Paid Content on Music Portals: An Overview of Strategies and Business Models Currently in Use

Bachelor's Thesis

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Abstract

Due to the growing importance of the Internet, the global music industry has been subject to significant change during the past two decades. Digital music has become ubiquitous, which has led to the emergence of numerous different ways of distribution. In this article, the author analyzes the current situation of the digital music market by giving an outline of the various business models of music portals. After theoretically defining the different pricing strategies relevant in this context by referring to the academic literature, this work will provide a detailed comparison of the business models of music portals that are currently in use. A final discussion will then critically evaluate the findings, point out practical implications for managers and conclude with potential further directions of research in the future.

Introduction

With the rise and establishment of the Internet, many aspects in business and everyday life have changed considerably. While some industries have arisen and some have suffered, others have undergone significant and fundamental changes during the last two decades. One of these is the music industry. The extreme growth of digital music in the last years and the fast proliferation of different possibilities to access music can – at least remotely – be compared to the uprising of the CD, largely responsible for the quickly declining sales of vinyl LP's in the late 80's (Immink 1998, p.462; Harvey 2014). Before the turn of the millennium, when the digital way of formatting and distributing music started to gain in importance, the industry had to face hard times of declining sales and problems that have kept ongoing until today. For example, the former version of Napster, which was founded in 1999 and eventually shut down in summer 2001 due to copyright infringement (Gowan 2002), revolutionized the way of sharing music through its peer-to-peer file-sharing technology whilst laying the foundation for online piracy as we know it nowadays. This development is representative for the decline in "world sales of recorded music for the year 2000 [which] fell by 1.3% in value" (IFPI 2001, p. 3).

Today, contrary to expectations, the physical distribution of music still has not given up its pole position in the overall worldwide music sales. According to the IFPI Digital Music Report 2014, the "physical formats account for more than half (51.5 per cent) of all global revenues" (IFPI 2014, p. 7), while digital only amounts to a share of 39% (IFPI 2014, p. 6). But it is also noteworthy that these numbers keep changing in a rather fast manner as, during the last year, global digital revenue achieved an increase of 4.3% (IFPI 2014, p. 6) while physical kept declining by 11.7% (IFPI 2014, p. 7). These numbers inevitably show that the relevance of digital music keeps on growing at a fast pace. Over the last years, successful business models such as Apple's iTunes Music Store naturally brought forth numerous entrepreneurs and companies jumping on the bandwagon with new (or already existing) ideas. This led to the emergence of a digital music marketplace with all kinds of different services, which are the subject of this essay.

This work will provide a general overview of the pricing strategies and business models of those music portals that are currently available on the market. At first, the report will focus on and give general definitions of pricing models that are relevant in this context by referring to the academic literature on each topic. Afterwards, there will be a detailed outline of the relevant business models that are currently in use by music portals, again taking into account the corresponding pricing strategies. Finally, the essay closes with a discussion of the findings by critically evaluating the situation, problems and potentials of the market and by presenting managerial implications to show what could be done to improve the current situation of the market.

Theoretical Definitions of Relevant Pricing Strategies

Pay-Per-Purchase

Pay-per-purchase can be seen as the most typical and relevant pricing strategy found on the world's marketplaces. It follows the conventional principles of trading and buying where you give money and therefore receive a good of (ideally) equal value. Due to its universal usage, the business model is described in various different ways. According to the context in which the model is used, it is often also referred to as "Pay-per-Download" (Dörr, Wagner, Benlian, and Hess 2013), "Pay-per-use" (Bhatia, Gay, and Honey 2003), "Utilization-based business model" (Enkel and Mezger 2013) or "Pay-per-view" (Bhatia, Gay, and Honey 2003). For

Nunes (2000), pay-per-use pricing "acts as the default option because it is far more prevalent in the real world" (Nunes 2000, p. 398) than other pricing plans. He describes it as a scheme that "includes a positive per-unit fee with a lump sum that is at or near zero" and refers to models, which state that small-volume buyers are typical individuals who "prefer to pay a higher unit price on the smaller amounts they purchase" – and therefore prefer the pay-per-use model (Nunes 2000, p. 398).

Sometimes, users of a certain service pay too much just because they fail in choosing "the tariff that maximizes their surplus" (Lambrecht and Skiera 2006, p. 212). The pay-per-use bias is one possible manifestation of this phenomenon called tariff-choice bias. It describes the behavior of users who tend to pay per purchase although choosing a flat rate would be the less costly alternative (Lambrecht and Skiera 2006). Lambrecht and Skiera (2006) find that a main reason for the occurrence of the pay-per-use bias is the underestimation of usage of the purchased item or service, respectively. Despite the fact that this bias does not occur very frequently, it can have a negative effect on the profitability of the selling party as a significant increase in customer churn offsets the additional short-term profit it leads to (Lambrecht and Skiera 2006).

Regarding another aspect, the compensation of the producer of the sold product, Bhatia, Gay and Honey (2003, p. 79) state that for pay-per-use services, the most likely approach is to share the revenues on a per-transaction basis between the retailer, producer and intermediate, if applicable.

Subscription

Subscribing to a certain service, often also referred to as paying a flat fee or flat rate (Nunes 2000; Della Vigna and Malmendier 2006), "allows [users] unlimited usage during [a determined] contract period (i.e., fixed payment)" (Dover and Murthi 2006, p. 6). Unlike Bill Gates' opinion that "people hate, hate, hate to subscribe to things on the Internet" (Punj 2013, p.1), Nunes (2000) claims that "people generally like the idea of paying one fee for unlimited access" (Nunes 2000, p. 397). He suggests that these individuals even tend to pay a flat fee in cases where the cheaper option would be to pay for each single unit. This phenomenon is also discussed in Lambrecht and Skiera's (2006) previously mentioned article and is described as flat-rate bias (Lambrecht and Skiera 2006; Nunes 2000, p. 397). They attach higher importance to it than to the pay-per-use bias due to its "greater regularity and time persistence" (Lambrecht and Skiera 2006, p. 212). The academic literature proposes many reasons for the occurrence of the flat-rate bias. According to Prelec and Loewenstein (1998), the effect derives from the pain of paying, which consumers feel when purchasing a single product, and which can be eased by paying in the form of flat rate pricing plans. Lambrecht and Skiera (2006) mention the consumers' overestimation of usage of the product or service as another plausible reason. They also state that this type of tariff-choice bias results in a positive impact on the selling party's profitability because the increase in customer churn is merely insignificant (Lambrecht and Skiera 2006, p. 221). Using the example of membership subscriptions at the gym, Della Vigna and Malmendier (2006) also name the overestimation of attendance and probability of contract cancellation as reasons for a financially wrong decision to subscribe. Additionally and rather surprisingly, they find that the percentage of people who maintain enrolled for longer than a year is higher for monthly members than for those who sign a 1-year-contract (Della Vigna and Malmendier 2006, p. 694).

According to Kind, Nilssen, and Sørgard (2009), subscription-based pricing models often serve as complements to mainly free-of-charge, advertisement-based models. However, in some cases, free models substitute subscription fees, which "have become increasingly less viable on the Internet" (Kind, Nilssen, and Sørgard 2009, p. 1112). While there are conditions where "a pure advertiser-supported strategy or a pure pay-per-view strategy can be optimal" (Prasad, Mahajan, and Bronnenberg 2003, p. 13), in the majority of cases the most profitable plan is to offer both ad-based and subscription-based options as well as combinations of these and leave the tariff choice to the customer (Prasad, Mahajan, and Bronnenberg 2003). In the context of media firms, Kind, Nilssen, and Sørgard (2009) claim that the revenue fraction coming from advertising shall increase with decreasing differentiation of the firm's content. Direct user payment in terms of subscription fees has to rise with an increasing "number of competing media products" (Kind, Nilssen, and Sørgard 2009, p. 1112).

The aforementioned developments have the result that numerous service providers decide to additionally provide a free version of their offer, mostly with limited trial time, so as to "increase the installed user base" (Cheng and Tang 2010, p. 437). Others rather decide upon a sampling strategy, which will be described in further detail in the next paragraph.

Sampling Strategies

A sampling strategy can be interpreted as an umbrella term of hybrid business models, where publishers offer a somehow restricted version of their content and users have to pay a subscription fee in order to disable the paywall and have access to the unlimited content (Halbheer et al. 2013; Liu, Au, and Choi 2012). Two typical strategies that are relevant for the research area of this work are the freemium and metered models.

The freemium business model implies offering a free low-end version, which is usually supported by advertisements embedded in the content (Halbheer et al. 2013, p. 3), and a fee-based high-end version, whose benefits are differing but in most cases imply richer features and no ads (Halbheer et al. 2013, p. 3; Liu, Au, and Choi 2012, p. 2). According to Liu, Au, and Choi (2012), "this strategy is widely utilized in the offering of digital-based products or services" (Liu, Au, and Choi 2012, p. 2).

Another relevant business model is the metered model, a strategy mainly used in the newspaper industry, where consumers can select and use items from an (sometimes limited) offer, but only until a given sample limit is reached. After that, the user has to subscribe to the service in order to get access to the unrestricted offer (Halbheer et al. 2013, p. 2).

According to Halbheer et al. (2013), sampling accomplishes a “dual purpose of generating revenues from advertising and disclosing content quality” (Halbheer et al. 2013, p. 3). There are three important effects of sampling that can influence the profitability of the service provider. One possible impact is the so-called cannibalization effect, which describes a situation where the demand for the commercial product loses parts to the free sample version. This leads to a decrease in paid trial purchases, where consumers have to pay for the product in order to try it (Bawa and Shoemaker 2004; Cheng and Tang 2010; Halbheer et al. 2013; Kannan, Pope, and Jain 2009; Liu, Au, and Choi 2012; Papies, Eggers, and Wlömert 2011). The expansion effect, however, leads to a growing user base, because the sampling attracts consumers who would otherwise not consider paying for the product in order to try it (Bawa and Shoemaker 2004; Liu, Au, and Choi 2012; Papies, Eggers, and Wlömert 2011). Last but not least, Bawa and Shoemaker (2004) describe the acceleration effect, “whereby consumers begin repeat purchasing of the sampled brand earlier than they otherwise would” (Bawa and Shoemaker 2004, p. 345).

All in all, in the academic literature there is general consensus with regard to the overall positive impact of sampling on the long-term profitability of certain products, although it is noteworthy that “the effectiveness of free sample promotions can vary widely” (Bawa and Shoemaker 2004, p. 345). Liu, Au, and Choi (2012), for instance, find that the freemium strategy’s benefits are able to outweigh possibly associated losses (Liu, Au, and Choi 2012, p. 13).

Beyond that, the literature also highlights further positive impacts that are not included in the three effects listed above. For example, offering a free trial version of a product can lead to binding customers for the long term, and thus increase their loyalty to the brand

(Seetharaman 2004; Villas-Boas 2004). Papies, Eggers, and Wlömert (2011, p. 777) highlight the advantage of sampling models over pure subscription strategies due to the unattractive level of current market prices. Not only service providers, but also consumers can benefit from the provision of a free-of-charge trial of the product of their desire. That way they can "determine with certainty the fit of the content to their needs" (Kannan, Pope, and Jain 2009, p. 620).

According to the findings of Halbheer et al. (2013), a sampling strategy can be the optimal choice even in cases where the sample decreases the consumers' expectations of quality and content demand. Nevertheless, "when advertising effectiveness is low and content quality is high" (Halbheer et al. 2013, p. 1), the best decision is not to offer a free trial to the users.

In order to gain new customers, a product needs to stimulate trial and demand. Sampling is reportedly an applicable business model to achieve this aim, but different modern pricing strategies such as pay-what-you-want serve as a relevant alternative to this approach (Kim, Natter, and Spann 2014).

Pay-What-You-Want

"Pay what you want (PWYW) is a new participative pricing mechanism in which consumers have maximum control over the price they pay" (Kim, Natter, and Spann 2009, p. 44). Giving individuals the power to pay a very low fee, or even nothing, surely carries the risk of being exploited and not being able to at least cover the seller's costs (Kim, Natter, and Spann 2009, p. 44). This risk appears even more threatening, considering that, according to neoclassical economics, buyers tend to pay nothing at all given the opportunity to do so (Carter and Curry 2010, p. 761). Research, however, provides evidence of the occurrence of altruistic behavior on the part of the consumers, which can make for growing revenues (Carter and Curry 2010; Kim, Natter, and Spann 2009, 2014).

As Kim, Natter, and Spann (2009) claim, PWYW is a pricing strategy that makes use of the heterogeneous product valuations among customers and succeeds in attracting consumers' attention due to its unconventional mechanism. Furthermore, the product gains popularity because it increases word-of-mouth marketing and because the usage of this pricing model demonstrates belief in the quality of the offered product on the part of the seller. Nevertheless, PWYW is not an appropriate pricing model for rather costly products. In many cases though, it is worth being considered as an alternative, because, added to the fact that it can lead to positive revenue and advertising results, sellers might "generate additional revenues from PWYW prices compared with zero prices when products are sampled for free" (Kim, Natter, and Spann 2014, p. 19).

Overview of Music Portals and their Business Models

> "The market for digital products and services is characterized by rapid evolution of new formats." (Kannan 2013, p. 110)

Online Music Stores

An online music store allows for a digital retail of music. As with record stores, people can pick songs or albums from a shop's catalog and pay for them at the checkout in order to become the owner. The major difference, besides the fact that the customer does not actually have to go to a physical store, is that one doesn't purchase a physical medium like a CD, vinyl LP or cassette, but a digital, usually compressed music file.

Several sources name the Internet Underground Music Archive (IUMA) as the first online music store that entered the scene (Perry 2013; LaPlante and Seidner 1999, p. 9). Founded in 1993 by Jon Luini, the absolutely novel distribution channel for music quickly started growing at a very fast pace and managed to offer a platform to numerous independent musicians who were given the opportunity to present themselves and sell their music via the Internet (Perry 2013). Over the years, various other music download portals emerged and the competition within and the importance of this new distribution channel kept increasing. In 1999, in consequence, the IUMA was acquired by eMusic (CMJ New Music Report 1999, p. 25), a company founded in 1998 and the first seller of legally licensed music of signed artists on the web (IFPI 2004, p. 3). However, the actual commercial breakthrough of the digital distribution of music has to be accredited to Apple, the company that some consider the inventor of the digital music business (Ingraham 2013). With the launch of the iTunes Music Store in April 2003, offering a catalog of 200,000 songs from the biggest music companies (Apple 2003), they managed to create an intuitive combination of “music player, online store, and song-management software” (Ingraham 2013), which accelerated the growth of the market of legitimate online music services remarkably. According to the IFPI Online Music Report 2004, Apple’s sales added up to over 25 million song downloads until the end of 2003 and the availability of iTunes and comparable services also spread across Europe at a very fast pace (IFPI 2004).

Now, according to a last year’s report of AppleInsider (2013), the iTunes Music Store still accounts for a share of about 75% of the global digital music market’s revenues – and this number also includes the competitors that offer streaming or online radio services. Nevertheless, there is still a large amount of digital music stores, and among them, a notable variety of business models and customer value propositions, which will now be discussed in further detail.

When conducting market research on online music stores, what is striking is that many offers that can be found seem to be very similar, but actually differ significantly from their direct competitors. Some very established and large companies such as Amazon, Google, Apple and Microsoft act as digital retailers of songs and albums. All of these services offer comprehensible user interfaces and are relatively easy to operate. Furthermore the comparable prices they charge for the items for sale do not make a prominent difference, with costs usually ranging from 0.79€ to 1.29€ for popular songs. However, one striking difference between the conventional digital music retailers is the size of the catalogs of tracks their customers have access to. While Microsoft's Xbox Music and Google Play Music offer relatively small licensed song libraries of about 18 million (18m) and 20m, respectively, Amazon MP3 boasts even 28m songs and Apple's iTunes by far outnumbers all its competitors with an amount of 37m downloadable tracks. The comparison of the numbers of countries in which the portals are available also shows considerable differences. Some companies like the German-based portal artistxite (7 countries) and Amazon MP3 (9 countries) operate within a relatively manageable, mostly Europe-focused radius, and yet others serve an amount of 20 to 25 markets (7digital, Google Play Music, Xbox Music). Again, Apple breaks all records and justifies its success by making its iTunes Music Store available in over 119 countries (Mathis 2012).

Some of the already mentioned service providers operate in the digital music business merely by running an online music store, such as artistxite and Amazon MP3. Apple, however, additionally offers cloud storage and an online radio service. With the recently announced acquisition of Dr. Dre's subscription service provider Beats Music, the digital music market leader is also able to smoothly enter the fast growing on-demand streaming market, without cannibalizing MP3 sales (Apple 2014; Constine 2014). Apple follows Google and Microsoft's example, which already offer on-demand services as well.

Apart from the ones previously listed, there are also many companies running services that stand out with distinctive attributes such as innovative pricing models or the occupation of niches. Music portals like Bandcamp and CD Baby, for instance, focus on the distribution of independent music by unsigned artists and bands, and thus give people the opportunity to earn money with music and without the obligation of signing a deal with a label. Their music catalogs are relatively small with 8m and 3m songs, respectively. However, both U.S. American services don't have any geographical restrictions, and thus can be accessed by music fans from all over the word. Another online store that sells a rather specific type of music is Beatport, a company founded in 2004, which describes itself as "the largest music store for DJs in the world" (Beatport 2003) with a library consisting of over 2.5m club songs.

Differentiation via pricing strategy is another aspect that makes some online music stores stand out from the crowd. On the previously mentioned portal Bandcamp for example, artists can choose a payment model where consumers may also pay any price higher than the set price, if they want to. In case the artist sets a price of 0€, this is in line with the pay-what-you-want strategy. Moreover, the pioneer eMusic provides its customers an option between a customary pay-per-purchase model and a monthly subscription to a prepaid pricing plan, which involves savings of 25-50% on music. The bonus that a subscriber gets increases with the price paid per month. Beyond that, an Australian-based streaming service follows a completely different approach. The portal Guvera, which mostly serves as an on-demand service and is not available in Germany, also enables its users to download music files. These, however, can only be paid in a virtual currency gained by providing very detailed information about oneself. This enables the service provider to show its users highly personalized advertisements.

As the IFPI Digital Music Report 2014 states, music downloads still come to two-thirds of global digital revenues. In the last year, however, the branch faced a decline of 2.1%. This decline was offset by the remarkable increase of the share of streaming services. Together, in 2013, advertising-supported and subscription streaming services managed to grow by 17.6% and 51.3%, respectively (IFPI 2014).

On-Demand Streaming Services

> „It is now clear that music streaming and subscription is a mainstream model for our business. In 2011, there were eight million paying subscribers to subscription services — today there are 28 million. Ad-supported and subscription streams are rising in most markets, helping grow overall digital revenues for record companies and artists.“ (Moore 2014)

Streaming music means that a user of a service has access to songs and can listen to them without actually owning and permanently downloading a file. The listener thus needs a connection to the Internet, so that tracks can be buffered, that is, virtually downloaded. Today, however, many streaming service providers offer their paying subscribers the possibility of a so-called offline mode. It enables users to technically download music, which then can be accessed until the contractual relationship comes to an end. The term on-demand is what distinguishes conventional music streaming from online radio services. It means that users themselves can pick the songs they want to listen to.

Rhapsody, a Seattle-based company founded in 2001, was the first provider of a music streaming service (Billboard Magazine 2012). At that time, its subscribers had to be online at their computer in order to be able to listen to music (Evangelista 2002). Factors like the restricted availability of usable devices and the limited speed and spread of the Internet may have been reasons for the mediocre success of this technology at the time. In 2008, streaming still accounted for only 9% of the global digital music revenue (insert Fig. 1 here). Around 2010, it started to get compatible with a wide range of mobile devices, which drastically increased the flexibility and helped establish itself in the market (IFPI 2011, p. 7). As Figure 1 shows, the streaming branch even managed to have a 27% share of the digital revenue until the end of 2013. The Swedish music-streaming provider Spotify, which was founded in 2008, made a considerable contribution to the growth of this relatively new market. The fact that the company increased its amount of paying subscribers from 6m to 10m just within the last year underlines this fact (Katz 2014). Furthermore it is noteworthy that in late 2013, Rhapsody executives decided to discontinue its MP3 music store in order to be able to fully concentrate on the subscription service (Bishop 2013). That again shows how this particular market is enjoying growing reputation. However, according to expectations, the lucrative on-demand streaming market does not only consist of two players. There is a great amount of service providers, mainly distinguishable by the pricing strategies they pursue. The following section will name and present the most relevant streaming portals ordered by pricing model. Afterwards, there will be a detailed comparison in order to point out differences and to identify candidates that stand out.

For their streaming services, many providers make use of the classic subscription model. Each period, their customers have to pay a certain amount of money, which allows them to stream as much music as they want to. Examples are many well-known portals like Google Play Music, Sony Music Unlimited and simfy, as well as the pioneers Rhapsody and Napster, which have belonged together since Rhapsody International acquired Napster in early 2012 in order to enter the European market (Sweney 2012). The French subscription service and online store Qobuz and Norway-based WiMP attract attention because, additionally to their normal streaming offers, they also provide a more costly HiFi subscription option with lossless sound quality for 19.99€ per month. Both portals are only available in a few European countries. Another noteworthy subscription service is Cloud Cover Music. The company works with businesses rather than with consumers and provides physical retail stores in the U.S. and Canada with licensed on-demand streaming solutions.

Another pricing plan, which is not as prevalent in the digital music industry as it is for electronic newspapers, is the metered model. In the context of music portals, this strategy is not very different from the freemium concept. The only difference is that in most cases, additionally to the disadvantages a user of the free version already has, the access to the free content is limited as well. This is used by Anghami and also by the Romanian streaming service Zonga, where consumers who use the free version can listen to music up to 20 hours per month. The two better-known services Rdio and Xbox Music allow for unlimited streaming within a period of six months. While users of the former have to subscribe in order to continue using the service after the time has elapsed, those of the latter are still able to listen to music up to a maximum of 10 hours per month.

The freemium model is another payment strategy that many on-demand music-streaming providers make use of. In most of the cases, users who do not subscribe and therefore use the free version of a service can listen to an unlimited amount of music. However, the access is usually restricted to computers and interrupted by advertisements. In case of a periodical subscription payment, consumers get premium advantages like ad-free listening, availability on mobile and home entertainment devices, offline mode, better sound quality, and the possibility of creating and sharing playlists. Some providers also offer rather unconventional special features in order to tempt their users to subscribe to their services. For example, the U.S. American streaming portal for licensed and independent music Grooveshark allures its subscribers with additional advantages such as customizable site skins, priority e-mail support and a crossfader that enables a smooth fade between songs.

At the beginning of 2014, the global streaming market leader Spotify abandoned its listening time restrictions in order to move from a metered towards a freemium model (Rego 2014). This fact and the limited number of portals with time limits show that, unlike for the newspaper industry, most music providers attach significant importance to their free users. They do not want to lose consumers to those competitors who don't have a limitation of listening time. Another notable aspect about Spotify is that subscribers are charged very differently across the world. While U.S. American customers pay a monthly fee of $9.99 for a premium account, the British have to spend £9.99, which is 1.68 times as much, taking into account the currency exchage rates from May 26, 2014. This could possibly derive from the fact that Spotify exploits different levels of willingness to pay across the globe. On the other hand it might also mean that the company just wants to pursue an, at least seemingly, consistent pricing policy.

The French streaming service Deezer is another provider using a conventional freemium model and the second most successful competitor, with over 5m paying subscribers (Dredge 2013), which make about 20% of all its active users.

Both the British mobile-devices-only service Bloom.fm and the Indian provider of Bollywood music Saavn pursue a freemium strategy with multiple prices. The more money customers pay per month, the more tracks can be downloaded for offline availability. This approach can help utilize each potential customer's willingness to pay.

A music portal with a business model very different from those of its competitors, is Earbits, a U.S. American worldwide operating online radio and streaming website for mainly independent music. This provider does not earn money with consumer payments, but with artists who pay fees in order that their songs are played on the website. Earbits usually serves as an online radio, but it turns into an unlimited on-demand streaming service for every user who has enough "Groovies", a virtual currency that can be earned for each activity that supports a particular artist, such as sharing a song or joining the mailing list.

When comparing all the available on-demand streaming services, what is striking is the colorful diversity of different attributes of the players on the market. The only things that show great similarity are the subscription prices for comparable services. For instance, in Europe, almost every portal charges about 10€ per month for a conventional premium service – with providers such as Zonga from Bulgaria and the mobile-only app Bloom.fm left out of account. A considerable amount of companies, including, amongst others, Napster, simfy, Deezer and Spotify, offer an additional lower priced subscription option, which has the advantages of a premium account, but limited to computer-only use. Moreover, some service providers like Qobuz and simfy give their customers the opportunity to choose a longer subscription period, which leads to a benefit on both sides. For example, a simfy user can save 1€ per month in case he subscribes to a PremiumPLUS account for a year, which also has a positive impact on the service provider due to customer retention.

With regard to the aspect of promotions for new subscribers, it is common practice to offer a free 30-day-trial with all premium features to potential new customers. Some firms, however, go a step further to attract subscribers. Individuals who subscribe to the previously mentioned PremiumPLUS plan at simfy get a small music speaker box for free. Furthermore, subscribers of the service rara only have to pay one fifth of the standard price for the first three months, and Rdio offers rebates for each new member of a family who creates an account.

While some subscription portals like Bloom.fm and Zonga are only available in their country of origin, others are accessible from all over the world, such as Saavn and Earbits. The market leader Spotify currently serves a total of 56 countries. Anghami, a Lebanese streaming website, offers music from all over the globe to its users in the Arab world (MENA), while the experience for customers outside MENA is limited to Arabic music. Most of the conventional streaming services offer catalogs of around 25m songs. Deezer and Rhapsody, however, have the largest libraries among its competitors with a collection of 30m and 32m tracks, respectively.

Online Music Radios

Most people would relate the term radio to listening to music in the kitchen or in the car, with a host talking between songs and commercial breaks before the news update at the full hour. Although most of these radio stations also offer a live stream on their webpage, this is not what is meant by the term online music radio. Radio stations on the Internet usually don't have a host. They are personalized services, which mostly pursue the purpose of helping discover new music that fits the listener's taste or mood. Typical users are "lean back consumers" (IFPI 2014, p. 20), who are interested in exploring new songs and artists rather than listening to the same and already known collection all the time. Usually users can create radio stations based on genres or even artists or playlists, in which cases the service plays music by musicians who have a comparable sound.

The first online radio service was Pandora. The U.S. American pioneer was founded in 2000 and is the global market leader with over 250m registered users of which 3.3m are paying subscribers, even though the service is only available in the U.S., Australia and New Zealand (Pandora 2014). The company's secret to success is based on its Music Genome Project, a huge and continuously updated database, which includes every song of the catalog analyzed by music analysts using up to 450 diverse musical characteristics. This approach aims at developing a detailed understanding of each user's individual taste in music, which in turn helps the program provide the listener with new music that is likely to suit his or her taste. Figure 2 shows that with 31%, Pandora is by far the most commonly used streaming service in the United States. Apple's iTunes Radio, however, which only started operation last fall, already accounts for a share of 8% with over 20m users. At the moment, the service is only available in the United States and Australia, but according to reports, more international rollouts are likely to be ahead (Gurman 2013). iTunes Radio is considered to be an opportunity to globalize the online radio model, a model that outperforms other music service strategies in the U.S., probably due to its high potential to explore new music and the comparatively low prices (IFPI 2014, p. 20).

Both of the previously discussed web-based radio services use the freemium model as their pricing strategy. What became clear during the research procedure is that almost all of the music portals on the market, which offer radio services, do so as well, albeit the market is very diverse. The sole portal that pursues a metered pricing strategy rather than the freemium model is the aforementioned Rdio, which only allows its free users to listen to radio stations or songs on demand for a limited period of six months. The German Aupeo! is an online radio service that offers its paying subscribers a better sound quality and allows for a higher (although still limited) amount of possible song skips, compared to the ad-based free version. The music portals Bloom.fm and Slacker also offer their users an advertisement-based radio service with a limited amount of song skips for free, but it is possible to stream songs on demand as well, for which one has to subscribe on a monthly basis. Beyond that, Slacker also gives its customers the less costly opportunity to subscribe to the Radio Plus plan, which removes ads and allows for unlimited song skips. More portals that offer both on-demand listening and radio services are Spotify, Grooveshark and the independent music portal Earbits, which was already discussed in the previous section. The Spotify radio service can be based on genres, artists, songs or playlists and can gradually adapt to one's taste in music by analyzing the listener's song skipping behavior and clicks on the provided thumbs-up or thumbs-down buttons. This is also available for free users whose listening experience is sometimes interrupted by ads.

Grooveshark also offers radio stations additionally to its on-demand streaming service. Last year the company, which operates in every country but Germany and Denmark because in these two countries the licensing fees became too expensive, launched a radio feature called Broadcast. It enables both free users and subscribers to become "web DJ's" and broadcast their own interactive radio stations where they can play music, make announcements and communicate with the listeners (Peoples 2013). Apart from that, the service also offers radio stations comparable to those of Spotify.

Apple's iTunes Radio learns about its users' listening behavior by analyzing the songs they listen to via the iTunes player. An additional feature that increases the service's profitability, apart from the advertising income and iTunes Match subscription fees, is a Buy-button, which enables the consumer to directly purchase the song that is currently playing.

The portal last.fm from the United Kingdom is a widely used music recommendation service. It makes use of an own technology called scrobbling in order to collect information about what music its users are listening to. Some music services such as Spotify have an integrated last.fm interface which sends the listening information to their server. In case a last.fm consumer does not use such a service, one can download a program called The Scrobbler, which is able to identify songs played via many various sources. The webpage itself offers personalized radio stations based on one's recommendations, genres, songs or artists. Each song that is played is accompanied by features like information about the artist, similar musicians and even a Buy-button that provides links to numerous music download stores and lists all the individual prices. The songs from the radio are played via an embedded YouTube video player. Additionally, last.fm enables its users to stream songs on demand via an integrated player, which plays songs through Spotify in the background– this naturally also includes advertisement breaks in case the consumer is not a Spotify premium subscriber. There are also several advantages from subscribing to last.fm for 3€ per month. For example, paying customers can filter radio stations by tags, get 30% discounts on merchandize and are not confronted with advertisements on the homepage itself.

Another interesting recommendation service and online radio is the French portal Musicovery, which does not only play music based on the consumer's music taste, but also takes into consideration the listening context. Listeners can specify their country of origin or residence, they can like or dislike played songs, choose the level of familiarity that the songs should have and even express their mood on the so-called mood pad, which has two axes, ranging from “dark” and “calm” to “positive” and “energetic”. Subscribers who pay 2€ a month enjoy typical advantages like a better sound quality and no ads.

A comparison of different music portals shows that subscription prices of online radios and recommendation services are much cheaper than those of most of the competition within the digital music industry. Subscribers usually only have to pay 2€ or 3€ per month (or an even lower fee in case of yearly contracts) in order to enjoy a service’s specific premium advantages. In other cases like Spotify or Rdio, where radio and on-demand features are combined, radio stations can be interpreted as an additional feature rather than a significant component of the service. The fact that pure streaming services that do not offer radio stations (for example simfy or Rhapsody) charge the same prices underlines this. As far as the amount of available songs is concerned, portals, which mainly focus on music recommendation and radio stations, such as Musicovery, Pandora and Aupeo!, have relatively small music databases containing around 1m songs, while those online radios of other music portals can draw on more sizeable catalogs. As regards the geographical coverage, some renowned portals are almost only available in the United States, such as iTunes Radio, Pandora and Slacker. Other online radio providers, however, are usually available in at least 50 countries.

Discussion

Conclusion and Critical Evaluation

The extensive research on the marketplace of digital music portals has revealed numerous different business models and possibilities for people to consume music via digital channels. The three relevant distribution formats, which have been examined in the previous section are online music stores, on-demand streaming portals and web radios. Each of these business models has its individual advantages and drawbacks and attracts different kinds of target groups. Online radios like Pandora, for example, do not offer their users a particularly great flexibility, as one cannot listen to a specific song on demand without making use of another medium. On the other hand, however, these services are especially good at helping consumers explore new music and offer a comparably low level of pricing. These might be reasons for the constant growth of global revenues from online radios since the inception of Pandora, with a total of $827m in 2013, as shown in Figure 3. Like previously mentioned, albeit the popularity of download portals faces a slightly declining trend, they still make for the lion's share of digital revenues in the music industry. One possible reason for this is that many people still like the idea of actually owning a file more than just having access to a song in the cloud. Beyond that, there are still situations where the ownership of music is the only reasonable option. Examples for this are DJ's who use their computer or burned CD's when playing music, people who do not own smartphones or those who can only use CD's in order to listen to music in their car.

Nevertheless, current trends and widely spread opinions indicate that the technological world is moving towards a cloud-based environment; especially since the information technology industry's big players' main goal has become to make everything as connected as possible. The quickly growing amount of people who subscribe to streaming services supports this thesis, just as the development of the digital music market leader Apple's opinion about this business model over the last years. While in 2007 Steve Jobs, against the will of record companies, explicitly refused to enter the subscription market because "people want to own their music" (Martell 2007), in May 2014, Apple now announced the acquisition of the streaming service Beats Music and thus eventually enters the market (Apple 2014), being the first company to offer on-demand streaming, a download portal and radio stations.

Streaming services seem to put much effort into tackling the misconceptions and drawbacks that come with this kind of business model. For example, using the offline mode and downloading songs is quite similar to actually owning music files, as one can still listen to music despite lacking connection to the Internet. Also, if a track is not available in the catalog, programs like Spotify allow their users to insert local files into their playlists. That way, listeners do not have to use multiple music players and can stick to their favorite one. Moreover, streaming services with high-end subscription options like Qobuz or WiMP can even attract consumers who normally only listen to CD's due to personal quality requirements regarding the listening experience. Features like the ability to share music and chat with friends, to follow artists' accounts and see what music they are listening to, as provided by Spotify for instance, even give the users a feel that resembles a sort of interactive listening. These factors certainly contribute to the quickly growing success of subscription services in the digital music industry; but although it has been proved that the increased use of streaming portals has played a big part in the significant decrease of music piracy in the last years (NPD Group 2012), there are still numerous artists and labels that fight this growing business model. Albeit Spotify claims to pay around 70% of all revenues to the music rights holders and expects much higher payments with a growing subscriber base (insert Figure 4 here), some bands such as AC/DC or Radiohead singer Thom Yorke do not provide their music to this (or any other) portal because the payments are too low (Savvides 2013). Others take a less radical step but make their songs available to streaming services only a certain time after the actual release date (Harvey 2014).

However, there are much more ways to digitally distribute music via the Internet. Considering all these in this essay would have gone beyond the scope of the topic, which is why this work mostly dealt with the three main forms of music portals that provide paid content to its users. Nevertheless, some examples are worth being mentioned. In 2007, fans of the English band Radiohead could download an entire new album from their homepage by paying as much as they wanted to (Carter and Curry 2010, p. 759). With the financial outcome in this case being even more profitable than a conventional CD release (Sinha, Machado, and Sellman 2010, p. 50), the results of using a pay-what-you-want pricing policy were in line with what can be expected according to the academic literature. The business model of the direct-to-fan portal PledgeMusic is another interesting approach. The portal enables its users to support artists by giving money that is needed for album recordings or concerts, for example. In turn, depending on the price that was paid, the donation given usually serves as a pre-order of the good that is about to be produced. Furthermore, as shown in Figure 5, video-streaming portals such as YouTube, Vimeo and Vevo make for a very significant share of how people listen to music. However, due to the fact that this work focuses on pure music portals, the conducted research did not involve such services.

Managerial Implications

The digital music market is not really an industry characterized by very distinct prices. Especially subscription services charge strikingly similar prices, leaving price promotions out of consideration. Yet every business model's competitive environment has one clear market leader, namely iTunes, Pandora and Spotify. In the case of iTunes, reasons for this might be the unrivaled size of its music catalog and the good reputation of Apple, while Pandora's success possibly stems from its first mover advantage in the field of online radios. As regards Spotify, it is maybe the abundance of features and the high degree of user interaction, which has caused the quick economic growth of the relatively young company. But perhaps it is simply the quality of the service offered by the market leaders that justifies their success.

According to reports, Beats Music lowered its yearly subscription prices significantly on the very day of its acquisition by Apple, which Boranos (2014) considers as the start of a price war. Given these current market events and because there are probably many companies that cannot compete with such low prices, the aspects of quality and ability to innovate might grow even more in importance in the near future, especially in the field of music streaming.

Several things could be done in order to stand out from the crowd. One possible action, which appears quite intuitive and seems to be only a matter of time, would be to embed music videos into a portal. But not only music videos, also the availability of band promotion videos and documentaries, live recordings or even live streams to concerts would most certainly attract the attention of potential customers. Furthermore, last year, Beyoncé's self-titled visual album that is only available on iTunes, has shown that exclusive content can have a great impact and be very successful (Christman and Pham 2014). Therefore, winning well-known artists over to exclusively release songs or albums might be an expensive affair but has the potential to provide for attention. Another feature, which would most certainly receive a warm welcome from many music fans as well as professionals, is an interface that allows for a link between a streaming service and DJ-ing software. This could have multiple positive impacts on the industry. On the one hand, DJ's would ideally not have to bring their music library but could easily access their playlists via the Internet. This would also have the positive side benefit of being able to spontaneously react to song requests from the crowd. On the other hand, the music rights holders would financially benefit from this feature because as a result, there would be less unlicensed music played on parties.

A possible action that subscription services like online radios and streaming services could take in order to increase revenues in the long term is to give users the opportunity to choose between several different price-advertising-ratios. Prasad, Mahajan, and Bronnenberg (2003) state that this is mostly the optimal strategy. By the way of example, a portal could embed advertising between songs as well as in the form of banners to click on in the case of free users. Subscribers who pay around 10€ per month would not be confronted with ads at all, while others who pay a smaller fee could listen to music without interruptions but still see banners. That way, companies could stand out and furthermore make use of different levels of willingness to pay of potential customers.

Further Research

This paper examined the variety of how different business models and pricing strategies are implemented on the market place of digital music portals. Although not considered in this work, there are several related directions, which would be interesting for further research. The aspect of piracy undisputedly has a major impact on how music can be monetized. Several studies in the past have been dealing with the issue of what steps can be taken in order to fight music piracy (Dörr et al. 2013; Sinha, Machado, and Sellman 2010). However, in this time of considerable changes in the landscape of the music industry, it would be interesting to find out more about possible positive side effects of the distribution of unlicensed music and about how the impacts of different business models on piracy differ from each other.

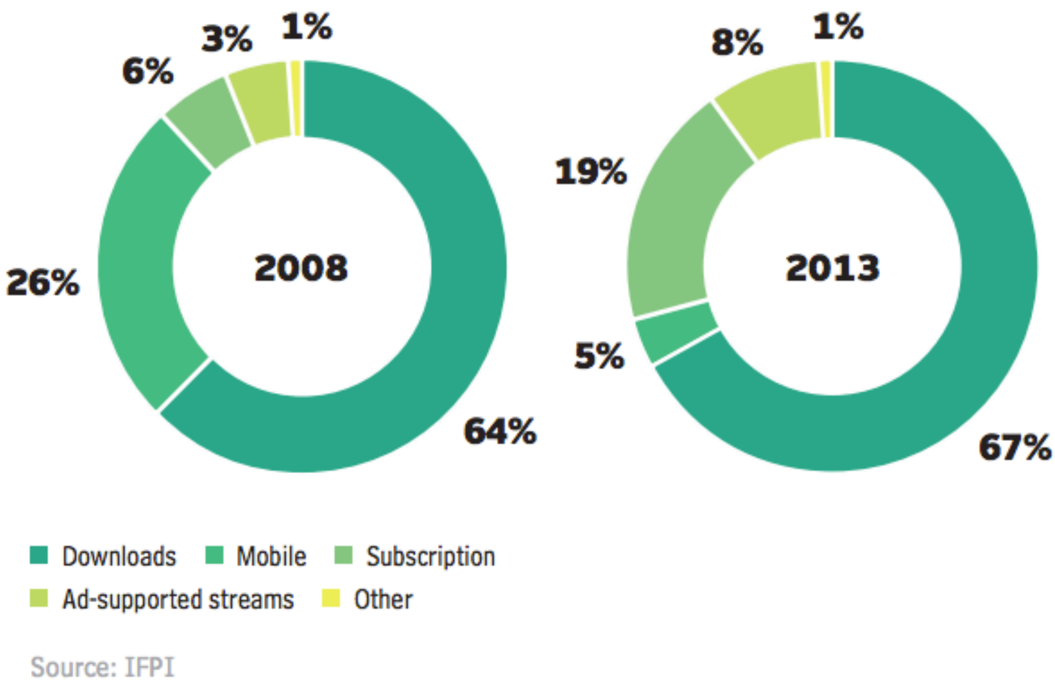
Moreover, an interesting aspect that may be worth addressing is the question of how the effectiveness of pricing strategies varies between different business models. Further research within the context of digital music could for example reveal why in the field of online radios, sampling strategies are far more prevalent than pure subscription services.

Last but not least, the extreme differences of music-listening habits across countries are a point that is worth examining. Figure 6 shows that the share of digital music in the total revenues of the music industry is more than twice as high in the United States as in Germany, while in Japan, it has even faced a constant decrease since 2011. What is also interesting is that even though iTunes makes for three quarters of the world's digital revenue (AppleInsider 2013), nevertheless there are also countries such as Sweden, where subscription services account "for 94% of the digital market" (IFPI 2014, p. 34). These country-specific disparities show that further examination is needed regarding the questions of reasons for this variety, how the industry can make use of it and what can be done to tackle problems that could potentially arise from the differences.

Figures

Figure 1

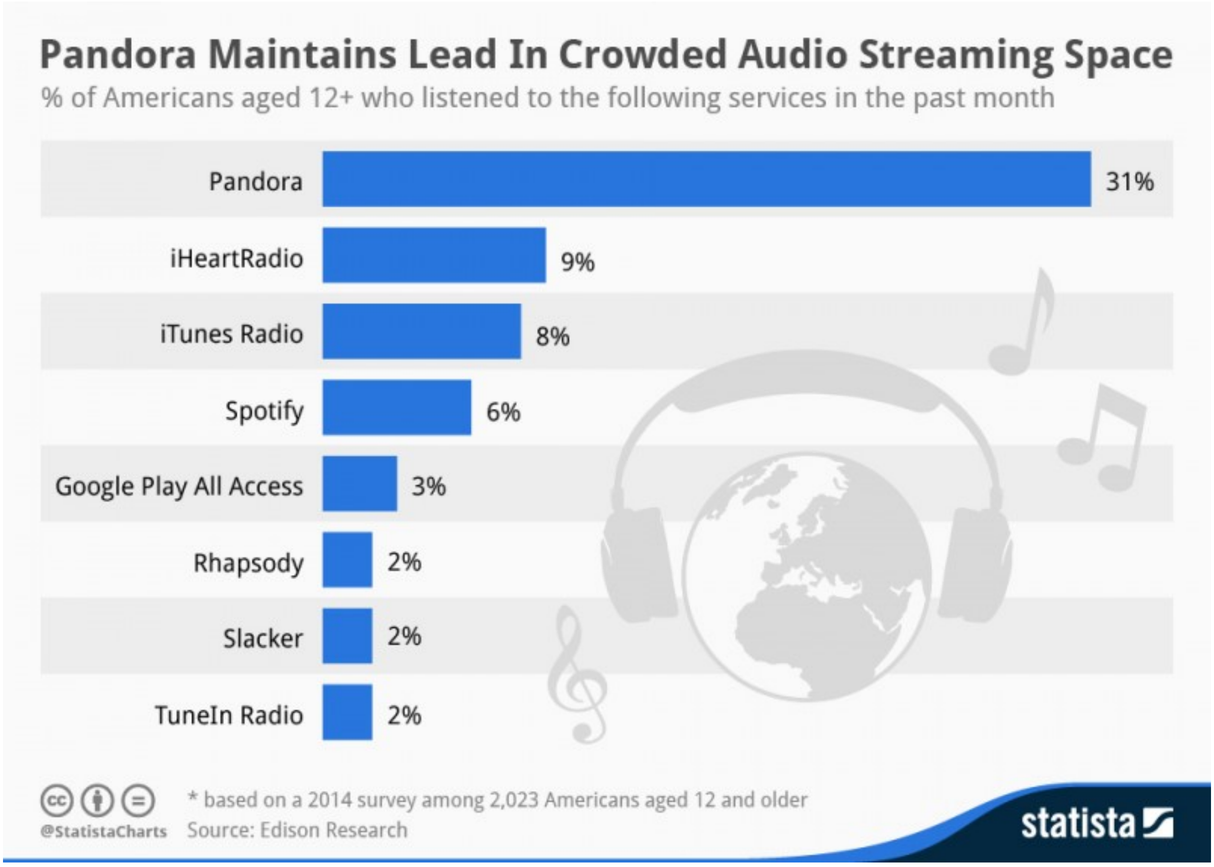
Digital Revenue Breakdown by Format, 2008-2013



Source: IFPI Music Report 2014, accessed April 17, 2014; available at:

http://www.ifpi.org/downloads/Digital-Music-Report-2014.pdf

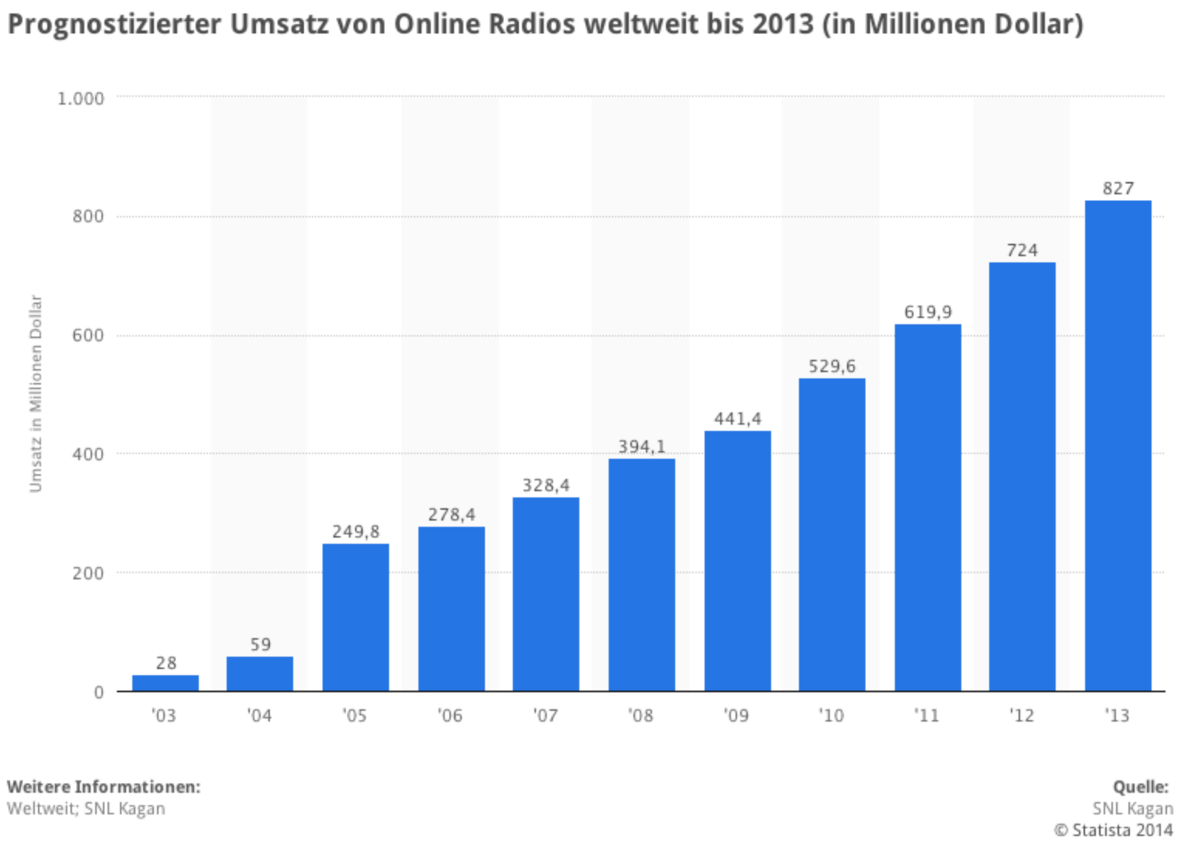
Figure 2



Source: Edison Research, accessed May 31, 2014; available at:

http://www.statista.com/chart/1982/music-streaming-services-in-the-united-states/

Figure 3

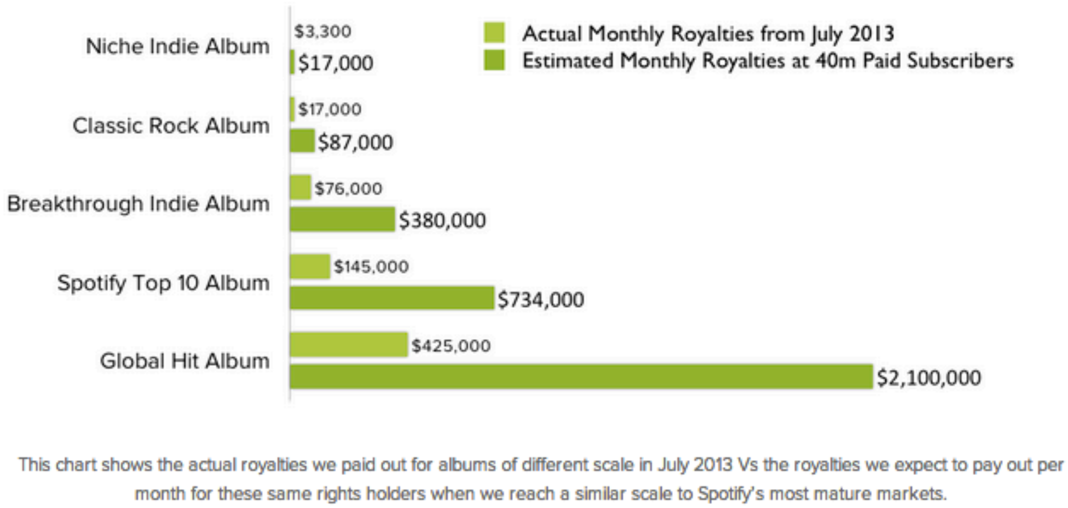


Source: SNL Kagan, accessed May 31, 2014; available at:

http://de.statista.com/statistik/daten/studie/70618/umfrage/online-radio-prognose-zum-umsatz-weltweit-bis-2013/

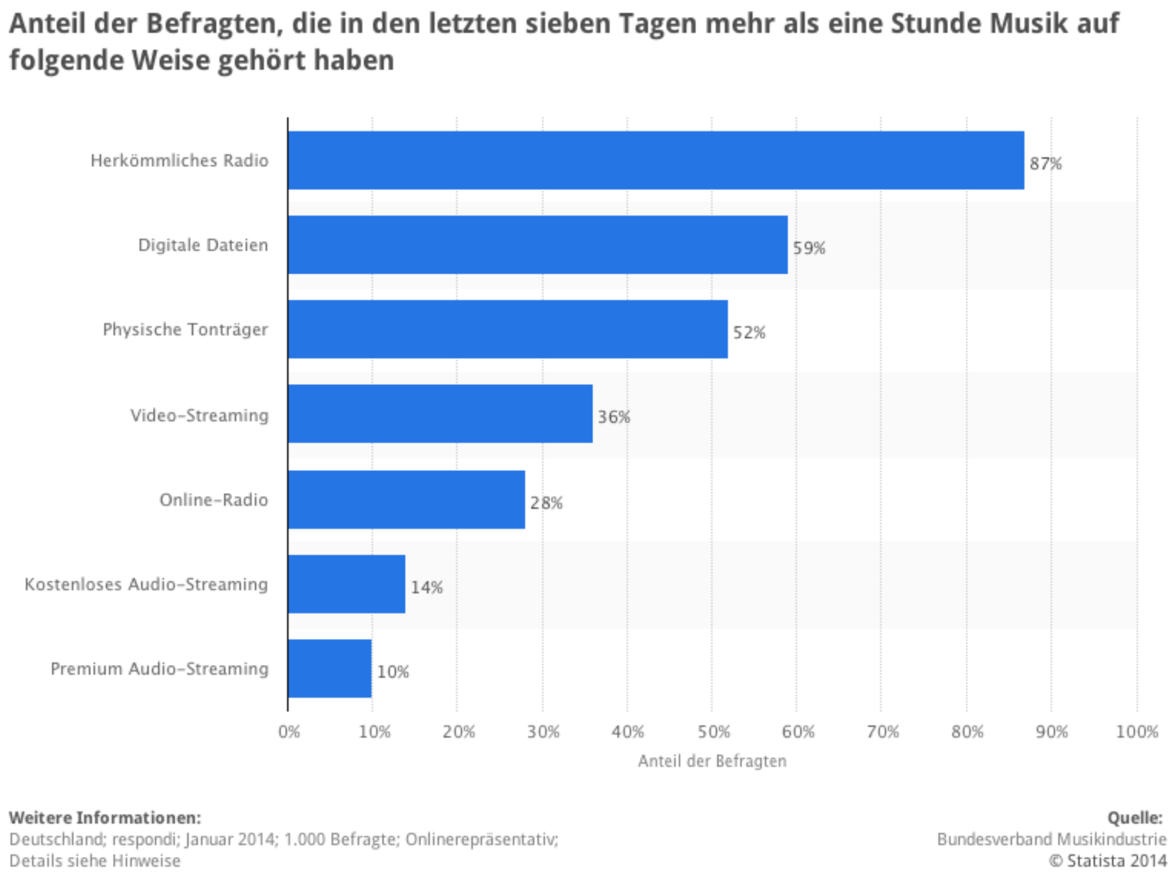
Figure 4

Spotify: Actual royalties paid out in July 2013 vs. expected payout at 40m subscribers



Source: Spotify, accessed May 31, 2014; available at: https://www.spotifyartists.com/spotify-explained/

Figure 5

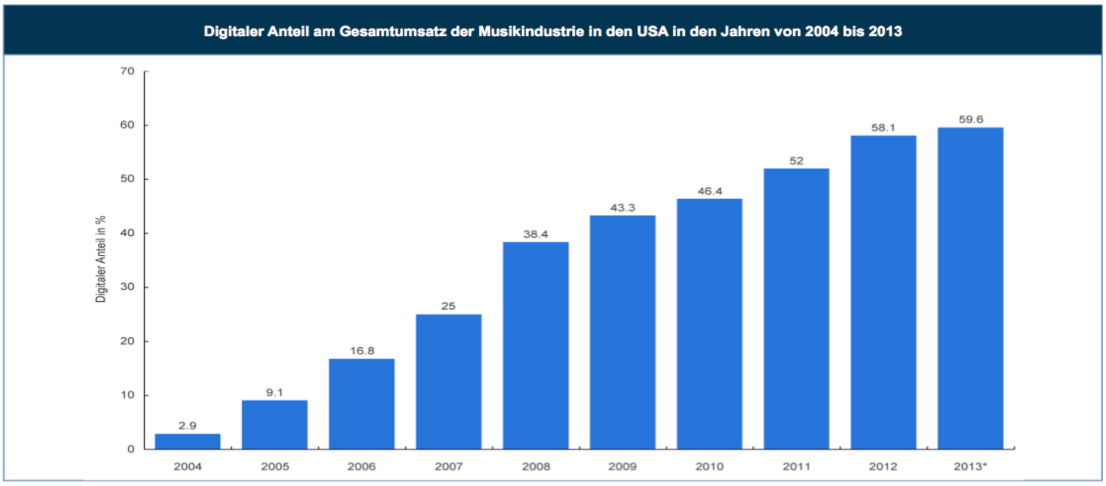


Source: Bundesverband Musikindustrie, accessed May 31, 2014; available at:

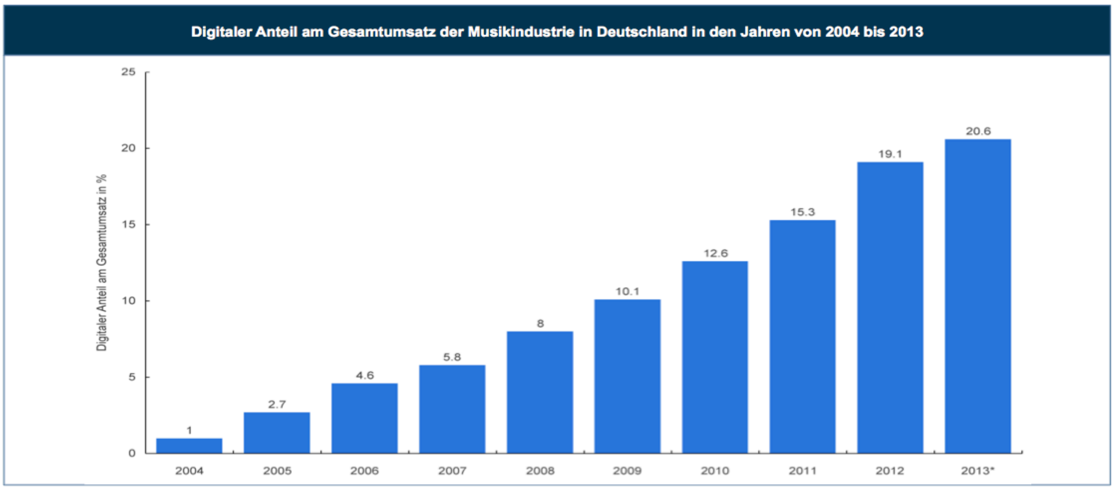
http://de.statista.com/statistik/daten/studie/292878/umfrage/reichweiten-der-musiknutzung-in-deutschland/

Figure 6

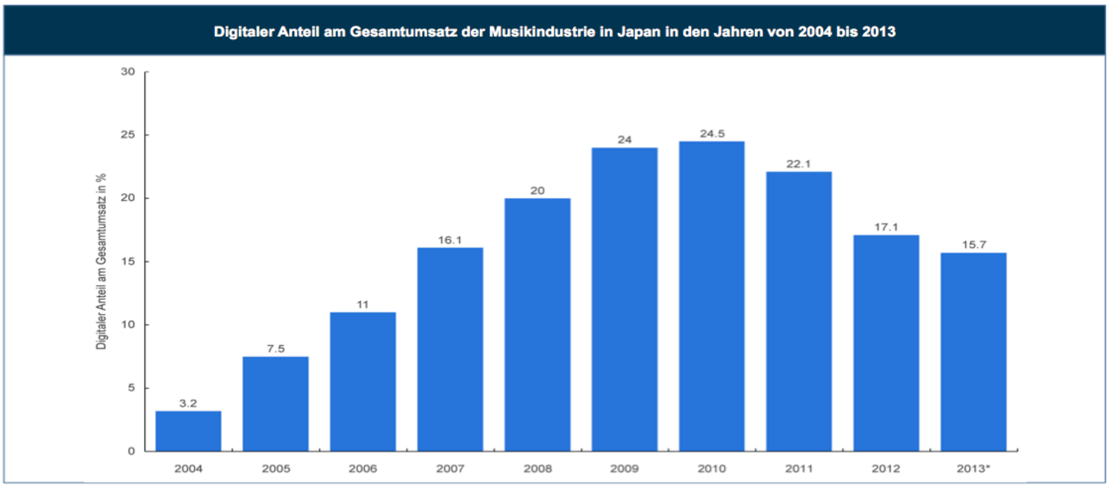
Digital revenues' shares of total revenues of the music industries of the U.S., Germany, Japan



* Trend, endgültige Zahlen lagen bei Redaktionsschluss noch nicht vor.



* Trend, endgültige Zahlen lagen bei Redaktionsschluss noch nicht vor.



* Laut Quelle handelt es sich um einen Trend, endgültige Daten lagen bei Redaktionsschluss noch nicht vor.

Source: Bundesverband Musikindustrie, accessed May 31, 2014; available at:
http://de.statista.com/statistik/studie/id/6339/dokument/musik-statista-dossier-2012/

Appendix: List of Abbreviations

IUMA	Internet Underground Music Archive
m (e.g. 8m)	million (e.g. 8 million)
MENA	Middle East and North Africa
PWYW	pay-what-you-want

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