

Do brand geographic location and price value stimulate intentions to premium services?

Evidence from Spotify Indonesia

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Abstract

In freemium business, the customers can be divided by free users and premium users. The main objective of music streaming provider like Spotify is focused on converting the free users to become premium users, in conjunction with retaining the premium users' subscription. This study focuses on the first objective which is converting free users by boosting their intentions to upgrade to premium services (IUP). This study uses two independent variables, namely: brand geographic location and price value to explain IUP as dependent variable. Totally 218 respondents are involved. This study confirms that brand geographic location and price value significantly influence IUP. Based on this result, some recommendations and future researches is proposed.

Keywords

Brand geographic location, price value, intentions to upgrade to premium services, Spotify, Indonesia

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Introduction

According to Vlassis (2021), during the Covid 19 pandemic, recorded music business global revenue in 2020 increased by 7.4% compares to 2019. This growth is driven mostly by streaming revenues (both paid subscription streaming and advertising-supported) that increased by 19.9%. on the other hand, there were declining revenue from other categories, including: physical revenues (-4.7%), performance rights (-10.1%), downloads & other digital (-15.7%), and synchronization (-9.4%) (Vlassis, 2021) In Q2-2020, for global market, Spotify is a market leader for global music streaming (reach 34% of market share) and followed by Apple Music (21%), Amazon Music (15%), Tencent Music (12%), Youtube Music (5%), and others (13%) (<https://www.businessofapps.com/data/spotify-statistics/>, accessed at June 6th, 2021). According to Spotify (<https://newsroom.spotify.com/company-info/>, accessed at June 6th, 2021), as of March 31st, 2021, total worldwide number of monthly active users (MAU) reached 356 million users and 158 million of them are premium subscriber or 44.4% of total MAU. Unfortunately, there is no data concerning the number of Spotify's MAU and subscribers in Indonesia.

In global market, the main competitor of Spotify is Apple Music. Hai et al. (2021) analysed that Spotify has several strengths compared to Apple Music, which are: (1) better recommendation (ability to recommend songs based on your listening history), (2) better user interface design, (3) the attachment of graphic equalizer that allowing user to tailor the sound character, (4) better podcast library, and (5) cross environment since Spotify can be used in different environment (i.e. IOS, Android, and others). On the other hand, Spotify also has several weaknesses, including: (1) limited songs list compared to Apple Music, and (2) have no integration with complete ecosystems like Apple Music does. Jones (2020) revealed that Spotify's platform model that only relies on streaming revenue cannot compete with other interactive platforms such as Apple Music and Google Play. Interactive platforms generate revenues from other sources that controlled by their parent companies. In Indonesia, Spotify is not the most popular music streaming provider. According to Saptono and Ayudia accessed at June 10th, 2021), the most popular music application in Q1 2019 is Youtube music (64.5%) and followed by JOOX (50.9%), Spotify (46.6%), Google Play Music (20.5%), and Soundcloud (4.6%). According to Sundet and Colbjørnsen , Youtube Music has an advantage compares to Spotify, which is: a huge number of active users. There are about 2 billions Youtube active users compared to "only" 320 thousand Spotify's active users worldwide. Moreover, since Youtube app is automatically available on most of the Android phones sold in the world, Youtube obtains an important advantage compared to Spotify (Sundet & Colbjørnsen). In 2020, there were 1.055 billion mobile phone shipments globally.

In freemium business model like Spotify, the firm's critical objective is focused on converting the free users to become premium users and retaining the premium users' subscription (Mäntymäki, Islam, & Benbasat, 2020). Furthermore, these authors find that the intention to switch to a premium service is due to benefits, for example: the enjoyment and value of the premium subscription price; whereas intention to remain as a premium customer is determined by perceived value such as ubiquity, provision of new content, and social connectivity Augusto, Santos, and Santo (2020); (Mäntymäki et al., 2020) found that trust is an important determinant of willingness to pay for streaming services.

Based on MAU and revenue, Spotify showed better performance by experiencing continuous improvement over the last 5 years. (Direction, 2013) reported that in 2020 and compared to 2019, Spotify experienced growth of MAU by of 27% and 18% in revenue. However, based on net profit, Spotify suffered loss for 3 consecutive years, about 78 million Euro (in 2018), 186 million Euro (in 2019), and 581 million Euro (in 2020). This condition drive Spotify to increase their premium subscription rate for all user segments starting Q1 2021. Several experts in the music industry said that this policy could hit Spotify's competitiveness, especially in Asia. Thus, this study tries to investigate the users' intention to upgrade to premium services (IUP) by focusing on two independent variables, namely: brand geographic location and price value.

Literature Review

Freemium Users Behaviours

The term freemium is defined as a business model that provides a basic product or service to users for free, but if users want additional features and improved experience, they must spend money to pay a premium subscription fee (Anderson, 2013; Mäntymäki et al., 2020; Niemand, Tischer, Fritzsche, & Kraus, 2015; Teece, 2010). Thus, freemium service providers will provide standard services to free users (Niemand et al., 2015). Furthermore, this company will try to develop free users to become premium paid users. Company must increase the satisfaction of these premium users by offering plenty of service features. The company will gain users loyalty from continuous usage and users' willingness not to switch to competitors (Mäntymäki et al., 2020; Niemand et al., 2015).

Consequently, the freemium business model has two type of users: the free users and the premium users. For free users there is "no" sacrifice or no payment to use the service (Park, 2020). For them, the price of free version is zero. Thus, the users' cost to use free service is always equal to or less than users' willingness to pay (Mäntymäki et al., 2020). The free service does not rely on revenue-generating income, but there are other type of revenues such as: ads, referrals, cross selling, etc. (Niemand et al., 2015). Freemium services provider has to manage the free user's segment by developing their further needs in order to attract them to pay for premium features (Kumar, 2014). Once free users convert to premium users, then the freemium services provider should maintain user satisfaction in using the premium services (Mäntymäki et al., 2020).

Intentions To Upgrade To Premium Services (IUP)

Intention to upgrade to premium services (IUP) is the readiness of free user to upgrade to premium subscription (Mäntymäki et al., 2020). Willingness to pay a premium price is defined as the number of dollars that customers will pay for their preferred brand compared to other brands for the same number of units Anselmsson, Bondesson, and Johansson (2014); (Augusto et al., 2020; Miller, Hofstetter, Krohmer, & Zhang, 2011) discovered that quality is a significant contributing factor of premium pricing besides social image, exclusivity, and country of origin. According to Toraman, Cox, Clark, and Dariotis (2020), buying interest can be identified through four indicators: transactional interest (the tendency to buy products), referential interest (a person's tendency to refer products to others), preferential interest (interest that describes the behaviour of someone who has main preference for the product), exploratory interest (the behavior of someone who is always looking for information about the interesting product and looking for information that support the positive properties of the product). (Foroudi, 2019; Thaker, Sakaran, Nanairan, Thaker, & Hussain, 2020)

Brand Geographic Location

Loureiro, Sarmiento, and Le Bellego (2017) noticed that firms with good location will make customers to buy firm's product or service with highest prices. Brand geographic location is defined as the locality or area where brand is located (Walsh & Beatty, 2007).

People tend to choose brands that have a good location by buying quality products (Shin, 2016). Choosing a product with a good brand location will also increase their status Foroudi (2019); (Kremer & Viot, 2012) asserted that customers will buy a brand that best match with their self-image. (Camp, 2015; I Nilasari & Tricahyono, 2020)

Price Value

From the firm's point of view, there are three basic categories of pricing objective: revenue orientation, capacity orientation, and maximizing demand orientation (Lovelock & Wright, 2007). Similarly, Sukarman, Syukur, and Raharjo Raharjo (2021) mentioned several objectives of pricing, which are maximizing sales, profit, return on investment and image. From the customer's point of view, price value is the comparison between the perceived benefits of using the product or service and the monetary costs of using it (Park, 2020). If consumers perceive that the benefits of

using online music services are greater than the price paid, then consumers will have the intention to buy and use them (Lien, Wen, Huang, & Wu, 2015; Park, 2020). This study assumes price value similar to Park's opinion. In the online shopping, Kim, Xu, and Gupta (2012) discovered that before customers form a perception of price, they compare price offered by a company with a reference price or price offered by competitors.

The Relationship between Brands Geographic Location, Price Value and IUP

Shin (2016) mentions that brand geographic location is an intrinsic clue about a product or service that plays a role in reducing the perceived risk for service or quality. As a result, customer tends to buy a product or service that has good reputation (Shin, 2016) and also choose brand that familiar with them (Quintal, Phau, Sims, & Cheah (2016). Many previous studies (Loureiro et al., 2017; Shin, 2016; Walsh & Beatty, 2007) confirm that brand geographic location significantly drive purchase intentions. Quintal et al.'s study that focus on Gen Y purchase intentions behavior discovered that premium branding, packaging and pricing drive their purchase intentions. Park (2020) found that users' intention to use online music services is influenced by some factors, namely: performance expectancy, hedonic motivation, price value, and habit. In more detail, Niemand et al. (2015) discovered that free users can be used to magnetize more users (upselling). Furthermore, in line with this upselling option, the authors recommended that freemium service providers can use willingness to pay (WTP) as a guide for setting prices. Pricing a premium slightly below WTP will be a motivating factor for the free segment who is disturbed by advertisements or who is frustrated with storing songs to turn into premium users. Mäntymäki et al. (2020) discovered that intention to switch to a premium service is driven by enjoyment and value of the premium subscription price. Lien et al. (2015) found that perceived price, together with brand image and perceived value, were significantly influenced purchase intentions. Kim et al. (2012) realized that before making a purchase, customers will compare the price given by a brand with the reference price from its competitors so that it will raise their perception of the price of the brand.

Therefore, the hypotheses that can be developed based on above explanation are as follow:

H-1: Brand geographic location significantly influences IUP

H-2: Price value significantly influences IUP.

H-3: Together, brand geographic location and price value significantly influence IUP.

Research Methodology

This study implements quantitative study, that involve one dependent variable (intention to upgrade to premium service or IUP) and two independent variables (brand geographic location and price value). This study is a cross sectional with questionnaires as a tool for collecting data. The data was collected by using Google Form in January 2021 and found 218 valid respondents who already use Spotify application as free users. The questionnaire for each variable in this study was adapted from previous researchers which included brand geographic location (Irma Nilasari & Handayani, 2020; Urde & Greyser, 2016) price value (Park, 2020); and IUP (Mäntymäki et al., 2020). All the questionnaire items were tested and found to be valid and all variables understudy were reliable since the alpha Cronbach's score were above .7. All of the hypotheses were analysed by using multiple regression analysis with SPSS software version 23.

Research Result & Discussion

Characteristics Of Respondents

Data is collected in January 2021 to those who have already use Spotify application for free by using Google form. Totally 218 valid respondents are gathered and used to test all the hypotheses. Respondents dominated by female (64%), at age 15-25 year (84%), with bachelor degree as their educational background (75%). Almost half of the respondents said that their income was above Rp2 millions a month (49%) and 65% of them spent Rp20 thousands to 80 thousand (1-4% of their monthly income) to fulfil their needs of music listening. The dominant occupations of the respondents were students (47%) and followed by private employee (27%).

Interestingly, the respondents spend a lot of time for listening music every day, they usually spend about 1-5 hours daily (63%) and the others spend about 5-10 hours daily (25%). Almost half of the respondents have been listening Spotify for more than 2 years and smartphone is the most popular device to listen Spotify followed by computer and car audio. Besides listening to Spotify, they also listen for other music freemium providers such as Youtube Music, Apple Music, JOOX, Soundcloud, and Deezer.

Hypotheses Testing Results And Discussion

This study has three hypotheses to be tested: (1) H-1: the direct influence from brand geographic location to IUP; (2) H-2: the direct influence from price value to IUP; and (3) H-3: the simultaneous influence from brand geographic location and price value to IUP. The results of H-1 and H-2 hypotheses testing can be seen in Table-1 and H-3 testing in Table 2.

Table-1

Direct partial hypotheses test results

Hypotheses	t	Sig	Standardized Beta	Results
Constant	6.727	.000	.821	
Brand Reputation to IUP	14.106	.000**	.614	Accepted
Price Value to IUP	3.849	.000**	.168	Accepted

Note: Significant levels **p < .01; *p < .05

Table 1 shows that H-1 and H-2 are accepted. The brand geographic location of Spotify significantly influences free users' intention to upgrade to premium services (IUP). It supports previous researches, for example: (Loureiro et al., 2017; Shin, 2016) Quintal et al. (2016), and Walsh and Beatty (2007). This study also confirms that price value significantly influences IUP. It supports the previous researches, for example: Lien et al. (2015); (Mäntymäki et al., 2020; Niemand et al., 2015), Park (2020), and Quintal et al. (2016).

Table 2 shows the F test and the result shows that H-3 is accepted. Thus, together both brand geographic location and price value significantly influence IUP. The R² is .532, which means that two independent variables explain 53.2% variance in IUP.

This study also found that brand geographic location affects IUP stronger than price value affects IUP. This can be explained by Quintal et al. (2016) research results. When buying more expensive product/service, the Gen Y consumers will seek guarantee from the brand and it can be found from the reputation of brand. In order to improve brand geographic location of Spotify, previous researches also suggest using viral marketing (I Nilasari & Tricahyono, 2020; Tricahyono, Utami, & Safitri, 2019).

Table-2

Simultaneous hypotheses test results

Model	Sum of Squares	df	Mean square	F	Sig
Regression	5042.362	2	2521.181	225.351	.000 ^b
Residual	4441.552	215	11.188		
Total	9483.914	217			

a. Dependent Variable: IUP

b. Predictors: (Constant), Brand geographic location, Price Value

Conclusion & Future Research

This study demonstrates that brand geographic location and price value drive intention to upgrade to premium of free users in Spotify case. It is suggested that in order to convert the free users into premium users, Spotify should develop its brand to become a premium brand by boosting its reputation. It could be implemented by increasing the quality of sounds (with advance technology) and the quality of music contents. Since Spotify is operate in many ecosystems, then it is suggested to make similar experience in every ecosystem. The perception of price value also determines the free users' upgrade into premium users. In this case, Spotify should always deliver more benefits higher than users' total costs in consuming its service. Further research should be conducted in investigating the intention to upgrade to premium (IUP), since the freemium business model become a popular business model lately. This study only focusses for free users, future research should also involve the premium users, especially in emerging market like Indonesia. The potential for further research on the freemium business model is to examine the impact of the ecosystem (including community) on the sustainability of the freemium service provider. As we know that business ecosystem is one of Spotify's weakness compared to its main competitors such as: Youtube Music, Apple Music, and Google Play.

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