



Press Release

Streaming services are a blessing and a curse for the music industry

How streaming services are influencing the music industry: Latest research study from researchers at the University of Tübingen and WU Vienna

Dr. Karl Guido Rijkhoek
Director

Antje Karbe
Press Officer

Phone +49 7071 29-76788
+49 7071 29-76789

Fax +49 7071 29-5566
karl.rijkhoek[at]uni-tuebingen.de
antje.karbe[at]uni-tuebingen.de

www.uni-tuebingen.de/aktuell

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Paid music streaming services can increase revenues for the music industry and lead consumers to spend more money on music overall. Free streaming, in contrast, is less beneficial. These are the findings of a recent empirical study by researchers at the University of Tübingen and WU Vienna. Dominik Papies, Professor of Marketing at the University of Tübingen and Nils Wlömert from WU Vienna interviewed over 2500 music fans over the course of more than one year. They found that although free as well as paid streaming services reduce revenues from CDs and downloads, the subscription fees for paid streaming services over-compensate for the losses in other channels. The results of the study will be published in a forthcoming issue of the *International Journal of Research in Marketing* [doi:10.1016/j.ijresmar.2015.11.002](https://doi.org/10.1016/j.ijresmar.2015.11.002).

Just a few years ago, most consumers purchased their music on CD and by download. More recently, streaming services such as Spotify or Deezer have seen strong growth and attracted millions of customers. Users of these streaming services have unlimited access to millions of titles and their access ends when their subscription expires. Some of these services are free and supported by advertising, others require a monthly subscription fee such as 10 EUR/USD. Whether these services benefit artists and record labels is currently a subject of intensive debate in the music industry. Although these services are very popular, artists are particularly concerned that revenue from established formats such as CDs and downloads will decline. This is one reason why popular artists such as Taylor Swift or Adele recently opted not to offer their music via streaming services.

Papies and Wlömert wanted to gather empirical evidence for answering exactly this question. From January 2012 to February 2013, they repeatedly interviewed a group of more than 2500 participants regarding their music consumption. During this time, Spotify was launched in

Germany. This enabled the researchers to follow exactly how the behavior changed when consumers began using a streaming service. This approach of studying the change in consumer behavior after consumers start using the service is generally more useful than a study which only compares consumer behavior between users of streaming services and non-users.

The findings clearly show that users of streaming services purchase less music than before. Users of free, advertising-financed streaming services reduced their music expenditure by 11%. Consumers who paid for subscription streaming services even reduced their expenditure by almost 25%. Economists describe this phenomenon – when a new service decreases revenue in established formats – as cannibalization.

However, the picture changes when the revenue from advertising or subscription fees is considered. The revenue from monthly subscription fees is on average higher than the losses that retail and download stores incur due to streaming. Hence, paid streaming services appear to be beneficial for labels and artists. Free streaming services on the other hand are only beneficial for artists and labels if users sign up who hardly purchased any music before. On average, however, the effect of free streaming services is not positive. "Of course we can only assume how revenue is distributed between streaming services and labels," Wlömert and Papies comment on their findings "but our data clearly shows that paid streaming increases revenue for record labels and artists and that this is not the case for free services financed by advertising."

This finding is the basis for the researchers' recommendation to offer free streaming as an advertising tool to attract consumers to become customers for the paid version. This will only work if the paid subscription service is clearly more attractive than the free service. For example, one option is to restrict access to popular new releases to paying consumers and only make them available to subscribers of free services at a later time.

Publication:

Nils Wlömert; Dominik Papies: On-demand streaming services and music industry revenues - Insights from Spotify's market entry, *International Journal of Research in Marketing*, 2016/2; [doi:10.1016/j.ijresmar.2015.11.002](https://doi.org/10.1016/j.ijresmar.2015.11.002)

Contact:

Prof. Dr. Dominik Papies
University of Tübingen
Faculty of Economics and Social Sciences
Professorship of Marketing
School of Business and Economics
Telephone +49 7071 2978202
dominik.papies[at]uni-tuebingen.de

www.uni-tuebingen.de/wiwi/marketing