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Bachelor Thesis

Department of Marketing and Strategy

Stockholm School of Economics, Spring 2013

The determinants of customer satisfaction, loyalty and willingness to pay in subscription based streaming services

Abstract

In an era of rapid change the multimedia content distributors have seen business model after business model become obsolete because of piracy. The rise of subscription based streaming services using a business model of a monthly subscription with access to a large library of content has brought hope of a promising future.

But little is known of what qualities customers value in these new innovative services. By using conventional methods of creating marketing scales and by adapting existing measurements this research paper aims to explore the phenomena and find the determinants of customer satisfaction, loyalty and willingness to pay.

An extensive pre-study was performed using the internet forum reddit and together with HBO and Cmore films a number of dimensions was found. A quantitative study was performed and confirmed four main dimensions explaining satisfaction: *Quality of the content*, *Quality of the accessibility*, *Quality of the experience* and *Price*.

The link between *satisfaction* and *loyalty* was confirmed but any link between *satisfaction* or *loyalty* and *willingness to pay* could not be found. *Willingness to pay* was however influenced by a reference price of what the customer is currently paying.

Keywords: *subscription based streaming services, satisfaction, loyalty, quality, willingness to pay*

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ACKNOWLEDGMENTS

The past couple of months have been intensive and now the time has come to hand in our thesis. We would not have been able to do this without several individuals and therefore, we would like to express our gratitude for the help and support that we have been given.

THANK YOU...

JONAS COLLIANDER - for all the good discussions, the help and support

MAGNUS SÖDERLUND - for always taking time to help us on our spontaneous visits to your office

HANNA BERG - for you valuable inputs

FREDRIK AXELSSON & ANDERS TULLGREN - for sharing your expertise

REDDIT AND THEIR USERS - for the commitment and contributions

OUR WONDERFUL FAMILIES AND FRIENDS - for the great support and the patience to answer our survey

Table of content

<u>THE DETERMINANTS OF CUSTOMER SATISFACTION, LOYALTY AND WILLINGNESS TO PAY IN SUBSCRIPTION BASED STREAMING SERVICES</u>	<u>1</u>
<u>INTRODUCTION</u>	<u>5</u>
BACKGROUND	5
PROBLEM FORMULATION	7
PURPOSE	8
DELIMITATIONS	9
CHARACTER OF OFFERED SERVICES.....	9
MUSIC AND VIDEO CONTENT AS A SERVICE.....	9
THE BUSINESS MODEL OF SUBSCRIPTION BASED STREAMING SERVICES.....	10
The business model for subscription based streaming services in music.....	10
The business model for subscription based streaming service of video content.....	11
Similarities and differences	12
<u>METHODOLOGY</u>	<u>13</u>
SCIENTIFIC APPROACH	13
SURVEY AS A METHOD	13
MEASURES USED	14
E-S-QUAL - ELECTRONIC SERVICE QUALITY.....	14
E-S-S-QUAL - ELECTRONIC SUBSCRIPTION SERVICE QUALITY	14
The process used for the creation of the E-S-S-QUAL.....	15
<u>Step one - Define domain of items</u>	<u>15</u>
<u>Step two - Creation of a preliminary scale.....</u>	<u>16</u>
<u>Step three - Data collection.....</u>	<u>18</u>
<u>Step four - Data analysis and scale reduction.....</u>	<u>19</u>
OTHER MEASURES USED	20
Higher order abstractions	21
<u>Satisfaction</u>	<u>21</u>
<u>Loyalty</u>	<u>21</u>
THE MEASURES USED	23
RELIABILITY AND VALIDITY.....	23
<u>THEORETICAL FRAMEWORK</u>	<u>24</u>
THE RELATION OF QUALITY AND LOYALTY WITH SATISFACTION AS MEDIATOR.....	25
QUALITY AND SATISFACTION.....	25
LOYALTY AND ITS LINK WITH SATISFACTION	27
WILLINGNESS TO PAY	28
RESEARCH MODEL	29
<u>RESULTS</u>	<u>30</u>
OVERVIEW OF THE RESPONDENTS	30
MEAN LEVELS OF THE MEASUREMENTS	31
DETERMINANTS OF CUSTOMER SATISFACTION, LOYALTY AND WILLINGNESS TO PAY	33
CUSTOMER SATISFACTION.....	34
LOYALTY	35
<i>Recommendation to a friend.....</i>	<i>35</i>
<i>Retention rate</i>	<i>36</i>
<i>Customer share - loyalty of usage</i>	<i>36</i>
WILLINGNESS TO PAY	37

CONCLUSIONS AND DISCUSSION	37
LIMITATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH	38
REFERENCE LIST	39
BOOKS	39
INTERVIEWS	39
NEWS ARTICLES	39
PUBLISHED ARTICLES	40
REPORTS	42
THESIS AND DISSERTATIONS	42
WEBSITES	42
APPENDIX	43
APPENDIX I. QUESTIONNAIRE	43
APPENDIX II – FACTOR ANALYSIS FOR E-S-SQUAL	55

Introduction

The entertainment industry has faced many challenges and gone through a large number of changes during the last decades, and may be dealing with the biggest challenge right now: the entrance to the digital age. This digitalization has not been easy on the industry; threats such as digital piracy have had significant consequences on the music and video content industries causing great losses in revenues (IFPI Report 2011). However, new needs required new solutions which lead to the creation of digital media subscription based services. New actors such as Spotify, Netflix, Cmore/Filmnet, Grooveshark and HBO Nordic started emerging from 2008 and onwards, and their development has been a success. Offering 30 million tracks to consumers and with more than 500 licensed digital music services the subscription based services can possibly be the future of the business. The numbers seem to agree, the amount of paying subscribers in the music industry has increased by 44% from 2011 to 2012 (IFPI Report 2011). As these services keep growing, adding features and getting more accessible, the future sure seems promising. Is the entertainment industry finally on the path of recovery?

“Converting these users from free to paying is the heart of the debate”

John MacFarlane, *CEO of Sonos Inc.*

Background

The history of the entertainment industry has always been surrounded by glamour and success, the lifestyle of the rich and the famous - with live performances, cinema premieres and CD-sales with very high profit margins. Then came the mp3-player, digitalization and the Internet. These factors truly became the starting point for revolutionizing the industry - suddenly sharing was just a click away and consumers could access music and films much easier: downloading and purchasing online. As the accessibility rose significantly, consumers started to move towards the usage of digital content, leaving the CD's, DVD's and other physical products behind. However, this digitalization has come with severe impacts - the former glory of the industry is threatened and these new ways of sharing digital content became threats, challenging the survival of copyrights and the industry, as we had known it.

Digitalization is a phenomenon that has had great impact on society as a whole and some will even go as far as Douglas Engelbart and state that “The digital revolution is far more

significant than the invention of writing or even of printing”. Today we live in a world where over 63,2% of the population in Europe have Internet access (Internetworldstats, 2012) and a survey conducted on behalf of WiMP, a Norwegian music streaming service, showed that 54% of the respondents in Sweden have access to a subscription based streaming service (Nordstat, 2012).

Meanwhile, the entertainment industry has once again started to grow at a steady pace, for both music and video content, as companies such as Spotify, Netflix, Cmore and Groovespark started appearing and thereby created a new market for digital content with a subscription based service model. The rapid expansion is clearly reflected in the numbers, at the start of 2011, digital retailers were available in 23 countries and at the beginning of 2013 they were present in more than 100 countries (IFPI Report 2013). It quickly came to be considered an innovative and lucrative market where many would lay their future hopes of the entertainment industry.

Nowadays, with the rise of several new actors, the market is characterized by strong competition (Tullgren, 2013). To survive and succeed in these business areas, it has never been more important to understand customers’ needs and behaviour.

“We have to constantly be considering the end user focus - what they’re seeing, how they’re interacting with the content, what it means to them, and what reason do they have to come back to it again?”

Peter Tortorici, CEO GroupM Entertainment Global, US

Having a basic and general understanding will enhance “consumers’ perception of pleasurable fulfilment of the service”, in other words their satisfaction (Oliver, 1999). A good knowledge about consumer needs and behaviour will also be favourable towards creating loyalty, which is essential for the existing actors on the market. It has been proven that attitudinal loyalty indicates higher repurchase intent, willingness to pay a price premium as well as increased resistance towards counter-persuasion (Shankara et al., 2003). Furthermore, the importance of having a loyal customer base has been well documented, Reichheld describes that increasing customer retention rate by 5% can boost profits by as much as 100% (Reichheld & Sasser, 1990). However, loyal customers are not everything that matters, it has been observed that for some industries the largest customers are not the most profitable because they demand discounts and other costly benefits (Cooper & Kaplan, 1991). For example Myers describes that when a retail chain gets big enough they can put pressure on the distributor and decrease

their own costs with the result that the distributor gets higher costs. For digital subscription services the retention rate must be deemed very important since the margin cost of each customer is so low.

Focusing on gaining knowledge about the consumers needs, expectations and behaviour will enable firms to have satisfied and loyal customers, willing to pay for the services offered and these factors may well determine the success of the company.

Problem Formulation

“There is no doubt that the entertainment industry has faced great challenges and changes during the last decades. Consumers of music, films and series still have a lot of options available to them: purchasing or renting CDs and DVDs in-store, online-rental, on-demand purchasing as well as piracy. This can, for example, be seen in the financial performances of the music industry - although the digital sales in music increased with 940% between 2004 and 2009, the total music industry suffered a severe decrease of 30% in sales during the same period (IFPI Report 2010). Even though the digital sales have known an extensive increase, this does not seem to be sufficient as there still is a lot of potential that remains intact (IFPI Report 2010). This has been well reflected in the body of research resulting in large amounts of articles, reports and books dedicated to the subject in question. Most of the research focuses on the different kinds of impacts on the industry due to piracy (e.g. Hui and Png, 2003), the development of the digital era in the music industry (IFPI Reports) and the move towards digital usage for music listening or video content viewing (e.g. Styvén, 2007). However, when it comes to research regarding the subscription based streaming, it remains limited and most have looked at the pricing aspects of the services (e.g. Doerr et al.) or analyzed the value of ownership of video and music vs. the value-in-use of these services (e.g. Noble & Sivertzen, 2012). This has mostly been done through a qualitative approach, which leaves the quantitative aspects quite unexplored with no established framework.

As the subscription based streaming services are relatively new on the market, the oldest one being less than a decade, many questions remain unanswered with little research focused on the customer perspective - looking at needs and behaviour. A survey conducted by Nordstat, in Sweden, showed that 30% of the respondents would be willing to pay for such a subscription based streaming service while 32% remained unsure and stated that it depended

on the service. To capture the remaining 32% could certainly take the business to next level - but the question is how? It seems that the answer is to provide a service that truly will break through to the mass market and in order to do so all the attributes and features will be essential (IFPI Report 2010). It is at this point we hope to contribute with our study and insights.

Purpose

The purpose of this study is to explore subscription based streaming services and determine what makes them attractive to customers, what generates satisfaction, how loyalty is created and what enhances the willingness to pay - as these might be the factors that determine if and how successful a subscription based streaming service will be.

Our main question in this paper will therefore be “Which are the determinants of customer satisfaction, loyalty and willingness to pay in subscription based streaming services?”

- Which features/attributes can act as determinants?
- Which are the main attributes/features influencing customers' satisfactions?
- Which are the main attributes/features influencing the willingness to pay?
- Which are the main attributes/features influencing the loyalty?

In our research we will look at music and video content subscription based streaming services such as Spotify, Groovespark, Cmore, Viaplay, Netflix, HBO, etc. Although these are established actors, they face a challenging and uncertain future, as the market competition gets tougher with the remaining threat of substitutes and new arising actors. Therefore, by answering our research question above, we hope to provide these services with more knowledge on their customers, how to capture potential customers and hopefully contribute to an increased understanding of the subscription based streaming services in general.

Delimitations

This study will focus on subscription based streaming services offering on-demand music in the form of songs and video streaming services offering on demand TV-shows and movies.

It will therefore disregard of other streaming services and ways of sharing digital content such as online radio, illegal streaming sites, user generated content sites such as YouTube, file purchase services such as iTunes store, etc. We've chosen to focus on the music and video content (films, TV-shows) services given that these are the major industries in which subscription based streaming services are used. This will provide us with deeper insights and better data for our research. In our study we will focus on several features and attributes determined by our pre-studies.

Even though the penetration of subscription based streaming services differs a lot between countries, the expansion of these services during the last years has been significant and we will therefore look at the global picture, hoping to draw general conclusions that could possibly be applied to uprising subscription based services, e.g. Readly, as well as new geographic markets.

Character of offered services

Music and video content as a service

A first step to gain the necessary understanding and knowledge of the companies and their business models is to define the nature of their offerings. Looking at the global perspective, there are clear trends towards a service economy, which has been identified by several researchers, amongst others through the service-dominant logic (Vargo and Lusch, 2004), which states the importance of utilization and customer focus. This is sustained by more researches that have foreseen that the twenty-first century will be known as the “century of quality” where the customer focus will imply providing customer satisfaction, making it the chief operating goal. It is therefore important for the companies to develop, innovate and add new capabilities. Furthermore, it has been shown that offering total solutions for related activities can have a positive effect on the growth, which, in many cases, has lead to the development of digitalized services (Rai and Sambamurthy, 2006). This tendency has been identified in several industries, one of which is the entertainment industry where record labels and content owners have shown the way (Rai and Sambamurthy, 2006).

In the case of subscription based streaming we regard their offerings as services, in other words we will consider music as a service and video content as a service.

A service can be defined in various ways:

- Services are capabilities or competencies that one person, organization, enterprise or system provides for another (Vargo & Lusch, 2004).
- A service is a change in the condition of a person, or a good belonging to some economic entity, brought about as a result of some other economic entity, with the approval of the first person or economic entity (Hill, 1977).

These definitions are applicable in the case of music and video contents, as the customer isn't buying the file or the song, but the ability to listen to music or watch video content. Further research characterizes services as an "exchange between a provider and an adopter (supplier and customer) for the provision of intangible assets" which is the case of accessing the music and video contents (Chesbrough and Spohrer, 2006). Additionally, in the case of music and video content the consumption is simultaneous, or nearly so, to the production of the service, making it accessible. This characteristic is typical of a service transaction, which is in line with the definition of music and video content as a service (Chesbrough and Spohrer, 2006).

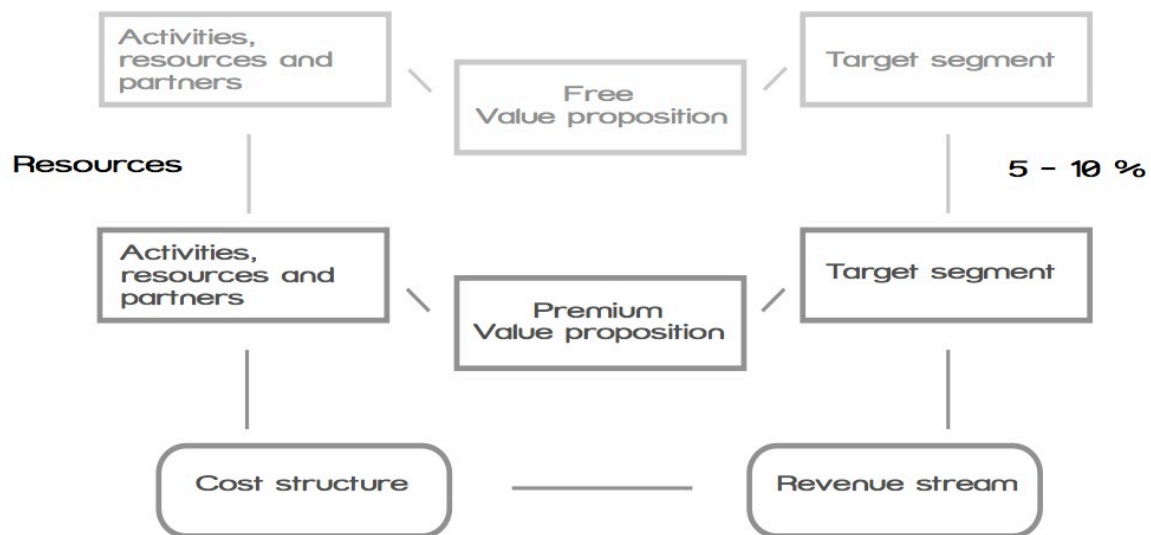
The business model of subscription based streaming services

The business model for subscription based streaming services in music

The business model used by the subscription based streaming services in music is often referred to as the freemium business model. The word itself, "freemium", is a combination of the words free and premium. The freemium model implies a business model in which there is a free alternative and a premium alternative that can be acquired in exchange for a fixed monthly fee. The free version gives access to the core product while the premium version will give access to the core product and extra features. This business model is dominant within music subscription based streaming services with leading actors such as Groovespark and Spotify using it. The consumer can sign up to the service for free and access the core product, which, in this case, is music. However, only the premium versions will enable full access to the music at all times. Spotify has limited hours of music listening in the free version while the premium version enables unlimited listening. Another example is the accessibility of the music, paying for the premium version will allow the consumers to use the service on all devices: computers, tablets and smartphones. The free version on the other hand is limited to music listening on the computer. Furthermore, these services do not have any binding time

and therefore the consumers can easily unregister without cancellation fees.

Freemium Business model



The business model for subscription based streaming service of video content

The business model for subscription based streaming service of video content is characterized by a heterogeneity throughout the industry, in other words, most suppliers of these services such as Netflix, Cmore/Filmnet, HBO and Viaplay use the same model. The business model relies on a free trial period, usually a month, which then turns into a subscription where the consumers get full access to the all the content and features for a fixed monthly fee. The consumer can then create playlists, list favourite content, share their preferences and access everything from the different devices supported by the service, usually computer, tablet and smartphone. These services also offer full flexibility as there are no cancellation fees of the subscription, therefore the consumer can easily end the subscription at any time.

Similarities and differences

Looking at the subscription based streaming models for music and video content there are surely striking similarities. In both markets the actual service provided is access to content. The margin costs of serving one more customer are very low for both video and music streaming and because of generally low binding times the customers can easily choose another subscription based streaming service or even just another substitute. We can therefore clearly see that even if the service offered differs between music, films and series, many of the benefits, threats, challenges and problems will be the same for these industries as they use the same subscription based payment model.

It is however important to point out some characteristics that are particular to each sector. The consumption of music differs from the video content consumption in several ways. In general music can be consumed much more flexibly while video is more dependent of the circumstances. One can listen to music practically anywhere while video content is more likely to be used in certain situations - e.g. at home, during a long trip, etc. Therefore the consumption patterns surrounding it can vary greatly.

Another difference between music and video content offering can be seen in the forming of the payment model. The music streaming industry are mostly using the freemium model (IFPI 2012), whereas the film and TV-show industry most commonly are using a free trial month and then a fixed monthly subscription fee to access the content. This has some implications for our research since this gives unique advantages and challenges when comparing these two industries from the customers' perspective regarding satisfaction, loyalty and willingness to pay.

METHODOLOGY

The following section motivates our inductive scientific approach and the choice of survey as our research method. It furthermore introduces the creation of the marketing scale E-S-SQUAL through which we found the dimensions that we wanted to test against satisfaction, loyalty and willingness to pay.

Scientific approach

The research on the determinants of satisfaction, loyalty and willingness to pay for subscription based digital media remains relatively unexplored, we chose an inductive approach for our pre-study because of that fact and because we wanted to explore the phenomena from a bottoms up approach so as to do the initial work that later studies can build on.

Survey as a method

As far as data collection we considered relying on secondary data but concluded that the limitations that would impose on us would too heavily limit any conclusions we could achieve. Therefore we decided to collect ad hoc data and use secondary data as support. Because our purpose is largely exploratory we were naturally forced to gather information about quite a few attributes, features and aspects, therefore we had to use a method, which easily can incorporate multiple variables. An experiment would have limited us to a select few variables and would thus not have been appropriate and consequently we chose the survey method as that method is common when exploring a new phenomenon (Rust 1993, Levesque & McDougall 1996).

We chose the collection of cross sectional data because of the limited time scope of our thesis and the limited ability we had to collect longitudinal data. Memory limitations of the respondents and dissonance may impact the validity of the data but studies have shown that customers are relatively objective when answering single surveys (Rust 1993).

Measures used

Since the purpose with this thesis is to find the determinants of customer satisfaction, loyalty and willingness to pay in the subscription based streaming services setting; we needed to find a good way of measuring the different factors. Since this phenomenon is quite unresearched there were no directly applicable marketing scales. The closest related marketing scale is E-S-QUAL, Electronic Service Quality (Parasuraman, Zeithaml, and Malhotra 2005) but since that is a measurement for the quality of service for e-commerce websites we had to adapt it to the setting and create a new scale called E-S-S-QUAL, Electronic Subscription Service Quality.

E-S-QUAL - Electronic Service Quality

Electronic Service Quality is a multiple-item scale for measuring service quality from e-commerce websites. It was created 2005 by A. Parasuraman from the University of Miami together with Valarie A. Zeithaml and Arvind Malhotra of the University of North Carolina and published in the Journal of Service Research. It consists of a 22-item scale of four dimensions: *Efficiency*, *System Availability*, *Fulfilment* and *Privacy*.

Efficiency relates to the ease and speed of accessing and using the site.

System availability is the correct technical functioning of the site.

Fulfilment is the extent to which the site's promises about delivery and item availability are fulfilled.

Privacy is the degree to which the site is safe and protects the customers' information.

E-S-S-QUAL - Electronic Subscription Service Quality

The creation of a marketing scale accordingly to the conventional guidelines consists of a number of steps (Churchill 1979, Gerbing and Anderson 1988). To follow these steps entirely would be unreasonable considering the time scope of this thesis so therefore this process has been adapted to fit within a plausible time frame.

The process used for the creation of the E-S-S-QUAL

Step1 - Articulated the meaning and domain of electronic subscription service quality

Step2 - Developed a preliminary scale through a pre-study on a large Internet forum, adaptation of E-S-QUAL and revised it on feedback from two employees of relevant companies

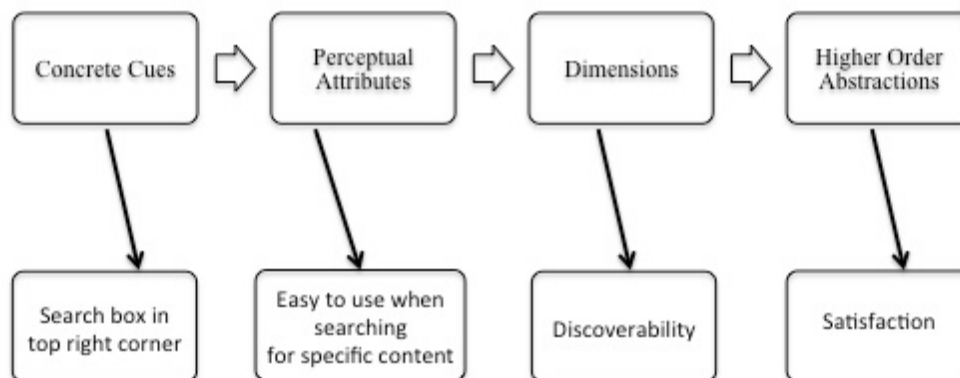
Step3 - Administered the revised scale to our sample, on two of the largest electronic subscription businesses: Video and Music.

Step4 - Developed the final scale through an iterative process

Step one - Define domain of items

The first step in creating the marketing scale is specifying which domain the items, i.e. questions, in the scale should come from. The following is a description of the means-end framework for understanding domain and consequences.

The Means-End Framework for Understanding the Domain and Consequences of E-S-SQ



Concrete cues are the specific antecedents of the perceptual attributes, for example: a concrete cue might be that the search box is placed in the top right corner, the specific attribute this leads to could be a feeling that the service is easy to use when searching for specific content. This in turn can be a part of the dimension *discoverability*, which is comprised of other perceptual attributes. This dimension is then a driver for higher order abstractions, which are a consequences of the E-S-SQ evaluation, for example *satisfaction*, *behavioural intentions* etc.

The E-S-SQ scale uses questions in the domain of perceptual attributes. Using concrete cues would not be impossible but the amount of items in the scale would be too large for an overall judgement of the quality of a subscription service. Furthermore, the scale would soon become irrelevant as the important concrete cues change very fast whereas perceptual attributes are more lasting. Using questions about dimensions instead of aggregating perceptual attributes has the benefit of reducing the amount of questions in the questionnaire. It is however harder for the respondents to conceptualize a dimension than a perceptual attribute and since perceptual attributes are more specific they can provide us with a more fine-grained analysis of the different parts of quality performance.

Step two - Creation of a preliminary scale

The second step was to create a preliminary scale. At the initial stage, a wide approach was embraced in order to collect opinions on the research question so we conducted an extensive pre-study. The forum Reddit.com was used which hosts sub-forums such as /r/spotify, /r/netflix, /r/hbo and /r/cordcutter where members discuss the correspondent topics. The question asked was: *“Why do/don't you pay for a subscription to digital media on-demand services and what factors are most important to that choice?”*

It was intentionally designed as an open ended question and was posed to not steer the respondents in a specific direction but let them interpret it, as they liked to get a broader perspective on the phenomenon. This resulted responses from 39 different individuals with a sum of 6000 words. We also carefully studied reports about Spotify, Netflix and other services on the Internet (IFPI Report 2010, IFPI Report 2011, IFPI Report 2012, Pham. A 2006), as well as the literature written on the subject (Noble and Sivertzen 2012, Styvén 2007, Doerr et al. 2010). From this we created questions for the scale, i.e. items, and combined them with items from the SERVQUAL (Parasuraman et al. 1988) and E-SQUAL scales (Parasuraman et al. 2005), which were then rephrased to match the subscription, based streaming services context.

This formed our initial scale, which we evaluated and refined with interviews with employees on HBO and Cmore, films that are two of the main actors in the video streaming realm in

Sweden (Tullgren 2013, Axelsson 2013). The refined preliminary scale that resulted from this process had items grouped into five preliminary dimensions.

1. Library of content

Since the subscription model is based on customers paying monthly for unlimited access to a library of content, naturally the content is important. This can be related to the *fulfillment* dimension in E-S-QUAL because of the fact that the content is what the service should deliver. Customers pay for the access to the content in exchange for an implicit promise that they should be satisfied with this content when using the site, therefore, how well the business fulfills the promise is a very relevant question. This can be measured with aspects such as amount of content in general, amount of content across genres, the amount of new content, amount of old content and how often content is removed from the library.

2. Discoverability

This is related to the *efficiency* dimension of the E-S-QUAL scale. However when it comes to subscription content the way to find new unknown content is differentiated from the dimension of pure efficiency and takes the form of a feature in itself. Items in this dimension included the ease of which they can discover new content, whether it is specific content known to them or the discovery of new content.

3. Accessibility

E-S-QUAL has a dimension called *system availability*, in subscription based streaming services; this can be fleshed out into the ability to reach the content wherever you are. Spotify uses this as a way to price discriminate in their offering which infers that this aspect is very important (Spotify 2013), a view which was strengthened in the pre-study. Items included the possibility to use the service wherever they are, on different platforms and on different types of devices.

4. Ethics

Customers of subscription based streaming services have the opportunity to pirate their content but one of the ways the companies have fought against is by accentuating the ethical aspects. Campaigns promoting the fact that the artists cannot survive without income and thus the content cannot be produced have had some power, at least some of the respondents in the Reddit pre-study expressed concerns as to how much payment the artists get from the music

streaming services. Items to measure this included how much the artists get paid and how much the production companies get paid.

5. Quality of experience

The results of our pre-study made us group our dimensions in some ways quite differently from the E-S-QUAL scale. Therefore the dimension that we called *quality of experience* incorporates items that can be related to several of the E-S-QUAL scale dimensions. Items include the quality of the media itself, the amount of glitches and bugs, the flow of the software and the simplicity to use it in general.

Step three - Data collection

Definition of the target population

Users of subscription based streaming services.

Sampling unit

Users of video and music subscription services

Extent

Primarily Sweden, USA and Finland

Time

April 2013

As for the creation of the E-S-S-QUAL scale a sample size of 150 has been found most often to be enough to create a converged and proper solution when the model has three or more indicators per factor (Gerbing and Anderson 1988). We did not want to limit our use of the data to the creation of the E-S-S-QUAL scale as we also intended to use it in the analysis, to do a regression, in order to find out which dimension is the most important. We therefore aimed for a sample size of 200 for each type of streaming service, music and video, to be able to compare them against each other. Calculating sample sizes can be quite advanced but an approximate thumb rule is to have 30 subjects per predictor (Pedhazur and Schmelkin 1991). As we had 5 predictors in E-S-S-QUAL and will be adding one more to the model the aim was to get at least 180 respondents for each of the types of content.

We used convenience sampling since the timeframe of this thesis forced us to use respondents most readily available to us. Therefore we sent out the questionnaire to 900 of our friends on Facebook through private messages. Furthermore, 100 users of the forum Reddit were also contacted through private messages. This will of course create a bias since we cannot estimate that our social circle would be representative of the entire population. The users of Reddit write about digital media on the forum and are therefore not representative either and should probably be considered more tech-savvy than the general users of subscription based streaming services. Out of the 1000 survey dispatches, 603 respondents answered the survey. The survey was created as a two-tier survey. First, the respondent was asked to answer if he/she had a video content subscription service, if the answer was no he/she was asked if he/she had a music content subscription service. The two-tier structure made it easier for us to distribute the survey but introduced skewness in the respondents since the music respondents did not have a video subscription while the video respondents could potentially have a music subscription.

Step four - Data analysis and scale reduction

The collected survey data was subjected to scale reduction and refinement procedures. Firstly, we performed a reliability analysis by grouping the items in the 5 conceptual a priori dimensions we hypothesized they would fit in. We made sure that the reliability coefficient alpha was above the recommended 0.7 (Nunnally and Bernstein 1994). The conclusion drawn from the results was that the *discoverability* items did not correlate enough and therefore could not be grouped into one dimension.

Secondly, we performed an exploratory factor analysis to make sure that the items were measuring the right dimensions. Using varimax, with Kaiser normalization, as the rotation method and principal component analysis as the extraction method several iterations were performed. Each iteration was followed by removal of the items that were loading on several factors and on none of the factors.

Lastly, the items which had too few actual respondents were removed which led to the removal of the *ethics* dimension since it had a response rate of only 29.5 per cent.

The iteration process resulted in the final E-S-SQUAL scale which consisted of 10 items grouped in three dimensions and measured at a scale of 7 levels, where alternative 1 is labelled “worst grade” and alternative 7 is labelled “best grade”. The question was preceded by the statement: **Please grade on a scale 1-7 to what extent the streaming service fulfils Your demands on a good streaming service when it comes to:**

Quality of the content

- Amount of new content
- The speed of which new content is added
- Amount of content in general
- Amount of your favourite content

Quality of the accessibility

- The possibility to use the content wherever you are
- The possibility of having your playlists/favourites available at all time despite the choice of platform
- The possibility to use the service on different types of devices

Quality of the experience

- The flow of the software
- The amount of glitches, bugs and crashes in the software
- Quality of the media (sound, video, etc.)

Other measures used

In addition to the quality of the service measured by the E-S-SQUAL scale we added the dimension of *pricing* since our pre-study indicated that price is a very important factor. We handled the preliminary questions of *pricing* with the same type of refinement procedures that we did with the E-S-SQUAL scale and ended up with two items that correlated with a Pearson correlation of 0.551, which we deemed sufficient to make up a dimension.

Price

- Binding time of the subscription
- The price level in general

Higher order abstractions

Because of the exploratory nature of our research the choice was made to use several measurements as the higher-order abstractions, the consequences, in our model.

Satisfaction

The three items used to measure satisfaction have frequently been used in studies of customer satisfaction (Brown et al. 1993, Hausknecht 1990). The reliability of the index of the measurement was a Cronbach's alpha of 0.862.

- Overall, how satisfied or dissatisfied are You with this specific service?
- To what extent does this specific service meet your expectations?
- Imagine a specific streaming service that is perfect in every respect. How near or far from this ideal is your streaming service?

Loyalty

Recommendation

The importance of how willing a customer is to recommend the service or product is especially highlighted in the marketing literature (Narayandas 1998, Payne et al 1998). Some researchers mean that the non-purchase related behaviour of recommending the company is especially related to loyalty since the customer in effect becomes an ambassador for the brand.

- How likely would you be to recommend this specific streaming service?

Customer share - loyalty of usage

A commonly used measurement for the behavioural dimension of loyalty is customer-share (Söderlund 2001), and was therefore tested, in order to see if there is a correlation between quality dimensions and this type of loyalty. And also, to see if there are correlations between this type of loyalty and price sensitivity and retention rate. The questions were chosen to put the customers usage into context with the alternative ways that they can consume the media.

- When watching movies or series, how much of the viewing is done through your primary video streaming...- Share in percent
- How much of the music you listen to is from your primary streaming service as opposed to your other... - Share in percent

Retention rate

It has been common to use items pertaining to both recommendation and retention rate in one single construct (Brady & Robertson 2001, Mattila 2004). However it has been suggested that they are indeed two different dimensions of loyalty and should be used separate from each other (Söderlund 1996). *Retention rate* might be the most important measurement for subscription based streaming services. The physical margin cost of each customer is very low and therefore it is of utmost importance to reach economies of scale. The measurement has been called primitive because it values each customer the same (Söderlund 2001). However for subscription based streaming services in many cases the paying customers actually pay a very similar cost, making the measurement very important. The two questions below make up the items for the measurement and they are reliable since they correlated with a Pearson correlation of 0.734.

- How likely are you to continue to pay for your current service...-...next month?
- How likely are you to continue to pay for your current service...-...next year?

Willingness to pay

For the willingness to pay dimensions (WTP) we used the questions in the Van Westendorp price sensitivity meter (Van Westendorp 1976) which has been frequently used when deciding what customers are willing to pay for a product or service (Draeger 2000) However usage of these questions did not complete a full Van Westendorp analysis, since that is used to judge how to set the profit maximizing price on a product or service for a firm. Instead, our usage of the questions was to perform a regression to see if any correlations could be found to our independent variables. The reason for choosing the Van Westendorp questions is because the questions are commonly used and thus more likely questions that people understand and can answer coherently.

Good Value

- At what price would you consider the product a good value?

Expensive

- At what price would you say the product is beginning to get expensive, but you would still purchase it?

Too Expensive

- At what price would the product be so expensive that you would never consider it?

The measures used

Table I

The measures used

Service quality dimensions	Customer satisfaction	Loyalty	Willingness to pay
<i>Quality of the content</i> <ul style="list-style-type: none"> • Amount of new content • The speed of which new content is added • Amount of content in general • Amount of your favourite content 	<i>Satisfaction</i> <ul style="list-style-type: none"> • Overall, how satisfied or dissatisfied are You with this specific service? • To what extent does this specific service meet your expectations? • Imagine a specific streaming service that is perfect in every respect. How near or far from this ideal is your streaming service? 	<i>Recommendation</i> <ul style="list-style-type: none"> • How likely would you be to recommend this specific streaming service? 	<i>Good price</i> <ul style="list-style-type: none"> • At what price would you consider the product a good value?
<i>Quality of the accessibility</i> <ul style="list-style-type: none"> • The possibility to use the content wherever you are • The possibility of having your playlists/favourites available at all time despite the choice of platform • The possibility to use the service on different types of devices 		<i>Loyalty of usage</i> <ul style="list-style-type: none"> • When watching movies or series, how much of the viewing is done through your primary video streaming service as opposed to your alternatives • How much of the music you listen to is from your primary streaming service as opposed to your other listening alternatives 	<i>Expensive</i> <ul style="list-style-type: none"> • At what price would you say the product is beginning to get expensive, but you would still purchase it?
<i>Quality of the experience</i> <ul style="list-style-type: none"> • The flow of the software • The amount of glitches, bugs and crashes in the software • Quality of the media (sound, video etc) 		<i>Retention rate</i> <ul style="list-style-type: none"> • How likely are you to continue to pay for your current service...-...next month? • How likely are you to continue to pay for your current service...-...next year? 	<i>Too expensive</i> <ul style="list-style-type: none"> • At what price would the product be so expensive that you would never consider it?
Price dimensions <i>Price</i> <ul style="list-style-type: none"> • Binding time of the subscription • The price level in general 			

Reliability and validity

The reliability of the dimensions was examined through the confirmatory factor analysis, CFA, on the quality dimensions and the price dimensions and it was revealed that they all measured separate dimensions. Table xx presents the CFA as well as the coefficient alpha values for the constructs with more than three items, The reliability analysis revealed all of

exceeded the conventional minimum of 0.7 (Nunnally & Bernstein 1994). The *price* dimension which consists of a construct of two items cannot be examined by reliability analysis and instead was examined by a Pearson correlation and has a correlation of 0.551 which might be on the lower side to be considered reliable but we decided to keep the construct because of its importance in the pre-study.

Validity which is “the extent to which differences in observed scale scores reflect true differences among objects on the characteristics being measured” (Malhotra, 2010 p.320) has two main components; construct validity and content validity. The construct validity of the dimensions, which is more thoroughly examined against the other constructs in the results section, was examined through direct correlation with the satisfaction construct. All dimensions were significant at the 0.01 level (2-tailed) and the correlation values ranged between 0.254 to 0.452 indicating that there was at least some predictive validity for the dimensions. Content validity is inherently more difficult to confirm than construct validity but using scales developed on existing theory can support its presence. The discussion on the theories supporting each of the constructs in this research can be found in the previous sections.

Theoretical Framework

In our study of the determinants of satisfaction, loyalty and willingness to pay in subscription based streaming services; we will draw from the concept of quality and the theoretical framework surrounding quality and its link with customer satisfaction, as well as the effects it may have on loyalty and willingness to pay. Few have tested the relationships between how the three concepts quality, satisfaction and loyalty connect and it is presumed that the link between quality and satisfaction is stronger than the one between satisfaction and loyalty (Olsen, 2002). Firstly, we will use the model below as a foundation for our theories regarding quality, satisfaction and loyalty. We will then proceed by looking in to the theories about willingness to pay.

This part of our research will, in other words, provide the theoretical context to analyze and illustrate the links and relationships between features and satisfaction, loyalty and willingness to pay.

The relation of quality and loyalty with satisfaction as mediator

The Satisfaction – Loyalty Model



Quality and Satisfaction

The concept of quality is surrounded by large amounts of research as well and there are a great variety of models and frameworks relying on it and incorporating it. As a consequence, quality can be defined in several ways, however the Quality Handbook (Juran, 1962) gives two definition which cover the major aspects:

1. *“‘Quality’ means those features of products which meet customer needs and thereby provide customer satisfaction. In this sense, the meaning of quality is oriented to income. The purpose of such higher quality is to provide greater customer satisfaction and, one hopes, to increase income.”*
2. *“‘Quality’ means freedom from deficiencies—freedom from errors that require doing work over again (rework) or that result in field failures, customer dissatisfaction, customer claims, and so on. In this sense, the meaning of quality is oriented to costs, and higher quality usually ‘costs less’.”*

Summarizing these two definitions, they focus on the role of the features and lack of deficiencies in responding to customers needs and creating satisfaction. Since the key terms in the explanations above are product features and customer satisfaction, these two concepts will also be defined and explained. A product feature is the property of the service that aims at fulfilling the customers' needs and customer satisfaction is a state in which customers feel that their expectations and needs have been met. Customer satisfaction arises from the features that make the customers buy the product in question (Juran, 1962). This is reinforced by other studies that have proven the existence of a high intercorrelation between perceived quality and customer satisfaction (Olsen, 2002). This would imply that in the case of the subscription based streaming services; the features could truly be determinants of the customer satisfaction as they all together form the perceived quality of experience. Furthermore, the performance of the service in question will determine the satisfaction, which affects the purchasing behaviour (Olsen, 2002). For the subscription based streaming services, this means that some of the quality dimensions (features) determined by our pre-studies (e.g. accessibility) may have the role of determinants as they might affect how the consumer feels about the service (satisfied or not) and he/she will therefore be more or less inclined to continue the subscription. It has been shown that services are highly dependent on customer satisfaction when it comes to "repeat business", in other words obtain a repurchase behaviour (Juran, 1962)

Surely, this also affects the income of the companies: a good quality performance and experience will give you a satisfied customer more inclined to purchase again (continue the subscription) which will generate a greater income for subscription based streaming services. There are however more aspects concerning the income. A product with superior features can be sold at a premium price, which will lead to higher income while less competitive products will be sold below market prices (Juran, 1962).

Looking at the subscription based streaming services; this has the potential of being highly applicable in the music industry for instance. Taking Spotify as an example, we can see that their premium subscription offers a larger amount of features such as accessibility on all devices, unlimited listening and social features. Spotify Premium is sold for a higher price of 99 SEK per month which could lead to an increase of their income and profitability. Had Spotify Premium not offered these features, most customers would probably question the monthly fee and would perhaps turn to a substitute (e.g. piracy) or another service offering better quality of experience. This leads us to the effects of product deficiencies on income.

Encountering deficiencies and problems while using a product or service will surely result in dissatisfaction which in the long-run may well result in a change in the purchase behavior where the customer stops buying the product or service in question (Juran, 1962). Applying this to our study, it seems reasonable that a customer would stop using a streaming service if it was working poorly. In fact, some of the features determined of our pre-studies focus on the quality of experience and more specifically on problems such as glitches and bugs of the services. This may well be an essential part for subscription based streaming services as the customer pay to get access to listen or view the content and if this is delivered poorly due to deficiencies, most customers will probably be dissatisfied. Therefore, customer satisfaction plays an important part when it comes to customer retention, which, can strongly impact the profitability of the company (Reichheld and Sasser, 1990).

Lastly, we can conclude that the relationship between quality and satisfaction is not only significant in itself but also in regard to the entire business. The quality is an assessment and evaluation of the performance of the service whereas the satisfaction reflects the performance. As the quality exists through the features and attributes of the service, it seems that these surely can be the determinants of satisfaction (Olsen, 2002).

Loyalty and its link with satisfaction

Loyalty is also a well-known and researched concept within consumer marketing which has been given a lot of importance in relation to the success of companies. One can even go as far as saying that the customer focus previously mentioned isn't enough for companies to succeed nowadays, focus has shifted even further to include loyalty (Söderlund, 2001). Loyalty, in the context of consumption, can be defined as follows (Oliver, 1997):

“A deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour.”

As established previously in our thesis, the market of subscription based streaming services is characterized by high competition, rivalry and many threats of substitutes (Tullgren, 2013),

which leads us to believe the loyal customers, are of high importance to the business. High customer loyalty has a positive impact on the financial performance and economics benefits of the companies and in many cases it can be the explanation of the difference in profitability between competitors (Reichheld, 1993).

When it comes to the relationship and linkage between loyalty, as repurchase behavior, and satisfaction the matter gets a bit more complicated. Few empirical studies have been able to relate satisfaction and repurchase behaviour (Olsen, 2002). However, the concept of loyalty can also be simplified and expressed as repurchase patterns (Bloemer and Kasper, 1995) or as the relationship between relative attitude and repeat patronage (Dick and Basu, 1994). In order to understand this repurchase behaviour and repeat patronage, one can examine beliefs, attitudes and the conative structure of customers' orientation to the brand in focus (Jacoby and Chestnut, 1978). Another theory states that satisfaction can be transformed into loyalty in the presences of certain factors such as personal determination and social support (Oliver, 1999). This enables the possibility to introduce factors as mediators that may or may not affect the relationship between satisfaction and repurchase behaviour (Dick and Basu, 1994). Further findings within customer loyalty and repurchase behaviour have shown that under certain circumstances satisfaction and repurchase behaviour were completely uncorrelated and there also were differences when looking at satisfaction and repurchase intention compared to repurchase behaviour (Mittal and Kamakura, 2001).

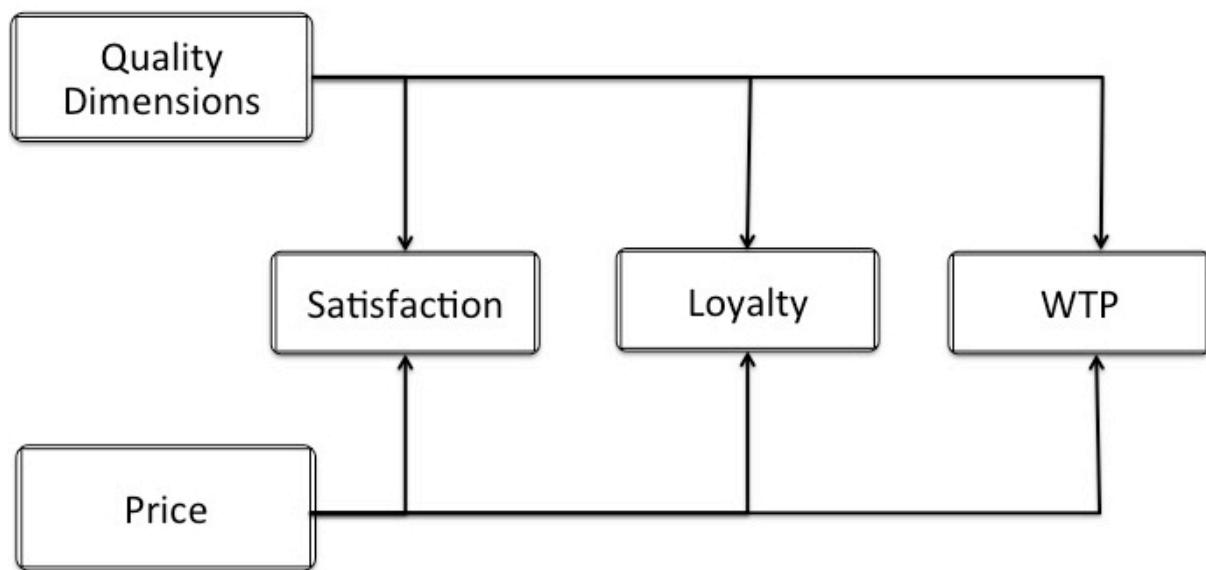
One can therefore conclude that given the knowledge of mediators affecting satisfaction and repurchase behavior and the variety of result in the research within this field, the relationship between satisfaction and loyalty may vary greatly across products and services (Olsen, 2002).

Willingness to pay

Willingness to pay refers to the maximal amount someone would be willing to pay in order to acquire a certain product or service. The theories regarding willingness to pay are quite limited when it comes to their relation with features, digital media and more specifically subscription based streaming services. What has been shown is that online service that are based on a fee often need to present a qualitative advantage compared to the free services in order to attract paying customers (Ye et al., 2004).

We have therefore decided upon having the aspect of willingness to pay as explorative part of our study and see if the data gathered can show any relation or link between the quality dimensions and the customers' willingness to pay for subscription based streaming services.

Research model



The design of our research model that will include all the aforementioned concepts and theories, combining them in order to contribute with the insights of what truly determines satisfaction, loyalty and willingness to pay in subscription based streaming services. Our analysis will therefore part from the model below.

Results

This section presents the most relevant data and findings in the study. It begins with a brief overview of the respondents demographics continues with an overview of the mean levels of the measurements and ends with the analysis of the data with the purpose of answering the research question: what are the determinants of satisfaction, loyalty and willingness to pay for subscription based streaming services.

Overview of the respondents

Table II

Demographic overview of the respondents

All the respondents											
Respondents		Gender		Place of residence		Age		Income		Paying today	
total	603	Man	54%	Sweden	76%	10-14	0%	0-4999	13%	0-19kr	20%
valid	463	Women	46%	America	10%	15-19	4%	5000-9999	28%	20-39kr	1%
						20-24	60%	10000-14999	24%	40-59kr	9%
						25-29	26%	15000-19999	11%	60-79kr	24%
						30-34	6%	20000-24999	6%	80-99kr	32%
						35-39	1%	25000-29999	8%	100-119kr	8%
						40-44	2%	30000-	6%	120-139kr	1%
						45-	1%			140kr-	5%

Video respondents													
Respondents		Gender		Place of residence		Age		Income		Paying today		Service	
total	318	Man	62%	Sweden	70%	10-14	0%	0-4999	13%	0-19kr	19%	Netflix	68%
valid	253	Women	38%	America	18%	15-19	4%	5000-9999	28%	20-39kr	2%	Viaplay	16%
						20-24	58%	10000-14999	24%	40-59kr	11%	Filmnet	5%
						25-29	26%	15000-19999	11%	60-79kr	40%	Other	11%
						30-34	7%	20000-24999	6%	80-99kr	14%		
						35-39	1%	25000-29999	8%	100-119kr	6%		
						40-44	2%	30000-	6%	120-139kr	2%		
						45-	2%			140kr-	6%		

Music respondents

Respondents		Gender		Place of residence		Age		Income		Paying today		Service	
total	231	Man	45%	Sweden	84%	10-14	0%	0-4999	16%	0-19kr	21%	Spotify	97%
valid	210	Women	55%	America	2%	15-19	3%	5000-9999	35%	20-39kr	0%	Other	3%
				Finland	6%	20-24	62%	10000-14999	19%	40-59kr	7%		
				Other	8%	25-29	26%	15000-19999	8%	60-79kr	5%		
						30-34	5%	20000-24999	9%	80-99kr	53%		
						35-39	1%	25000-29999	3%	100-119kr	11%		
						40-44	2%	30000-	9%	120-139kr	1%		
						45-	0%			140kr-	2%		

Mean levels of the measurements

When comparing the levels of the quality dimensions of music services and videos services we can see that by far the biggest differences are in the content dimension. The customers are far less satisfied with the content of the video services than the music services, particularly when it comes to new content. The quality of the accessibility is also rated higher for music and to a lesser degree the quality of the experience.

The mean comparison of the higher order abstractions reveals a clearly higher satisfaction, loyalty and willingness to pay for music services, except for the estimation of what considers a “good deal”.

table III

Mean comparison between video streaming services and music streaming services

Dimensions

	Video	Music	Mean difference	Sig. (2-tailed)
<i>Quality of the content</i>				
Amount of new content	3,87	5,57	1,70	(0.00)
The speed of which new content is added	3,61	5,30	1,69	(0.00)
Amount of content in general	4,48	5,60	1,12	(0.00)
Amount of your favourite content	4,23	5,46	1,24	(0.00)
<i>Quality of the accessibility</i>				
the possibility to use the content wherever you are	4,94	5,56	0,61	(0.00)
the possibility of having your playlists/favourites available at all time despite the choice of platform	4,57	5,62	1,05	(0.00)
the possibility to use the service on different types of devices	5,18	5,90	0,72	(0.00)

<i>Quality of the experience</i>	Video	Music		
the flow of the software	5,04	5,30	0,26	(0.01)
the amount of glitches, bugs and crashes in the software	4,72	5,09	0,37	(0.00)
quality of the media (sound, video etc)	5,38	5,71	0,33	(0.00)

<i>Price</i>	Video	Music		
Binding time of the subscription	5,20	5,35	0,15	(0.26)
the price level in general	4,92	4,86	-0,06	(0.64)

Higher order abstractions

<i>Customer satisfaction</i>	Video	Music		
Satisfaction	4,65	5,54	0,89	(0.00)

<i>Loyalty</i>	Video	Music		
Recommendation	5,16	6,28	1,12	(0.00)
Customer share - Usage	47%	65%	18%	(0.00)
Retention rate	4,79	6,08	1,29	(0.00)

<i>Willingness to pay</i>	Video	Music		
good value	83,58	83,99	0,41	(0.93)
expensive	128,40	144,65	16,26	(0.04)
too expensive	204,47	260,54	56,07	(0.00)

Determinants of customer satisfaction, loyalty and willingness to pay

Table IV

Standardized Regression Coefficients and R2 Values for the dimension variables							
	<i>Customer satisfaction</i>	<i>Recommendation</i>	<i>Retention rate</i>	<i>Loyalty of usage</i>	<i>Good value</i>	<i>Expensive</i>	<i>Too expensive</i>
<i>Dimension - Quality of Content</i>	0,43 (0.00)	0,36 (0.00)	0,13 (0.00)	0,16 (0.00)	- (0.42)	- (0.88)	- (0.83)
<i>Dimension - Quality of Accessibility</i>	0,28 (0.00)	0,26 (0.00)	0,18 (0.00)	0,15 (0.00)	0,00 (0.98)	0,00 (0.93)	0,01 (0.89)
<i>Dimension - Quality of the Experience</i>	0,20 (0.00)	0,17 (0.00)	0,07 (0.16)	0,06 (0.23)	0,04 (0.41)	0,05 (0.34)	0,03 (0.50)
<i>Dimension - Price</i>	0,20 (0.00)	0,21 (0.00)	0,26 (0.00)	0,13 (0.01)	0,23 (0.00)	0,12 (0.02)	0,02 (0.71)
Adjusted R2	0,42	0,34	0,16	0,07	0,04	0,00	0,01
Collinearity	9296						

Note: numbers in parentheses are significance levels

Table V

Standardized Regression Coefficients and R2 Values for the dimension variables separated for video and music

	<i>Customer satisfaction</i>		<i>Recommendation</i>	
	Video	Music	Video	Music
<i>Dimension - Quality of Content</i>	0,55 (0.00)	0,36 (0.00)	0,47 (0.00)	0,27 (0.00)
<i>Dimension - Quality of Accessibility</i>	0,21 (0.00)	0,42 (0.00)	0,23 (0.00)	0,36 (0.00)
<i>Dimension - Quality of the Experience</i>	0,20 (0.00)	0,27 (0.00)	0,16 (0.00)	0,24 (0.00)
<i>Dimension - Price</i>	0,26 (0.00)	0,20 (0.00)	0,24 (0.00)	0,27 (0.00)
Adjusted R2	0,52	0,51	0,40	0,44

	<i>Retention rate</i>		<i>Loyalty of usage</i>	
	Video	Music	Video	Music
<i>Dimension - Quality of Content</i>	0,23 (0.00)	-0,06 (0.45)	0,14 (0.02)	0,18 (0.01)
<i>Dimension - Quality of Accessibility</i>	0,22 (0.00)	0,07 (0.35)	0,14 (0.03)	0,18 (0.01)
<i>Dimension - Quality of the Experience</i>	0,07 (0.28)	0,05 (0.49)	-0,09 (0.18)	-0,01 (0.86)
<i>Dimension - Price</i>	0,22 (0.00)	0,45 (0.00)	0,11 (0.11)	0,14 (0.06)
Adjusted R2	0,18	0,21	0,05	0,10

Note: numbers in parentheses are significance levels

Customer satisfaction

The results for the customer satisfaction regression model were the most explanatory of the regression models, (adjusted R² of 0.415). All the quality dimensions were significant as well as the price dimension. The most important determinant to explain satisfaction was the dimension of the quality of the content, which we consider quite natural since access to the content is the primary service that the customer buys.

When going deeper and analyzing the video content and music content side by side we can see interesting differences. The adjusted R² become substantially higher (from Adj. R² = 0.415 to 0.523 and 0.509) suggesting there are differences in the different types of content services that makes a general model less explanatory. Content is significantly more important to explain satisfaction for video content streaming as opposed to music (beta = 0.552 opposed to beta = 0.356). When analyzing the separate variables through an independent samples t-test we can see that music content scores significantly higher on all the items comprising the content dimension see table III. This is indicative of content being a hygiene factor and not a motivator using Hertzbergs Dual-Factor theory (Hertzberg et al. 1959) which has been adapted for use on customer satisfaction by other researchers (Webb et al. 2000, Herington & Weaven 2009) and more specifically on website quality factors (Liu & Goodhue 2008) and that the music content streaming services have reached a level of content high enough to satisfy customers while video content streaming services have not. This is supported by our pre-study and interviews with HBO and Cmore. It is also supported by the data where we can see that 91 % of the music content streaming service customers use only one service whereas the corresponding number for video streaming services is 61.6%. The discrepancy could also come from a fact that there is for music services a very low awareness of any competitors, significantly lower than for video (a mean of 2.16 compared to a mean of 3.64). There is also support for that conclusion when looking at the level of satisfaction and the level of perceived value for the different services.

The second most important dimension to explain customer satisfaction was accessibility with a beta of 0.277. Just as with the content dimension the interesting conclusions can be drawn when we compare the results of video content and music content. The dimension accessibility has a twice as high beta for music compared to video (0.417 vs 0.210). This can be most probably be explained by the difference in the user patterns of the consumers of the different

types of media. Consumers are much less restricted in place when using music compared to video and usage of music through headphones or earplugs diminish the user experience less than usage of video through a small smartphone screen.

The dimensions of quality and price both explain satisfaction with a beta of approximately 0.2 in the collected data. Price however being more important for video streaming services and quality of experience being more important for music streaming services.

Table VI

Standardized Regression Coefficients and R2 Values for customer satisfaction

	Recommendation	Retention rate	Loyalty of usage
Customer satisfaction	0,78 (0.00)	0,51 (0.00)	0,32 (0.00)
Adjusted R2	0,61	0,26	0,10

Note: numbers in parentheses are significance levels

Standardized Regression Coefficients and R2 Values for customer satisfaction separated for video and music

	Recommendation		Retention rate		Loyalty of usage	
	Video	Music	Video	Music	Video	Music
Customer satisfaction	0,79 (0.00)	0,66 (0.00)	0,48 (0.00)	0,30 (0.00)	0,22 (0.00)	0,26 (0.00)
Adjusted R2	0,62	0,43	0,23	0,08	0,04	0,07

Note: numbers in parentheses are significance levels

Standardized Regression Coefficients and R2 Values for price and loyalty of usage for music

	Retention rate
	Music
Dimension - Price	0,42 (0.00)
Loyalty of Usage	0,27 (0.00)
Adjusted R2	0,28
Collinearity	10154

Note: numbers in parentheses are significance levels

Loyalty

Recommendation to a friend

The loyalty measurement of recommendation to a friend had the explanatory value of Adj. R2 = 0.338, which however increases to 0.401 for video and 0.443 for music, and the independent dimensions had approximately the same relation to each other as did the

customer satisfaction measurement; Content was most important dimension in general and especially for video services whilst accessibility was the most important dimension for music services. One notable change however occurs when separating the data, for the music content streaming services the price become more important than even the quality of content.

When instead using the link between satisfaction and loyalty described in literature (Olsen 2002) we find a very strong link between *satisfaction* and *recommendation* (Adj. R2 = 0.614 and beta of 0.784) looking at the media types separately we can see that the *satisfaction* to *recommendation* link is stronger for video than it is for music (Adj. R2 = 0.619, beta 0.788 compared to Adj. R2 = 0.434, beta 0.659)

Retention rate

The retention rate model had an even lower explanatory value (Adj. R2 = 0.158) than the recommendation model, whereas for video separately the Adj. R2 was 0.183 and for music 0.209.

For video the *content*, *accessibility* and *price* had a significant impact on *retention rate* whereas for music only the dimension of *price* had a significant impact.

Using the *satisfaction* and *loyalty* link we find that the satisfaction has a stronger link than the dimensions of our model (Adj. R2 = 0.259 and beta 0.511). However when separating music from video we can see that while *satisfaction* explains the variance of video with an Adj. R2 of 0.229, it does not explain the retention rate very well for music (Adj. R2 = 0.82) indicating a weakness in the *satisfaction leads to loyalty* theory in this dimension for the subscription based music streaming services. A separate regression on retention rate for music using the dimension *price* as well as the *loyalty of usage* gave an adjusted R2 of 0.277 for with a beta of 0.422 for *price* and 0.266 for *loyalty of usage*.

Customer share - loyalty of usage

The loyalty measurement of customer share had a quite low explanatory value; (Adj. R2 = 0.073 indicating that this loyalty dimension is not easily tied to the dimensions of our model. We also found merely a weak connection between *satisfaction* and *loyalty of usage* (Adj. R2 = 0.102, beta 0.323).

Willingness to pay

The willingness to pay variables were exceptionally little explained by the dimensions of our model and we could find no significant correlations with satisfaction. Using the *How much are you paying for your service today?* variable we could find correlation between what customer actually pay, and what they are willing to pay. This indicates that the price set by the firms works as a reference price as to what the customers feel constitutes a good price, expensive price and too expensive price and that this reference price is more salient for the customer than any of the inherent dimensions of the service. This is congruent with the importance of reference points that is known from earlier research (Kahneman 1992).

Conclusions and discussion

The E-S-SQUAL scale is a first step towards a better understanding for what quality dimensions drive satisfaction for subscription based streaming services, its dimensions *quality of content*, *quality of accessibility* and *quality of experience* together with the dimension of *price* had a substantial predictive validity for predicting the customer satisfaction and the loyalty dimension of recommendation to friends.

The inherent differences in the media type of music and video makes it hard to draw general conclusions about the determinants of satisfaction for streaming subscription services. The E-S-SQUAL scale combined with the price dimension is more accurate explaining the satisfaction when examining the different the media types separately. The most important determinant of satisfaction for video is *content* while *accessibility* is more important for music. With some evidence pointing to that music has reached a “high enough” level of content where it has lost some power of driving satisfaction.

Very interesting was the fact that *willingness to pay* had almost no correlation with the quality dimensions or the *satisfaction*. It seems that in the consumers mind the reference price of what they are paying today makes it impossible to make an estimation of what a good price, an expensive price and what a too expensive price is with reference to the inherent qualities of the service.

Limitations and recommendations for further research

The E-S-SQUAL scale can most certainly be refined with further research. Each dimension only contained 3-4 items, which most likely impeded the accuracy of the scale. The limitations of the convenience sample also impact the ability to generalize the conclusions. 90% of the respondents being in the age span of 19-30 make the findings more applicable to young tech-savvy people.

The higher order abstractions were in some cases not constructs but simple one item variables. Given the lower explanatory values for some of them. e.g. *Loyalty of usage* and *Retention rate* this fact might have decreased the reliability and validity of them. However the inherent difficulty of estimating the amount of usage for any given media service and the estimation of if one should continue using a particular service is perhaps something that is more of a problem with cross-sectional data gathering than with any particular construct. Studies using actual data of usage and longitudinal data could shed more light on those particular aspects of loyalty.

The link between willingness to pay and a “reference price” is interesting and could be examined more closely. The fact that we could not find any relation between the inherent qualities and aspects pertaining the specific service could of course be caused by a fault of our using the survey method or a problem with our measurement questions. However that we found a link between what the customers actually paid and what they were willing to pay is interesting, further research could examine whether the reference price actually is what the customer are currently paying or if it is a construct based on a normative notion of the price of music and video services in general.

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Appendix

Appendix I. Questionnaire

Q1 Browser Meta Info

- Browser (1)
- Version (2)
- Operating System (3)
- Screen Resolution (4)
- Flash Version (5)
- Java Support (6)
- User Agent (7)

Q2 Timing

- First Click (1)
- Last Click (2)
- Page Submit (3)
- Click Count (4)

Q3 This is a survey about attitudes towards digital media distributors that use a payment model where you pay a monthly fee and get access to the entire library of content (for example Spotify, Netflix, HBOgo etc) content is the songs, movies, series etc that the service provides you with, for example in Spotify the content is the songs Thank you for your time!

Q4 Place of residence (where do you currently live)

- Sweden (1)
- America (2)
- Other (4) _____

Q5 Have you used a online video streaming service that uses a set monthly fee for the use of the entire library of content? (examples Netflix, HBO, Filmnet, Viaplay etc)

- Yes (1)
- No (2)

Q6 Which video streaming service? if you have used multiple choose the one you used most recently If you are currently using multiple choose the one you use the most

- Netflix (1)
- HBO (2)
- Filmnet (3)
- Viaplay (4)
- Hulu (5)
- Voddler (6)
- Other (7) _____

Q7 Have you used a online music streaming service that uses a set monthly fee for the use of the entire library of content? (for example Spotify, Grooveshark)

- Yes (1)
- No (2)

Q8 Which music streaming service?if you have used multiple choose the one you used most recentlyIf you are currently using multiple choose the one you use the most

- Spotify (1)
- Grooveshark (2)
- Rdio (3)
- Rhapsody (4)
- Other (5) _____

Q9 We will ask you a couple of questions about your streaming service. Please grade on a scale 1-7 to what extent the streaming service fulfills Your demands on a good streaming service when it comes to:

Q10 Library of content

	Worst grade (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Best grade (7)
Amount of content in general (1)	•	•	•	•	•	•	•
Amount of new content (2)	•	•	•	•	•	•	•
Amount of old content (3)	•	•	•	•	•	•	•
Amount of your favorite content (4)	•	•	•	•	•	•	•
How often content is removed from the library (5)	•	•	•	•	•	•	•
The speed with which new content is added (6)	•	•	•	•	•	•	•

Q11 Discoverability

	Worst grade (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Best grade (7)
The simplicity of discovering new content unknown to you (1)	•	•	•	•	•	•	•
The simplicity of finding the content when you're searching for specific content (2)	•	•	•	•	•	•	•

Q12 Accessibility

	Worst grade (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Best grade (7)
The possibility to use the content wherever you are (1)	•	•	•	•	•	•	•
The possibility of having your playlists/favourites available at all time despite the choice of platform (2)	•	•	•	•	•	•	•
The possibility to use the service on different types of devices (3)	•	•	•	•	•	•	•

Q13 Pricing

	Worst grade (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Best grade (7)
Choice of subscription alternatives, (with different prices) (1)	•	•	•	•	•	•	•
Binding time of the subscription (2)	•	•	•	•	•	•	•
The price level in general (3)	•	•	•	•	•	•	•

Q14 Ethics

	Worst grade (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Best grade (7)	Don't know (-1)
How much the artists get paid (1)	•	•	•	•	•	•	•	•
How much the production companies get paid (2)	•	•	•	•	•	•	•	•

Q15 Quality of experience

	Worst grade (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Best grade (7)
Quality of the media (sound, video etc) (1)	•	•	•	•	•	•	•
Amount of glitches, bugs and crashes in the software (2)	•	•	•	•	•	•	•
The flow of the software (3)	•	•	•	•	•	•	•
How simple it is to use the software (4)	•	•	•	•	•	•	•

Q16 Now we will ask You a couple of questions about your overall impression of the specific streaming service. Please grade on a scale 1-7 your overall impression where you take into account all aspects of this specific service.

Q17 Overall, how satisfied or dissatisfied are You with this specific service?

- Very dissatisfied (1)
- 2 (2)
- 3 (3)
- 4 (4)
- 5 (5)
- 6 (6)
- Very Satisfied (7)
- Don't know (-1)

Q18 To what extent does this specific service meet your expectations?

- Not at all (1)
- 2 (2)
- 3 (3)
- 4 (4)
- 5 (5)
- 6 (6)
- Completely (7)
- Don't know (-1)

Q19 Imagine a specific streaming service that is perfect in every respect. How near or far from this ideal do You find your specific service?

- Very far from (1)
- 2 (2)
- 3 (3)
- 4 (4)
- 5 (5)
- 6 (6)
- Cannot get closer (7)
- Don't know (-1)

Q20 Recommendation Please grade the following statement on a scale 1-7

	Not likely at all (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Very likely (7)	Don't know (-1)
If a friend asked you for advice. How likely would you be to recommend this specific streaming service? (1)	•	•	•	•	•	•	•	•

Q21 Willingness to pay At what price in Swedish crowns (SEK) would you consider the product a good value?per month

Q22 At what price in Swedish crowns (SEK) would you say the product is beginning to get expensive, but you would still consider buying it?per month

Q23 At what price in Swedish crowns (SEK) would the product be so expensive that you would never consider it? per month

Q24 At what price in Swedish crowns (SEK) would the product be so inexpensive that you would doubt its quality? per month

Q25 Willingness to pay At what price in dollar (\$) would you consider the product a good value?per month

Q26 At what price in dollar (\$) would you say the product is beginning to get expensive, but you would still consider buying it?per month

Q27 At what price in dollar (\$) would the product be so expensive that you would never consider it? per month

Q28 At what price in dollar (\$) would the product be so inexpensive that you would doubt its quality? per month

Q29 How many hours per week do you watch movies or series?

Q30 How many hours per week do you listen to music?

Q31 How familiar are you with competing similar streaming services that uses a monthly fee?

- Not at all (1)
- 2 (2)
- 3 (3)
- 4 (4)
- 5 (5)
- 6 (6)
- Very (7)

Q32 Are you using any competing similar services that uses a similar payment model?
And if so how many?

- No (1)
- Yes 1 (2)
- Yes 2 (3)
- Yes 3 (4)
- Yes 4 (5)
- Yes 5 (6)
- Yes 6 (7)
- Yes more than 6 (8)

Q33 When watching movies or series, how much of the viewing is done through your primary video streaming service as opposed to your other video streaming services?
_____ Share in percent (1)

Q34 How much of the music you listen to is from your primary streaming service as opposed to your other streaming services?
_____ Share in percent (1)

Q35 How likely are you to try an alternative service?

	Very unlikely (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Very Likely (7)
In the next month? (1)	•	•	•	•	•	•	•
In the next year? (2)	•	•	•	•	•	•	•

Q36 In addition to your streaming service, in what alternative ways do you view movies and series?

	Not at all (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Very much (7)
Regular TV (1)	•	•	•	•	•	•	•
Cinema (2)	•	•	•	•	•	•	•
Purchased DVDs (3)	•	•	•	•	•	•	•
Purchased BluRay (4)	•	•	•	•	•	•	•
Rental DVDs (5)	•	•	•	•	•	•	•
Rental BluRay (6)	•	•	•	•	•	•	•
Other (7)	•	•	•	•	•	•	•
Click to write Choice 9 (9)	•	•	•	•	•	•	•

Q37 In addition to your streaming service, to what extent do you use these alternative ways to listen to music?

	Not at all (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Very much (7)
Pirated digital music files (1)	•	•	•	•	•	•	•
Purchased digital music files (2)	•	•	•	•	•	•	•
YouTube (3)	•	•	•	•	•	•	•
Radio (4)	•	•	•	•	•	•	•
CDs (5)	•	•	•	•	•	•	•
Other physical media (LPs etc) (6)	•	•	•	•	•	•	•
Other (7)	•	•	•	•	•	•	•
Conserts (9)	•	•	•	•	•	•	•

Q38 When watching movies or series, how much of the viewing is done through your primary video streaming service as opposed to other alternatives (for example: regular TV, cinema, dvds)

_____ Minska med 10% (1)

Q39 How much of the music you listen to is from your primary streaming service as opposed to other alternatives (for example: iTunes, radio, mp3s, YouTube)

_____ Minska med 10% (1)

Q40 How much better is it for you to be able to use the streaming service as opposed to only using other alternatives

- Very little (1)
- 2 (2)
- 3 (3)
- 4 (4)
- 5 (5)
- 6 (6)
- Very much (7)
- Don't know (-1)

Q41 How much in Swedish crowns (SEK) do you currently pay for the main streaming service per month

Q42 How much in dollar (\$) do you currently pay for the main streaming service per month

Q43 How likely are you to continue to pay for your current service...

	Very unlikely (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Very likely (7)
...next month? (1)	•	•	•	•	•	•	•
...next year? (2)	•	•	•	•	•	•	•

Q44 How likely would you be to stop paying for your current service If...

	Very unlikely (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	Very Likely (7)
...the price increases with 10% (1)	•	•	•	•	•	•	•
...the price increases with 50% (3)	•	•	•	•	•	•	•
...the price increases with 100% (4)	•	•	•	•	•	•	•

Q45 How much more value do you think that the paid version offers you as compared to the free version of the same service

- Very little (1)
- 2 (2)
- 3 (3)
- 4 (4)
- 5 (5)
- 6 (6)
- Very much (7)
- Don't know (-1)
- No free version exist (-2)

Q46 How much are you bothered by ads interrupting your content

- Very little (1)
- 2 (2)
- 3 (3)
- 4 (4)
- 5 (5)
- 6 (6)
- Very much (7)

Q54 Would you say that you were a loyal customer to your current streaming service?

- Yes (1)
- No (2)
- You were in the past (3)

Q47 Gender

- Man (1)
- Woman (2)
- Do not want to enter (3)

Q48 Age

Q49 What devices do you own?

- Computer (1)
- Smartphone (2)
- Pad (3)
- Home gaming console (Xbox, Playstation etc) (4)
- TV (5)
- HTPC (6)
- DVD player (7)
- MP3 Player (8)
- Other (9) _____

Q50 What is your monthly income? SEK/month

Q51 What is your monthly income?\$/month

Q52 Thank you for taking the time to answer! To enter your answers click >> below!

Appendix II – Factor analysis for E-S-SQUAL

Rotated Component Matrix^a

	Component			
	1	2	3	4
Library of content-Amount of new content	,896			
Library of content-The speed with which new content is added	,860			
Library of content-Amount of content in general	,787			
Library of content-Amount of your favorite content	,779			
Accessibility-The possibility to use the content wherever you are		,844		
Accessibility-The possibility of having your playlists/favorites available at all time despite the choice of platform		,817		
Accessibility-The possibility to use the service on different types of devices		,800		
Quality of experience-Amount of glitches, bugs and crashes in the software			,876	
Quality of experience-The flow of the software			,864	
Quality of experience-Quality of the media (sound, video etc)			,576	
Pricing-Binding time of the subscription				,857
Pricing-The price level in general				,845

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.
 a. Rotation converged in 5 iterations.

Communalities

	Initial	Extraction
Quality of experience-Quality of the media (sound, video etc)	1,000	,535
Quality of experience-Amount of glitches, bugs and crashes in the software	1,000	,784
Quality of experience-The flow of the software	1,000	,803
Pricing-Binding time of the subscription	1,000	,773
Pricing-The price level in general	1,000	,768
Accessibility-The possibility to use the service on different types of devices	1,000	,732
Accessibility-The possibility to use the content wherever you are	1,000	,777
Accessibility-The possibility of having your playlists/favorites available at all time despite the choice of platform	1,000	,749
Library of content-Amount of content in general	1,000	,710
Library of content-Amount of new content	1,000	,830
Library of content-Amount of your favorite content	1,000	,691
Library of content-The speed with which new content is added	1,000	,754

Extraction Method: Principal Component Analysis.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	,821
Bartlett's Test of Sphericity	Approx. Chi-Square
	2651,558
	df
	66
	Sig.
	,000

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4,585	38,211	38,211	4,585	38,211	38,211	2,975	24,789	24,789
2	2,006	16,713	54,925	2,006	16,713	54,925	2,305	19,211	43,999
3	1,244	10,364	65,289	1,244	10,364	65,289	2,012	16,766	60,765
4	1,072	8,931	74,220	1,072	8,931	74,220	1,615	13,455	74,220
5	,577	4,808	79,028						
6	,481	4,007	83,035						
7	,451	3,755	86,790						
8	,403	3,358	90,148						
9	,375	3,128	93,276						
10	,319	2,654	95,930						
11	,292	2,436	98,366						
12	,196	1,634	100,000						

Extraction Method: Principal Component Analysis.