

Evolution and Challenges of Premium Music Streaming Service: A Preliminary Perspective

Nur Idayu Roslan ^{a,*}, Siti Zaleha Sahak ^b, Nooraini Mohamad Sheriff ^c

^{a,b,c} Arshad Ayub Graduate Business School, Universiti Teknologi MARA

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ABSTRACT

Music streaming represents one of the latest technological advancements that transform the way listeners incorporate music into their lives. Streaming services enable listeners to access a massive library of music for free or for a fixed monthly payment. Hence, the market consists of at least two groups of listeners. The first group is the freemium users: the listeners who use the free service. The second group is listeners who subscribe to premium music streaming; the group is known as the premium users. Online music streaming companies such as Spotify, Joox, iTunes, Google Music, and Apple Music offer freemium and premium streaming services. The reviewed literature indicates that the rise of music streaming and the market demand. However, this comes with an array of challenges that may potentially retard the growth of online music streaming nationwide. Among others are the consumption behavior and attitude towards premium subscriptions followed by an overwhelming use of free basic services that has impacted the industry's profitability. For instance, Spotify has over 60 million active users globally, yet only 15 million subscribed to the premium streaming service. This study will ascertain key challenges that may potentially slow down the growth of online music streaming in this country which otherwise may prove to be a potentially profit generating business for industry players.

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*Corresponding Author:
siitiza344@uitm.edu.my

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INTRODUCTION

In a broad sense, the music industry is a part of the media industry. The music business belongs to the radio station, in the sense of describing the old media industry. As part of the old media industry, the revenue created by the music industry is derived from the sales of vinyl records broadcast over radio (Lozic, 2020). The music industry has transformed from vinyl to streaming in migrating from the old to the digital media industry. As early as 1980, the manufacturing of cassettes has added to vinyl output (Fuentes et al., 2019). In total, sales of vinyl album and cassettes rapidly gained supremacy, but lasted only until the beginning of 1990. The onset of digital media has made it possible to produce CDs that have replaced traditional vinyl and cassette technologies very quickly (Simon, 2019).

Since the rise of digital channels for media distribution, the music industry has undergone a major transformation process, which was characterized by plummeting revenues and a strong growth in digital sales in recent years (Wlömert and Papies, 2016). Music streaming is the latest in a line of technological advancements that has transformed the way music has been incorporated into our lives (Krause et al., 2015; Lepa and Hoklas, 2015; Schramm, 2006). Music streaming services has created access to enormous libraries of music (some as large as 40-million songs) and allowed listeners to select individual songs or choose curated experiences (Krause et al., 2015; Weijters et al., 2014). The digital music revolution is heading into the next phase as listeners adopt streaming and subscription models in markets around the globe. Digital media streaming including music streaming, has also become increasingly popular among Malaysians. Streaming technology has made consuming music and listening habits more versatile. Music and streaming services made it possible to create playlists which could be shared between users. (Sinclair and Tinson, 2017). Among renowned online music streaming services includes Spotify, Joox, iTunes, Deezer, and SoundCloud, Google Music and Apple Music (Mäntymäki and Islam, 2015).

Streaming had made a strong market presence in 2020, with a revenue hike of 19.9 percent amounting to US\$13.4 billion. Paid subscription streaming was the key contributor with an increase of 18.5 percent. Streaming being a dominant format accounted for 62.1 percent of the global recorded music revenue. In fact it accounted for more than half of the global revenue in 48 markets, and attained revenue increase in 12 markets from 2019 (IFPI, 2021). However, in

2020, music consumption shifted from an ownership model to an access model, with revenues from downloads and other digital sources declining by 15.7 percent. Revenue from permanent downloads fell by 17.3 percent, accounting for less than 6% of total revenue and valued over more than US\$1.2 billion (IFPI, 2021). Liikkanen and Aman (2016), postulated the main resources for music consumption which offers an interaction practice with digital music are Spotify and YouTube. However, YouTube has been perceived as more sharable while Spotify as more faithful. Often YouTube has been utilized to complement the library of Spotify when it is perceived as incomplete. Consequently, in Asia, digital sales grew by 9.5 percent which exceeded 50 percent of total sales generated (IFPI, 2021).

According to International Federation of the Phonographic Industry (IFPI), the organization representing the recorded music industry worldwide, the world music market grew by 7.4% in 2020, being the sixth consecutive year of growth. Today, figures in IFPI's Global Music Report showed a total turnover of 21.6 billion US dollars for 2020 (IFPI, 2021). This was the sixth year in a row that revenues increased, stemming from continued increase in paid subscription streaming. This increase revenue trend was offset by a decline in physical and performance rights revenues (IFPI, 2021). Figure 1 shows the global recorded music revenues by segment in the year 2020.

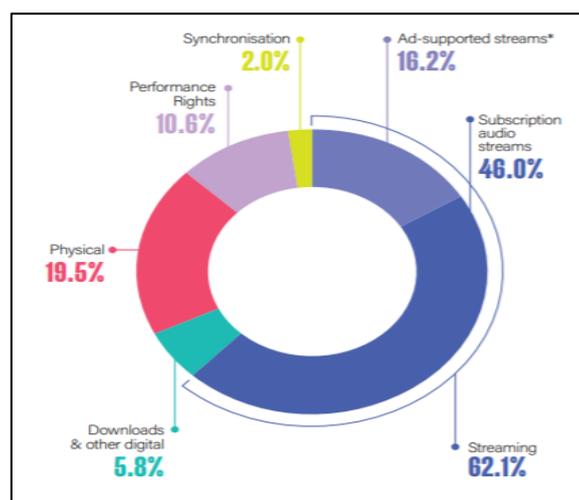


Figure 1: Global Recorded Music Revenues by Segment 2020 (IFPI, 2021)

One Stop Music (OSM) is a collective organization established in 2006. The organization received full support from the Recording Industry Association of Malaysia (RIM) to represent

independently owned RIM record label members to conveniently provide their members, content aggregators and users with digital license. OSM has evolved and merged to establish a new entity, One Stop Music Berhad (OSM) representing over 300 members, including record labels and music publishers and serves as a one stop clearing house for the majority of self-producing music in Malay. It is also the 4th major music player in Malaysia after multinational record labels namely Sony Music, Universal Music, and Warner Music. OSM's objective is to represent as many local music rights holders as possible and to provide an equitable and cost-effective platform to grow their digital music business (OSM, 2021). Many streaming providers have registered with OSM, such as Spotify, JOOX, YouTube Music, iTunes, TikTok, and Deezer (OSM, 2021).

Among the online music streaming service provider, the Freemium business model has received more attention as opposed to the Premium business model because of its high-volume user traffic in the absence of heavy promotion investment. In fact, academics and practitioners have increasingly subscribed to this business model. This study aims to explore key challenges that may potentially slow down the growth of online music streaming in this country which otherwise may prove to be a potentially profit generating business for industry players.

Defining the concept of freemium and premium music streaming services

Freemium Music Streaming Services

Since 1980's the well-known Freemium business models were introduced by software companies to offer free versions of music streaming services that provided limited features. The core service delivered basic quality such as stability and general technical competency. These quality factors are important for the music streaming services even on a freemium level (Hamari et al., 2020). Freemium's business model is based on offering basic services to listeners, as suppliers earn their revenues through advertising. In short, if advertisers' benefits are sufficiently large from listed advertisements compared to the intrinsic value of the platform, listeners that use the basic service will not pay anything (Sato, 2019). In anticipation, listeners will over time develop requirements for advanced features and therefore use premium services (Wagner et al., 2014). Incidentally matters such as unauthorized downloading (Hampton-Sosa, 2017) and attitude towards digital music services (Dörr et al., 2013; Fernandes and Guerra, 2019) have been gaining the attention of researchers in recent times.

Many music streaming services offer referral bonuses for introducing friends to the paid service which seemingly is more appealing when the product is free. Furthermore, freemium is more successful than the 30-day free trial or other limited-term offers because listeners are apprehensive of time-consuming cancellation processes and find indefinite free access more appealing (Kumar, 2014). Additionally, the freemium rate of 1% is probably too low, especially if there is a sole reliance on subscription revenue. As such, the New York Times and LinkedIn, also generate revenue from online advertising. This indicates that when too much of what is being offered is free, listeners are left with few reasons to upgrade, or that listeners don't understand or value the premium features offered (Kumar, 2014). In a nutshell, converting 5% of 2 million monthly visitors is preferred to converting 50% of 100,000 visitors. Henceforth, the best long-term strategy is to aim for a moderate conversion rate ranging from 2% to 5% combined with a high volume of traffic. However, if a small market is targeted, aim for a higher rate (Kumar, 2014). To sum the idea of providing listeners with free music streaming services stems from the industry's desire to reduce music piracy, avoid lower sales due to piracy, and lower revenue for music rights holders (Aguiar, 2017).

Premium Music Streaming Services

To date music streaming services enables listeners to either access a huge library of music for free or for a fixed monthly payment. The rise of music streaming services and explosion in number of users (IFPI, 2016) has made it important for the industry to understand the consumption behavior of listeners. More so, the overwhelming use of free basic streaming models is a cause of concern to the industry due to its lack of profitability (Kim et al., 2017). For instance, Spotify has over 60 million active users worldwide, however, only 15 million of them pay for its Premium service (Mantymaki and Islam, 2015). Basing on this trend, music streaming service providers have strived to increase the number of paid streaming service subscribers in order to create a positive net effect on revenue (Wlömert and Papies, 2016). Music streaming users will get full access when they subscribe to the premium version. According to Aguiar and Waldfogel (2018), users tend to turn to other premium platforms of access because the possibility to stream offline for the free version does not offer.

Premium account gives the consumer the ability to download and choose the songs they want to listen. By way of contrast, free accounts subscribers can only listen to content online and can hear content in a "shuffle" mode only. Spotify allows users to freely listen to content or pay a subscription fee that can be cancelled on the premium account at any time (Amalina, 2019). Moreover, additional features such as enhanced content quality and exclusive content may be available in the premium version. Studies have uncovered that listeners who upgrade and retain a premium subscription of music streaming service have derived pleasure and enjoyment from doing so (Mäntymäki et al., 2019). Music can be played in audio and video formats with a premium account without advertisement. Music tracks can be downloaded to listen offline. Moreover, the paid account also frees up music in the background. If you are a free user, when you switch to other apps and turn off the screen, the YouTube Music app stops playing (Wong, 2019).

CHALLENGES OF PREMIUM MUSIC STREAMING SERVICES IN MALAYSIA

Music streaming services encompasses two groups of users notably basic users called freemium and premium subscription called premium users (Mäntymäki et al., 2019). A large amount of high value content is revealed in the free portion. Nevertheless, users are eager to pay for added value a premium music streaming service offers by looking for a rich and unique content experience and satisfaction derived from the content (Bertholdson, 2015).

A major challenge for online music streaming services for many years now is to understand and model the behavior of users for such service. This has resulted in a large number of works being commissioned on click modelling for web search and online advertising. User behavior modelling is equally important to music streaming services, since currently there is no user interaction data sets available to the public. To this end, where the design of systems such as premium music streaming service, must be based on the use of implicit feedback, this is an obvious limitation (Brost et al., 2019). There are two characteristics of music streaming service namely access to a large library of music and the geographical independence, as long as the user has purchased the premium account so as to be able to listen offline. This also applies to MP3 players, as music listening options continue to evolve.

Additionally, content is critical for a service platform that offers a freemium option and to convert freemium consumers into premium subscribers (Shardul, 2017). Freemium offers a similar experience to the premium service, therefore there is a need to increase user's intent to purchase the premium version. Literature has showed that price is a main consideration in users development of purchase intention for paid music streaming service (Shardul, 2017).

Moving on the Internet has led to innovation that spans many technological advances in information technology. The music industry is a case in point where the Internet has undergone a phenomenal transformation to date. Despite the much-discussed issue of music piracy, Recording Industry Association in 2019 has reported a retail revenue of about \$11.1 billion in the American music industry. This is up from 9.8 billion dollars from 2018 and 8.8 billion dollars in 2017. The consumption of streams increased from 75% in 2018 to 79% in 2019. Thus, implying the presence of positive growth potentials in the music streaming services. In Malaysia, JOOX, for instance, has launched 'JOOX Originals' in the year 2020 as part of its comprehensive 2020 development plan. About 46.1% of music streaming users in Malaysia use JOOX (Lim, 2020).

Nevertheless, the path to profitability is long and windy. Despite the increasing popularity of music streaming among users, streaming music services is confronted by various challenges such as free minded mentality, limited available income in focus markets for the listeners, relative insufficiency in mobile data accessibility, piracy prevalence, prevalence among the mass market consumers of low-end smartphones and also lack of knowledge on how music streaming will increase the growth market (McKinsey and Company, 2016).

CONCLUSION AND FUTURE RESEARCH DIRECTIONS

The music streaming services similarly to digital online music, has incorporated several features, abilities to fulfill the needs of music listeners. Technology has evolved rapidly across various industries including the music industry. The music industry is stiving very hard to increase paid subscriptions by converting free listeners into paid subscribers to ensure their long-term survival. Yet, many music streaming service providers fight this new reality because the psychological and social purchasing motivations of consumers cannot be clearly

understood. Government in Malaysia also have to institute proper and effective legislation to promote as well as safeguard the growth of this industry.

To date the local music industry is still undergoing a major revolution. Unlike the American music industry in recent years, premium music services in particular have grown. Nevertheless, greater insights into the intention drivers of individuals to subscribe premium music streaming is much needed. Consequently, the importance of assessing the time needed to reach the critical masses and determining the probability of technology innovation success or failure of Premium music streaming for business managers is also of equal importance.

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