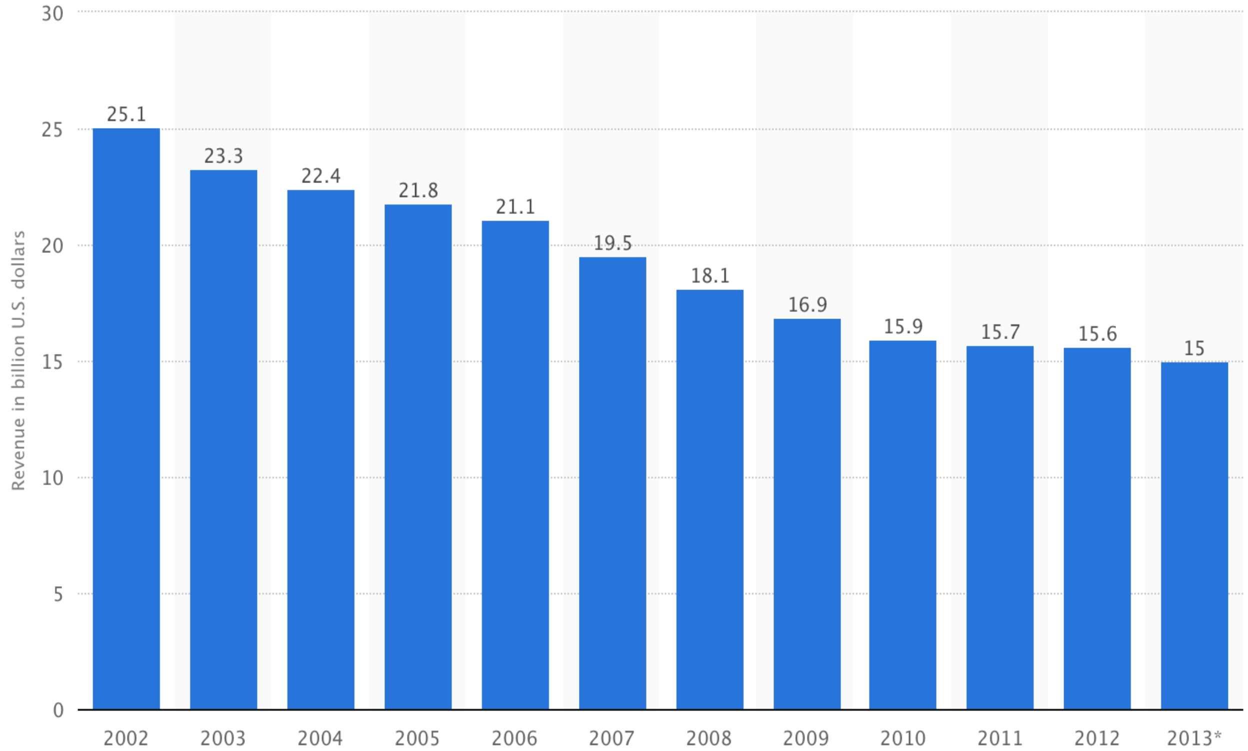


2. Summerized table of music formats. *Source:* Owsinski, 2004

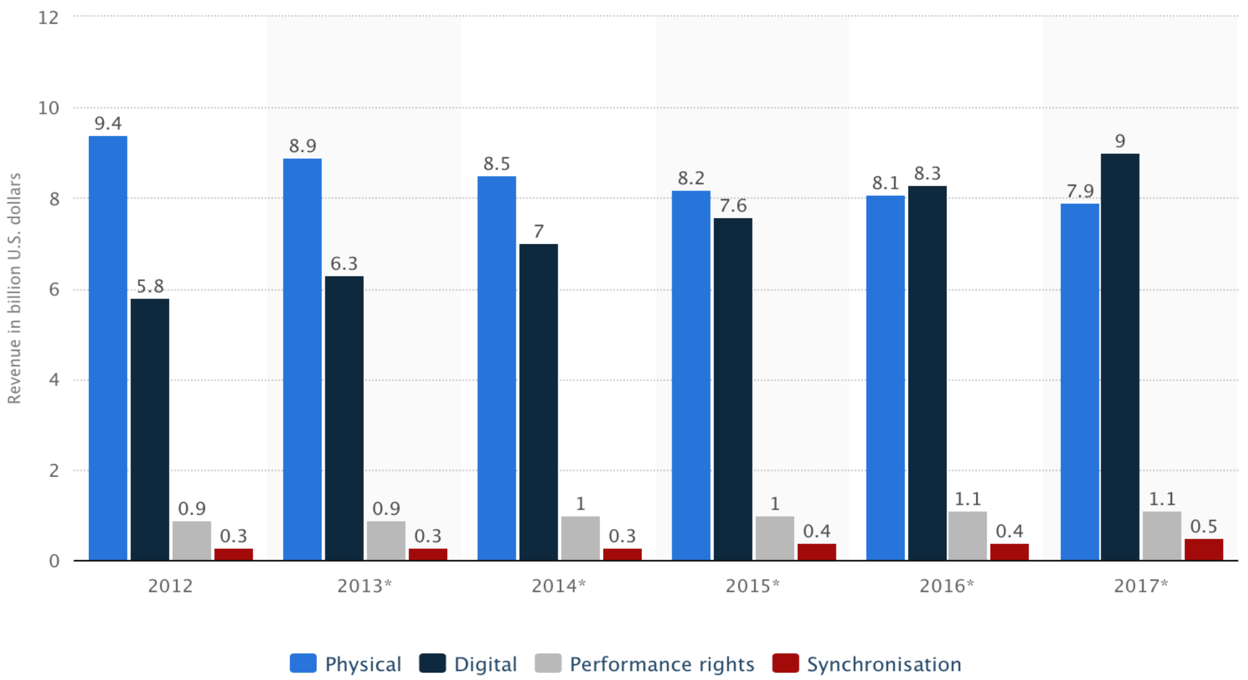
FORMAT	PROS	CONS
Digital Download	No manufacturing cost Low distribution cost High promotional value Large market Fast release No costs for graphic design	No collectible value No resale value Piracy Intangible worth Difficult to get reviewed Difficult to get traditional airplay Sales beginning to level off Digital formats evolve fast

Digital Streaming	No manufacturing cost Low distribution cost High promotional market Large and growing market Fast release No piracy No costs for graphic design	No collectible value No resale value Intangible worth Difficult to get reviewed Difficult to get traditional airplay Low royalty rates
CD	Tangible worth Potential revenue stream Collectible value More likely to get reviewed	Manufacturing cost Distribution cost Smaller market size Limited sales outlets Slower release Difficulty getting paid from distributors
Vinyl	Tangible worth Potential revenue stream Collectible value Added value opportunity	Manufacturing cost Distribution cost Smaller market size Limited sales outlets Unlikely to get reviewed Slower release Difficulty getting paid from distributors

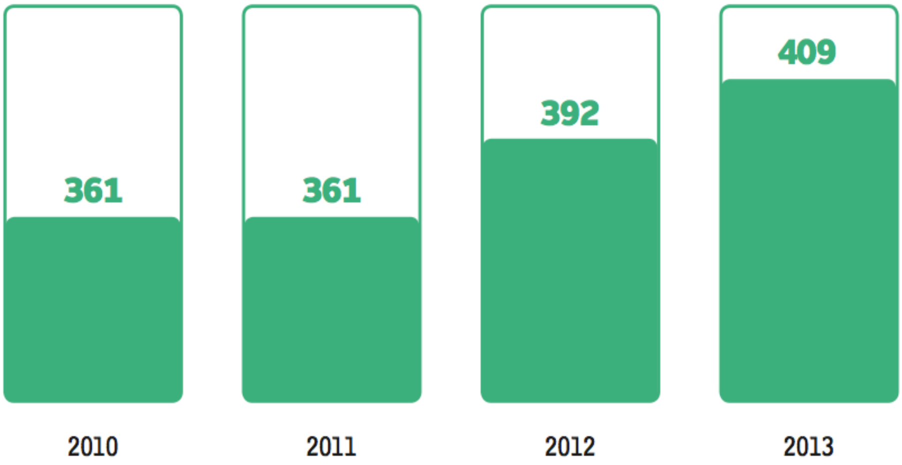
3. Global revenue of the music industry from 2002 to 2013 (in billion U.S. dollars). ***Source:*** **Statista**



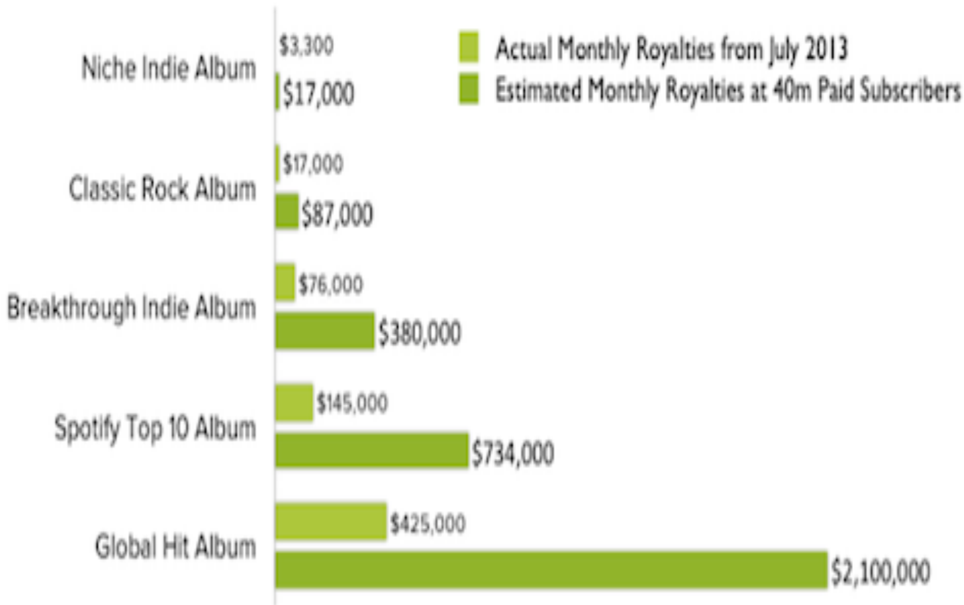
4. Recorded music market revenue worldwide from 2012 to 2017, by source (in billion U.S. dollars). ***Source:*** **Statista**



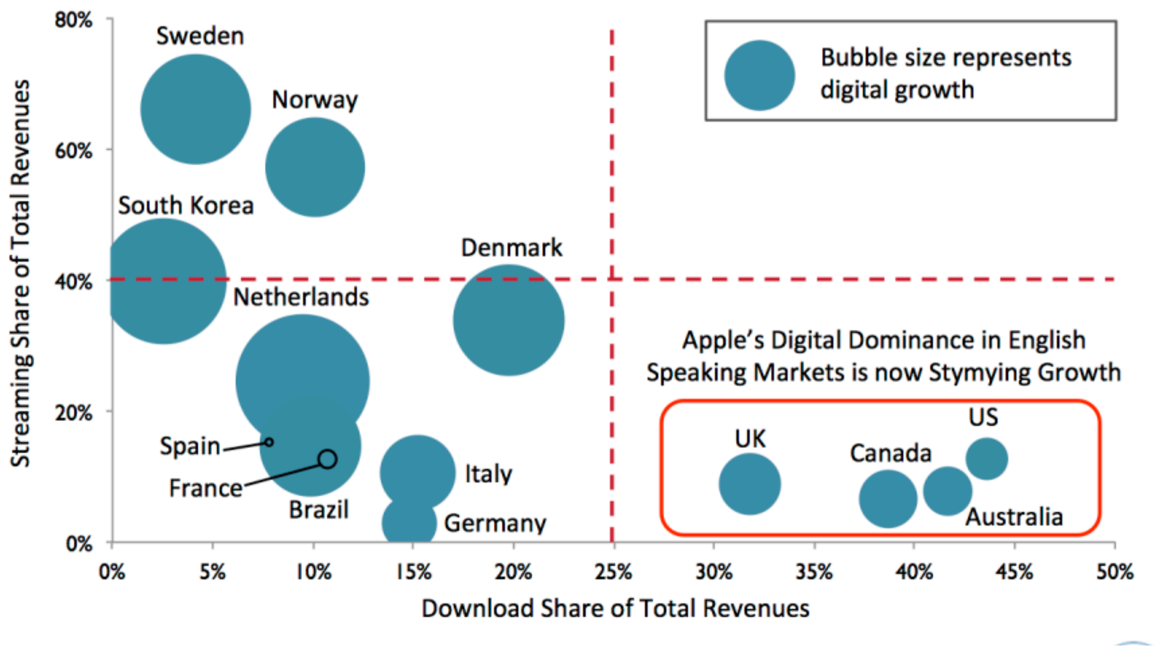
5. Music market 2008-13 (US$ Millions) in Sweden, Norway and Denmark. *Source:* IFPI



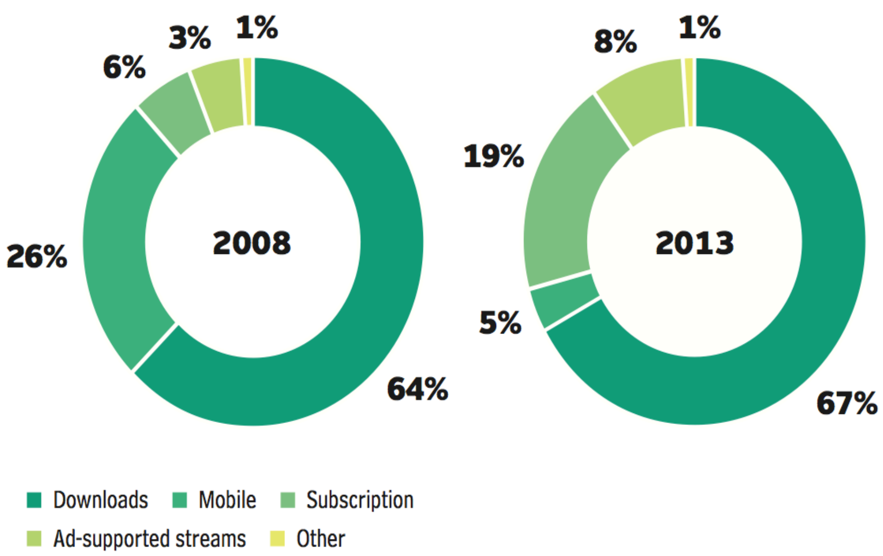
6. This chart shows the actual royalties Spotify paid out for albums of different scale in July 2013 vs. the royalties Spotify expect to pay out per month for these same rights holders when Spotify reach a similar scale to Spotify's most mature markets.



7. Streaming does best where downloads did not get a foothold (and where they did streaming held back). Digital revenue by type as share of total revenues 2013, and digital growth 2012 to 2013. *Source:* Midia Consulting

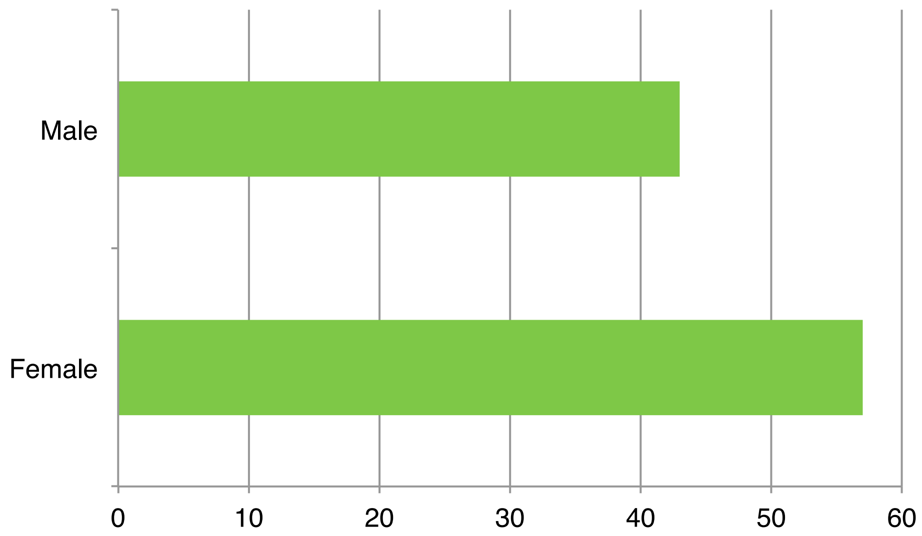


8. Digital revenue breakdown by format, 2008-2013. *Source:* IFPI

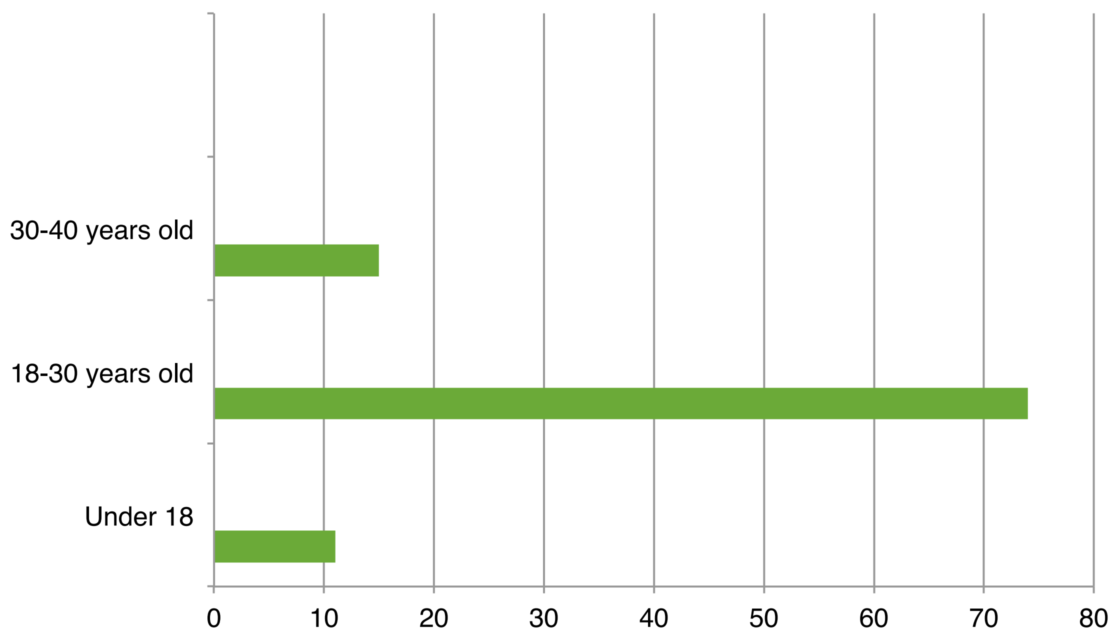


9. Survey: questions and data

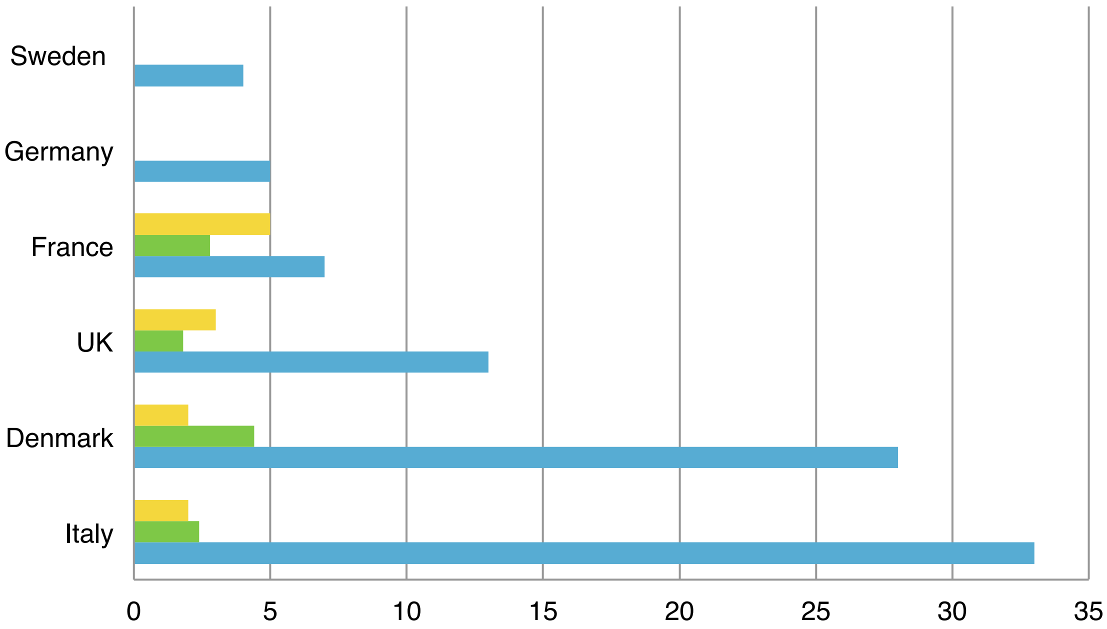
1. What is your gender?



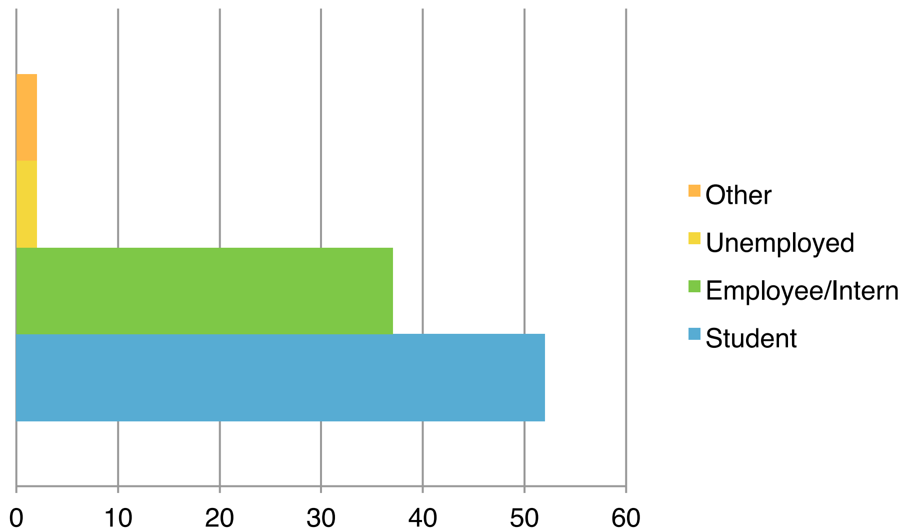
2. How old are you?



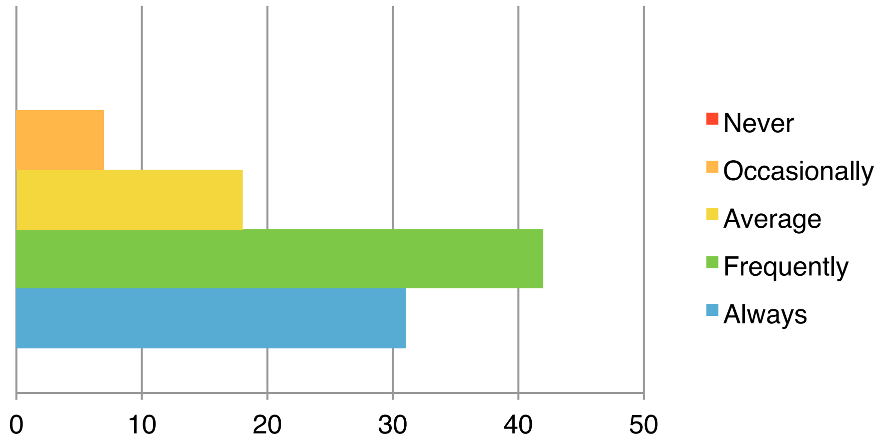
3. In which country do you live?



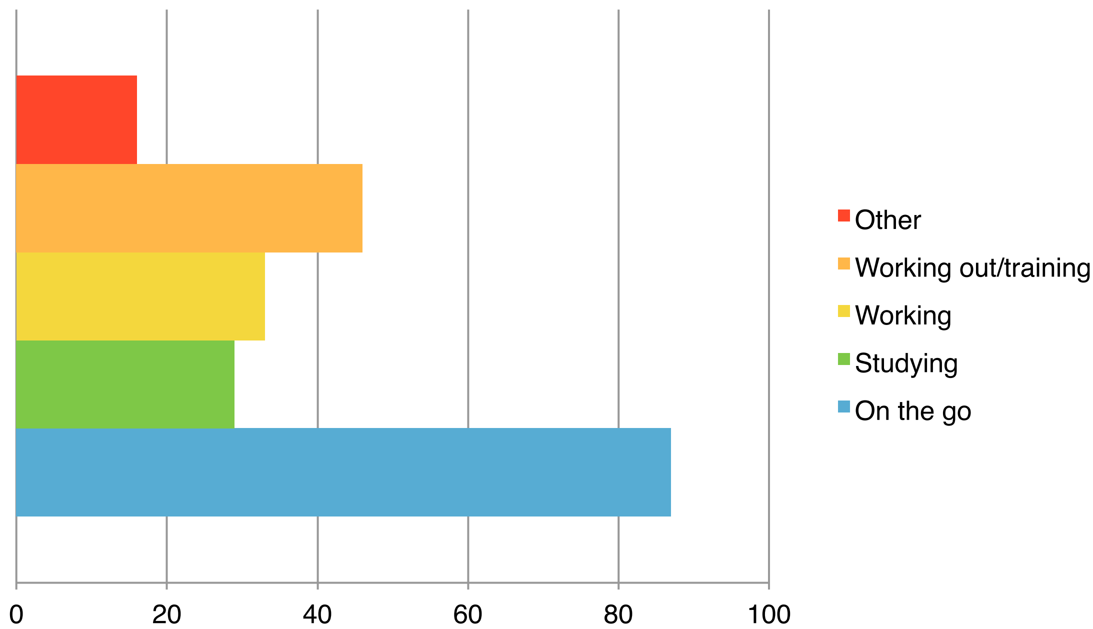
4. What is your occupation?



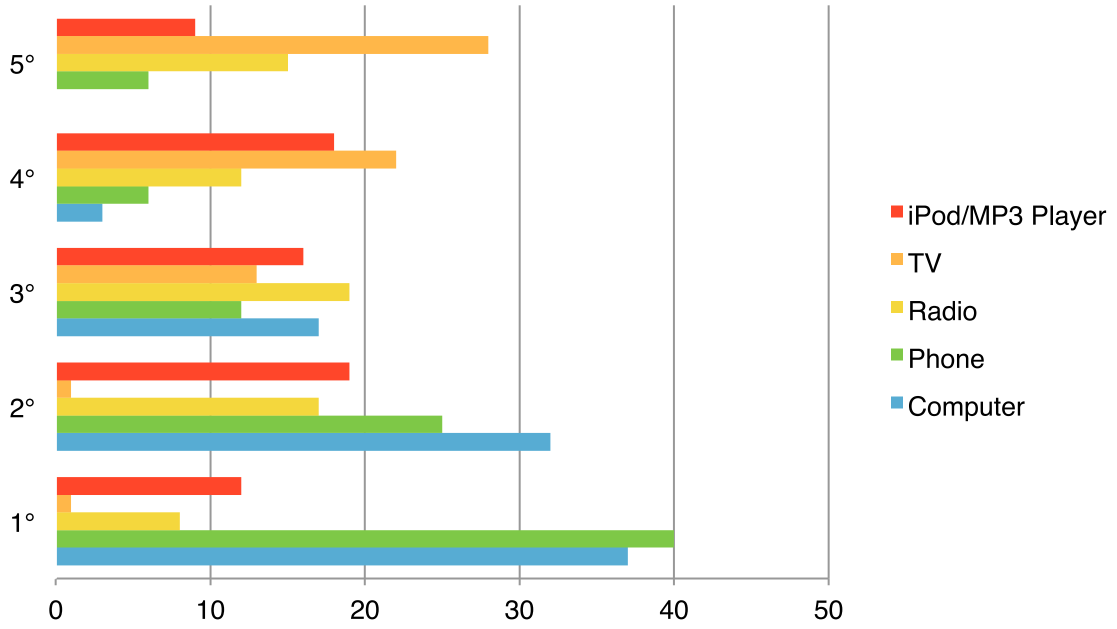
5.How often do you listen to the music?



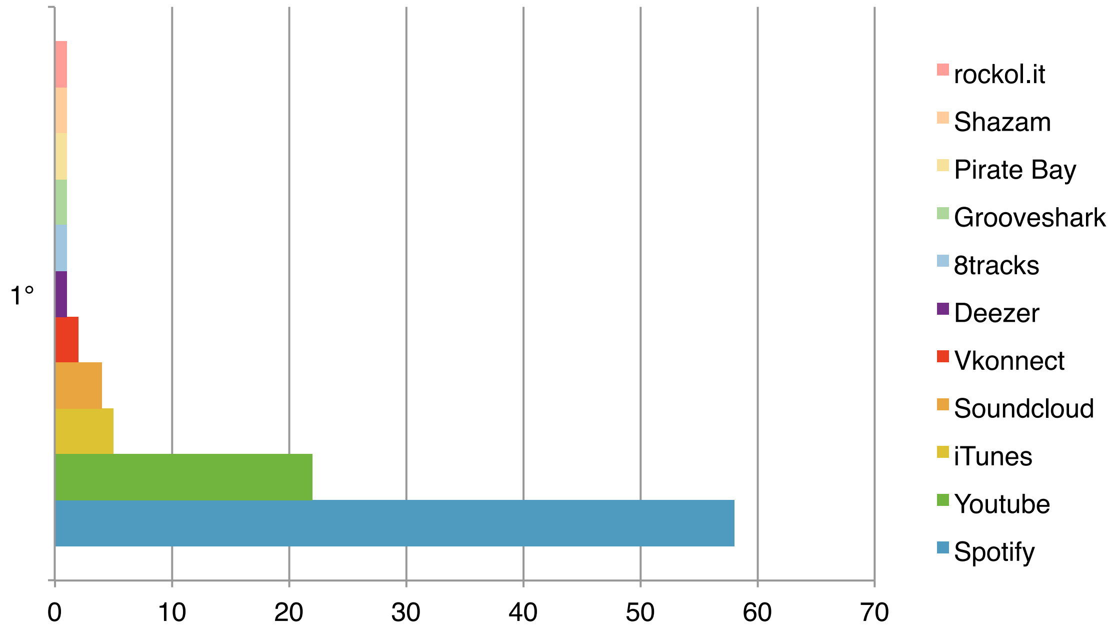
6. Complete the sentence. (Choose max 3 options)
I usually listen to the music when I am…



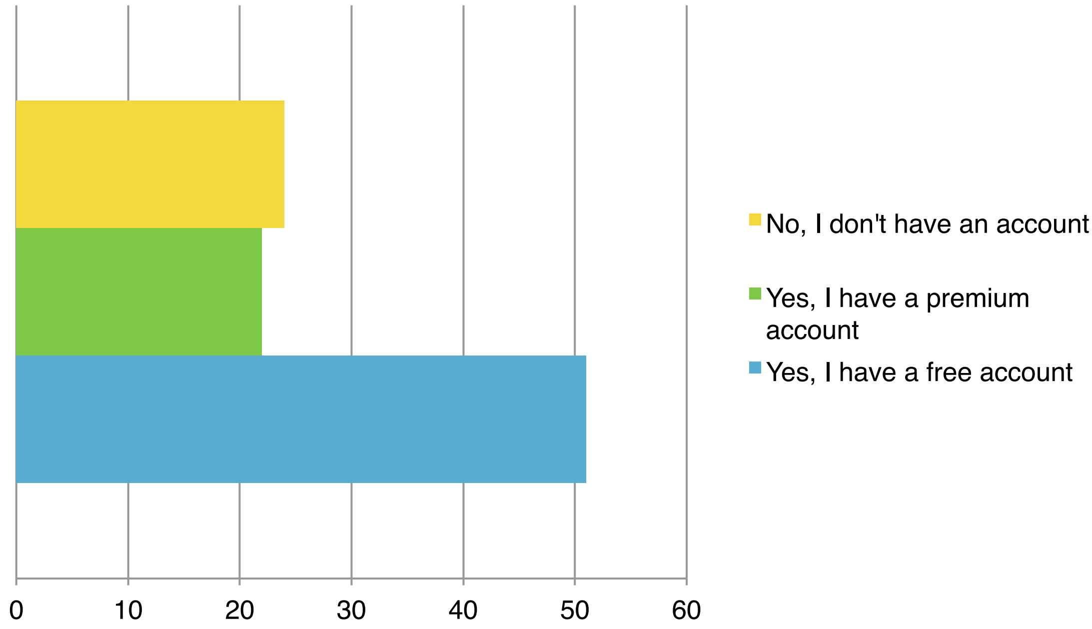
7. On which device do you listen to the music? Order them on a scale from 1 (most preferred) to 5 (less preferred)



8. If I say online music, what do you think? Nome the first two services/website/software that come up to your mind



9. Do you have an account on Spotify?



10. Please consider the following statements and indicate how much you agree with them.

	strongly disagree	disagree	unsure	agree	strongly agree	Totale
Advertising on Spotify is really annoying	17,89% 17	6,32% 6	25,26% 24	25,26% 24	25,26% 24	95
Spotify's advertising on Spotify is really annoying	16,84% 16	8,42% 8	28,42% 27	22,11% 21	24,21% 23	95
I'd rather pay a monthly fee, instead of listening to the advertising	26,32% 25	18,95% 18	24,21% 23	10,53% 10	20,00% 19	95
I use Spotify to discover new music	18,95% 18	8,42% 8	6,32% 6	38,95% 37	27,37% 26	95
I like Spotify because I can share my favorite music	25,26% 24	33,68% 32	20,00% 19	9,47% 9	11,58% 11	95
I enjoy creating playlists with my friends on Spotify	26,32% 25	24,21% 23	22,11% 21	15,79% 15	11,58% 11	95
I can always find the music I'm looking for on Spotify	14,74% 14	9,47% 9	18,95% 18	44,21% 42	12,63% 12	95
I get to know new people on Spotify	63,16% 60	14,74% 14	13,68% 13	5,26% 5	3,16% 3	95
I use Spotify because I can track my favorite artists	26,32% 25	21,05% 20	17,89% 17	22,11% 21	12,63% 12	95
I prefer to listen to streamed music, rather than download it	14,74% 14	7,37% 7	13,68% 13	34,74% 33	29,47% 28	95