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**CUSTOMER PERCEIVED VALUE IN FREEMIUM BUSINESS MODEL**

Case study: Spotify in Finnish and Vietnamese markets

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**ABSTRACT:**

Freemium business model has become more popular in digital economy in practice and therefore, become a phenomenon that worth to research. There have been so far only few researches about customer perceived value in freemium business model. This research deepened the understanding of customer value perception about Premium and free versions based on value theory. In addition, put into the context of emerging market and mature market, the study aimed to find the differences of customer perceived value in different market cycle.

The study confirmed the difference of perceived value of the same product in different markets. In the mature market (Finland), the Premium version of freemium service Spotify has become basic and standard, therefore, the perceived cost was only money and there was no aesthetic value found. People chose Premium mainly because of its functionally convenience rather than to imply some positive meaning about themselves through the purchasing decision. On the other hand, in the emerging market (Vietnam), Premium version was perceived as the more sophisticated luxury version. The perceived cost was not only money but also the willingness to pay for the better version of the service. Aesthetic value was found, as using Premium was perceived as transferring positive messages related to their financial status, lifestyle and music taste.

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**KEY WORDS:** freemium business model, customer perceived value, Spotify, Finland, Vietnam



## 1. INTRODUCTION

### 1.1. Freemium as a research phenomenon

The drawback of digitalization is that duplicating the content of some products becomes easier. Therefore, piracy and illegal downloading of products and services such as music, movies, books, games and mobile apps has been increasing significantly. Against piracy is a long-term fight requiring the government support by law and the awareness of users. However, that challenge also opens new ways of doing business: let customers use products and services for free and encourage them to upgrade to premium for some special features. Giving away for free is not a new concept in marketing (free sampling) However, using “free” as a part of an endeavor’s activity has become a new trend, making Freemium business model as a worth to research model.

Freemium business model has become more and more popular in the digital economy in practice. Many well-known brands are using this model: Skype, Dropbox, Spotify, Free2play, to name just a few. Although the freemium concept already existed in the 1980s, until the beginning of 21<sup>st</sup> century, it has become a research phenomenon. The term was defined by Wilson (2006). Anderson with his book “Free: the future of radical price” (2009) has contributed importantly to the understanding of freemium business model. He defined this revenue model as having a free version that is available for everyone and sell the Premium version for those who are interested. Unlike the sampling strategy which free version is for the beginning promoting purpose, in the Freemium business model, both Premium and free version coexist. The main idea of freemium is that premium users cover the cost for free users. According to Anderson (2009), there is usually just 5% of users will upgrade to Premium. These 5% will cover the cost of the service. In addition, companies also use advertisement to sponsor the free version (Anderson 2009, Dörr, Benlian & Hess, 2010).

Since 2006, freemium business model has significantly grown and become an interesting research phenomenon. There are two main focusing perspectives on freemium: freemium as

a profitable revenue model and customer behavior on freemium model. With the first perspective, authors aim to determine the best strategy for a company in various scenarios. Teece (2010) compared internet services' traditional and new models. The result concluded that freemium is an encouraging revenue model for this industry. Semenzin et al. (2012) studied with 17 companies in the online software market to define which features companies should design as available for the free version and which should not. Liu et al. (2012) examined 1597 ranked mobile apps to conclude that using freemium business model could boost the sale volume and revenue of a mobile app. From economics aspect, Seufert (2014) conducted a thorough survey in software industry and explained how freemium services and products could create revenue and attract users.

The second perspective of studying freemium business model is to identify why customers are willing to pay for a service, even its basic version is free. Dörr et al. (2010) studied which features impact on users' willingness to pay for music service by surveying 132 users. The result showed that sound quality and the contract period would affect. Östreicher-Singer and Zalmanson (2013) studied how willingness to pay and community activity would connect. By analyzing data of an online radio station, they found that very active network users were more willing to pay for Premium version. Wagner et al. (2014) measured whether the limitation of free services would affect the evaluation of free and premium versions. The study suggested that companies should aim to balance the functions of free and premium services to increase the converting ratio and increase profitability.

## **1.2. Research gap**

Although studying freemium from customer perspective is one of two main focuses, researches about this topic are still rare. Especially, to the extent of the author, there have been only a few researches about the freemium model from the lenses of customer perceived value. Therefore, researching about customer perceived value in freemium business model is in need. Niemand, Tischer, Fritzsche and Kraus (2016) researched why consumers perceived more value with free than with premium offers. The research included one initial study with

158 respondents and one main study including 1991 online surveys in German. They concluded that free offers inversely reinforced the consumer's value perception, providing more value, not less. The research clearly improved the understanding about customer perceived value with free and premium services. It pointed out that to gain success, companies using freemium business model would need to clarify the difference of free and premium versions and increase the benefit of the premium features.

In the research, the authors also concluded that age and education did not affect customer value perception of freemium model while gender did make the difference (female perceived the free version more value than male did). However, the research was conducted for German market, therefore, the result could be different when applying to different countries with different cultures. When a company plans to enter to a new market, the essential thing is to understand the consumer value perception in that specific market, which shapes by its culture. To have a multifaced perspective about customer perceived value in freemium business model including cultural differences, in this research, I would like to fill the gap by studying how Finnish customers and Vietnamese customers perceive value of Spotify, the most popular MaaS (music as a service).

Spotify is the most popular music streaming service. Together with other music streaming service providers, Spotify has changed the listening habit of young people around the world. Young people prefer to stream their favorite songs whenever they want through cloud system rather than owning the songs in their devices. Founded in 2006 in Stockholm, Sweden, Spotify specializes in music, podcast and video streaming services. Music can be searched by parameters such as artist, album, genre, playlist or record label. Users can create, edit and share playlists or tracks on social media and make playlists with other users. Spotify is active in Europe, America, Australia, New Zealand and a part of Asia. Until May 2018, Spotify had 170 million monthly active users; 75 million of those were Premium subscribers (Wikipedia 15.09.2018). In 2017, Spotify reported 4.7 billion € revenue. Spotify is a good example for a successful freemium business model.

The reason to choose Finland and Vietnam as two countries to study about customer perceived value of Spotify freemium business model is because they have different habits towards music consumption. Finland is well-known for its music culture, especially in the metal and classical genres, which have been gained significant international success. One fact is that Finland has the highest metal band per capital in the world (Gardoni, 2012, cited 15.09.2018). Every summer, there are music festivals all around Finland, gathering hundred thousand of visitors. Finland is also ahead of the world's average in term of digitalized listening. Especially, streaming music have been grown fastest, no less than 41% in 2013. In 2017, 82% of Finnish population subscribed to a digital music service, the most popular ones are Spotify and Youtube (Statista.com, cited 15.09.2018).

The fact that Finland is a developed country with high per capital income affects people's consumption habit. Contrary to Finland, Vietnam is a burgeoning market with lower incomes and unlimited semi-legal streaming and downloading alternatives. Two market leaders of Vietnamese digital music industry are Mp3zing with 12 million listeners (Adtima 2017, cited 15.09.2018) and Nhaccuatui with 2 million listeners everyday (ICT News 2015, cited 15.09.2018). Users can not only stream but also download music to their own digital devices with or without fee: this is the vital successful factor of these operators, as 3G has not been widespread in Vietnam. In 2015, Apple Music joined the market and last March, finally Spotify penetrated in Vietnamese market. With the subscription fee of 2,99usd/month and the advantage of data-driven technology, Spotify aimed to shape the listening habit of Vietnamese people. However, how successful Spotify would be in Vietnamese market is still questionable.

### **1.3. Research purposes and research question**

To fill the gap of understanding freemium business model from customer perspective, this research aims to explore and analyze the customer perceived value about the free and premium music services. The research also aims to explore the differences of customer perceived value from different countries. Finland is a good representative for digitalization

advancing countries with high income per capita and strict piracy law. In contrast, Vietnam is an example of developing countries with low incomes and piracy is a big problem. What would be the most attractive value they see from freemium business model Spotify? Similarly, what would be the thing that disturbs them most when using the service? In addition, while Spotify has been in Finland more than 10 years and becomes very popular in Finland, it has just penetrated Vietnamese market in March 2018. Researching the difference of customer perceived value from a mature market and a new market is another objective of this study. To address the research purposes, the study will focus on the following research question with two sub-questions:

**How Finnish customers and Vietnamese customers perceive freemium music service' value?**

*Sub-question 1. What are the key dimensions on customer value perception in freemium business model?*

*Sub-question 2. How the consumer's value perceptions differ between mature and emerging market?*

At the end of the research, the author aims to provide understanding of how and why consumers purchase or not purchase premium version of freemium music service and whether the cultural difference affects the consumption habit. Based on findings, suggestions for developing and implementing successful management strategies which might transfer positive consumer perception to actual buying behavior will be made. The study maybe not only beneficial for music operators but also other freemium products and services providers.

**1.4. Research approach and structure**

Overall, this study uses deductive approach to find answer for the research question. The deductive approach works from the more general to the more specific. The study will start with literature review about music streaming service, freemium business model, customer perceived value and establish a theoretical framework to connect these concepts. Then, to

understand how the framework works, the case study of Spotify will be conducted. Regarding to research method, to study about customer perceived value under the theme of different cultures, this thesis will follow qualitative method. The research of Niemand et al. (2016) mentioned above used quantitative method and collected large scale data to discover different angles of customer behavior towards freemium model of Internet based products and services. Although quantitative method helps to conduct valuable insight without personal bias, it cannot give an in-depth understanding of the analyzed phenomenon (Savela 2018). Especially, when it comes to human behavior, there is room for perception study to understand what people think and feel about some events or objects. Human behavior always changes depending on the environment, context, time, etc. Therefore, it can offer different dimensions to different audiences (Greener 2008). Hence, to fill the gap, in this research the author would like to conduct a qualitative research to provide an in-depth analysis about customer perceived value in freemium business model, with Spotify is the case study. Data will be collected by semi-structured interviews to provide a deep understanding of how Finnish and Vietnamese users perceive Spotify value. According to Baker and Edwards from National Center for Research Methods, there is no exact answer to how many interviews would be enough in qualitative research method. They suggested 12 to 20 interviews should be conducted for a master thesis. In my study, I would conduct 8 interviews for Finnish market and the other 8 for Vietnamese market, face to face or via video call. Each interview will take approximately 30 – 50 minutes. Interviewers will be chosen randomly from those who are using Spotify with age range from 15-30, both free and premium versions.

The structure of this research will be as follow. Chapter 1 introduces the research topic, background of the research, research gap and research question. Chapter 2 takes a review of current knowledge and understanding of music industry, freemium business model, customer perceived value and introduces a theoretical framework for the study. The third chapter justifies research methodology used to solve the research question. Chapter 4 is for analyzing the case study. In this chapter, the customer perceived value of Spotify in Finnish market and Vietnamese market will be presented and analyzed. The comparison of the two markets will

be also analyzed. The last chapter presents key findings, limitations of the researches and suggestions for further researches.

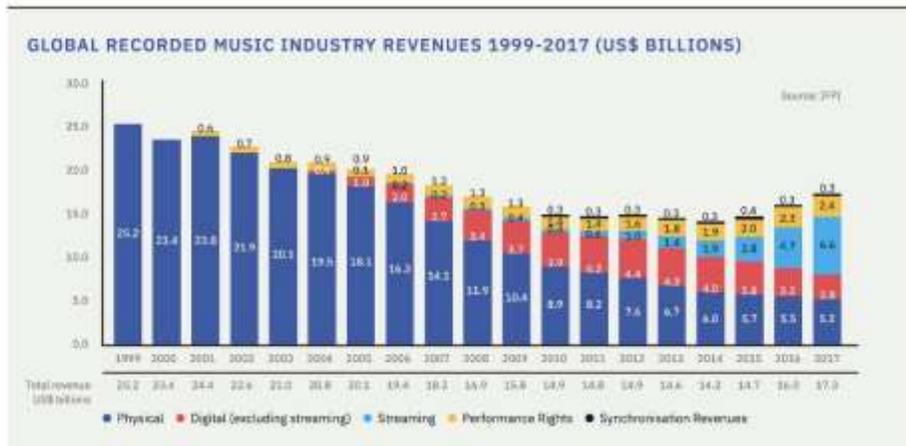
## **2. LITERATURE REVIEW**

In this chapter, three main concepts will be reviewed: the status of music industry with the transformation thanks to digitalization; freemium business model concept and customer perceived value. At the end of the chapter, theoretical framework is presented.

### **2.1. The state of music industry**

The global recording industry has witnessed a significant decline in more than a decade before its transformation. During this 15-year period, global recording revenue lost nearly 40% (IFPI report, 2017). Before 2000, 100% of its revenue came from physical records. However, the drawback of information technology development has hit the industry. It became too easy for consumers to download free music. Through file sharing, one person could buy a CD and upload it to the Internet and everyone could download it for free. With Internet, physical sales of CDs was dropped dramatically.

To overcome that challenge, years of investment and innovation resulted in an evolution of the industry: from physical to digital, downloads to streaming, ownership to access. With the transformation, the industry has totally changed from steady decline to sustainable growth since 2015. The structure of the revenue also transformed. Physical revenue has become smaller years after years, while download income grew from 2004 to 2012 and started dropping since 2013. Streaming has been growing rapidly and become the highest sales format. In 2017, streaming generated \$6.6bn in total (across audio, video, ad-free and subscription), increased 40% comparing to 2016's \$4.7bn revenue. Streaming accounted for 38.2% of total revenue in 2017, followed by physical (30.1%) and downloads (16.2%). In addition, revenue from performance rights has been growing steadily since 2001, accounts for 14% of total revenue in 2017. Synchronization, the revenue from the use of music in advertising, film, games and television programs, remained at the same level of 2010 when it started, represented \$0.3bn revenue globally.

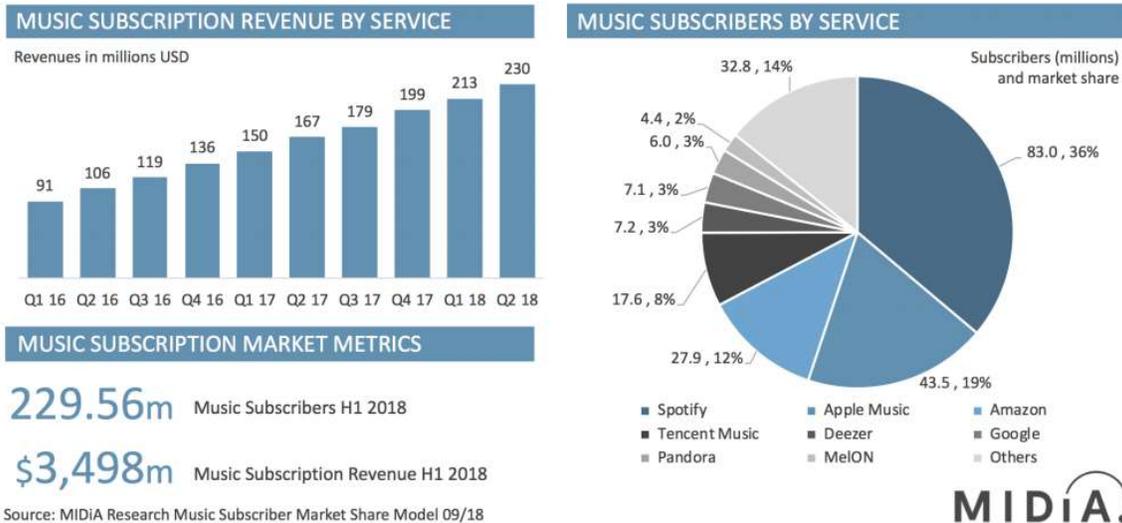


**Figure 1.** Global recorded music industry revenues 1999 – 2017 (Source: IFPI, 2018)

According to MIDiA, music subscribers grew by 16% in the first half of 2018 to reach 229.6 million, up from 198.6 million at the end of 2017. The number of subscribers at Q2/2018 has doubled comparing to Q3/2016 (119 million). The market leader was Spotify (83 million subscribers, represented to 36% market share), followed by Apple Music (19%), Amazon (12%), Tencent Music (8%), Deezer (3%), Google (3%), Pandora (3%), MeION (2%) and other players. Spotify has either grown or maintained the number of subscribers since Q4/2016 and succeeded being the most popular music streaming globally with 83 million subscribers. Apple music was the second with 43.5 million subscribers. US was the key growth market of Apple. Amazon experienced rapid growth with Unlimited tier, adding up 3.3 million to reach 27.9 million subscribers in total at the end of 2018. Other services such as Line Music in Japan, MeION in South Korea have also witnessed steady growth. (MIDiA, 2018).

## Global Streaming Music Subscription Market H1 2018

Global Streaming Music Subscription Market, H1 2018 (All Revenues Are Label Trade Values)



**Figure 2.** Global streaming music subscription market H1-2018. (Source: MIDiA)

Even though the revenue had returned to growth, it was still 31% smaller than the revenue of 1999 when the music industry at its peak (not considering inflation). IFPI pointed out the “value gap”, one of the biggest issues in the music industry. “Value gap” was defined as the distinction between the amount of money being paid to artists and music companies from online video services such as Youtube, versus audio services like Spotify and Apple. According to IFPI, video services had 900 million followers in 2016, but contributed to the music industry only US \$553 million revenue. Vice versa, audio streaming services (ad-funded and premium) accounted for US \$3.9 billion revenue had just 212 million subscribers. According to IFPI, record companies received from Spotify around 20USD per user in 2015, while less than 1USD for each music user from Youtube. Because of the inconsistency of online liability law, services such as Youtube claimed that they were not legally in charge of the music published on their sites. The revenue, therefore, was drained from the artists and music investors because of the uncontrol republishing. Artists, performers, song writers, record companies and other related partners had raised their voices to narrow the value gap. In June 2016, over 1000 artists including Paul McCartney, Robin Schulz, David Guetta, Sting and Coldplay had signed on a petition asking European Commission to interfere on this issue.

Similar activity happened in US. Taylor Swift, Kings of Leon, Katy Perry, Maroon 5, Carol King and many other artists had joined the petition to call for change the outdated safe harbor law. European Commission has taken the first step on renewing the law. However, in many other regions in the world, licensing music has been still a challenge. The rapid development of audio streaming music such as Spotify is therefore an important step to narrow the gap.

## **2.2. Freemium business model**

Before defining freemium business model concept, this section presents related concepts that are essential to understand how free works as a pricing model. After that, definition, categories, advantages and disadvantages of this business model are presented.

### **2.2.1. Definition of key concepts**

Giving away products for free is not a new concept. Vice versa, it is a common and well-known marketing technique. However, how companies gain revenue when giving products for free is questionable. This section aims to answer that question by explaining three concepts: cross-subsidization, zero-marginal cost and behavioral economics: the power of free. Understanding how free is working as a pricing model and why it is widely used is essential as a base to study freemium business model.

**Cross-subsidization:** cross-subsidization, defined by Cambridge dictionary, is “a situation in which profits from one activity are used to pay for another activity that is losing money or making less money”. In marketing strategy, when there is a cross-subsidization of one product by another, it means what people enjoy for free is subsidized by someone. “Someone” can be themselves or someone else, depending on the types of cross-subsidization. This is the basic concept to explain freemium later.

There are 3 main types of cross-subsidization: paid products subsidizing free products; paying later subsidizing free now; paying people subsidizing free people (Anderson 2009).

Firstly, a paid product can subsidize another free or cheap product. Nespresso is a good example: the company offers special purchasing price or free leasing coffee machine for office to sell its expensive dominating capsules (Nespresso.com, accessed 20.09.2018). The revenue from coffee capsules subsidizes for the machine. Similarly, a product can be given away for free and be subsidized by later payment. This model is popular in telecommunication industry. Customers can receive a mobile phone for free when making a contract to use the mobile network. Lastly, the paying customers will cover the cost of the products that given away free to someone else. This is the basic segmentation of the market between different groups with different willingness to pay levels. For example, the night clubs let girls enter free and charge boys. It is because girls are more price sensitive, they are attracted by the free entrance. Boys are less price sensitive, so their entrance fee covers for also girl group. Another example is Facebook. The slogan “free and always will be” presents its strategy with individuals. Because it is free, Facebook has 2.19 billion active users in the first quarter of 2018 (Statista.com, accessed 20.09.2018). However, Facebook makes profits from the other target group: companies who want to advertise their products and services will pay for Facebook to approach their potential customers. By this way, Facebook’s revenue reached 40.7 billion US dollars in 2017 (Statista.com, accessed 20.09.2018).

**Zero-marginal cost:** The marginal cost is defined as the cost added by producing one additional unit of a product or service. “A firm maximizes its profit in a market with perfect competition when the price is equal to marginal cost” (Pyndick & Rubinfeld 2011:300). According to Rifkin in “The zero-marginal cost society” published in 2014, the Internet and renewable energy are two key factors bringing changes in lifestyles and society in the first half of the 21<sup>st</sup> century. They both will reduce the cost of goods and services to near zero. For example, it takes time and money of an artist to create and record a song. However, reduplicating and distributing the song over the Internet costs near to zero. In the other word, customers can receive products and services free of charge without going through market.

There are countless number of cases of goods and services offering free of charge. Instead of letters sent by post or expensive international calls, nowadays people can connect promptly

and free by email, Messenger and Skype. Many classic books that the authors were dead more than 70 years and not protected by copyright law anymore can be downloaded for free. With some keywords, Google can find millions of results for your concern without any fee. Those products and services people used to pay for them now can get them for free thanks to Internet.

The scope in information processing of a microprocessor doubles every 18 months and costs half every 18 months (Laudon & Laudon 2006). The information technology helps to reduce the cost of digital products continuously. At some point, duplicating digital products is possible for free. This is an important base for the freemium model. (Laudon & Laudon 2006; Anderson 2009).

**The behavioral economics: the power of free.** In the 1970s, a new branch of economics studied the psychological aspect of economic behavior. Called “behavioral economics”, the researchers tried to find out what effect the economic choices. Free has a huge power on consumer behavior. Shampanier, Mazar & Ariely (2007) examined that when customers come across a free product, it is not perceived only as no cost but the benefits of having the product also increase. When a product is free, the demand for that product increased massively. Ariely explained zero is not just a price but an “emotional hot button” that brings irrational excitement for customers.

Researches about the difference of free and a penny has been made to prove the power of free. A single penny does not mean anything economically, however, it effects the decision of customers. The economist Nick Szabo called it as “mental transaction cost”, which means the opportunity cost of time that is needed to decide to buy or not. When it comes to a price, even just a penny, the brain will raise a question “is it worth it?”. When the product is free, customers do not have to undergo this process. Therefore, decision making process becomes quicker and the number of people willing to use the product escalates. The consequence of lacking the transaction cost called “penny gap”. It is the difference of the demand of two

similar products, one free and one charge (even just a penny). This explains why a free product can induce a huge user base.

However, a drawback of giving product for free is a lack of commitment with the product. Anderson gave an example of free bus tickets given by a charity. While given for free, the ticket which cost \$30 USD usually get lost. When the charity charged it for \$1 USD, people less lost it. This example showed the trade-off of free and paid. Free products decrease the commitment of customers towards the products or services. (Anderson 2009).

In 2018, Gu, Kannan & Ma proved for the first time in their study that compromise effect and attraction effect of higher-quality, higher priced strategy can even overcome zero-price effect in freemium business model and bring higher overall revenue based on product line setting. However, the fully understanding of to what extent compromise effect and attraction effect overcome the power of free has not yet identified. This may open a new understanding on freemium as a revenue model.

### **2.2.2. Freemium business model definition**

The term “freemium” was first coined by Jarid Lukin and popularized by venture capitalist Fred Wilson on his blog in 2006. He described his “favorite business model” as: “Give your service away for free, possibly ad supported but maybe not, acquire a lot of customers very efficiently through word of mouth, referral networks, organic search marketing, etc., then offer premium priced value-added services or an enhanced version of your service to your customer base.” (Osterwalder 2010, p.96)

According to Anderson (2009), freemium is one of the most common Web business models. Freemium contains two parts: “free” and “premium”. Companies offer giveaway basic products to a large group of users and sell premium products to a smaller fraction of this user base. Because products are free, they attract a lot of users. This effect creates a huge user base and an effective word of mouth marketing for the products. Companies then sells value-

added version to the small number of users who demand the more complex product. The premium products can be simply the same with free products but without advertising. Thus, in general, the freemium consists of a basic free product with an advanced charged product (Seufert 2014). The premium usually attracts a small fraction of users, according to Anderson, less than 10% and normally around 5% of users. Most of users never update to premium products and they can use the free version endlessly. However, because the low marginal cost of providing services for additional users, it is possible for companies to earn revenue. According to Osterwalder (2010), there are two key metrics that companies need to analyze when applying freemium model. They are the average cost per free user and the converting rate. The freemium business model often works with subscriptions. To access to products or services, users must register. By this way the companies enable to track customers' behavior and use that data to adjust the balance of free and premium versions to increase the convert rate (Berger et al. 2015).

Skype is a famous example for freemium business model. Skype changed the competition game in telecommunication industry by offering free calling services via the Internet. Skype developed a software to install to computer or smartphone that allows users to make calls from one device to another for free. Unlike other telecom providers, Skype does not own infrastructure instead of backend software and the servers hosting user accounts. Users need their own hardware and Internet to access on Skype. Therefore, the marginal cost to support an additional user on Skype is nearly zero. To call to landlines or mobile phone, Skype offers premium version called SkypeOut with very low price. Over 90% of Skype users only use the free service; only less than 10% experience the SkypeOut. In 2010, Skype has approximately 660 million users worldwide and the revenue in 2008 was reported US \$550 million. (Osterwalder 2010). Other examples are such as Dropbox (2GB storage free and 20GB for premium version) or online newspapers (few articles to read per day free and unlimited reading if paying subscription fee). These examples prove that freemium business model is popular and successful in a lot of Web services. Besides revenue gaining from paying customers, freemium business model also draw revenue from advertising sales.

Anderson (2009) classified freemium into four basic types: time limited (free trial), feature limited, seat-limited and customer type limited. However, in this thesis, the author follows the opinion of Fred Wilson and Peter Froberg to argue that free trial is different from freemium. The comparison will be in detail as followed. Therefore, in this study, freemium is classified into 3 types.

**Feature limited freemium:** With this type of freemium business model, the basic version of the product is given for free and the more sophisticated version has a price. This type is the best way to maximize the number of users. The upside of this model is that when the users convert to paid version, they truly understand the value of the premium product. The loyalty increases and price sensitiveness decreases. However, its downside is that the company need to create two co-exist versions of the product and calculate the balance between the free and premium version well. If too many functions are put in the free version, no one would convert to premium. In the other hands, too few attractive features would not keep the users try long enough to convert to premium. Balancing the free and paid version is a complicated question that many researchers have tried to solve. (Anderson 2009; Pujol 2010)

**Seat limited freemium:** some first number of users can use the product for free, after that is paid. It happens when a product in presale stage is given away with a small quantity. This type is easy to implement and easy to understand. However, it can bring the cannibalized effect to the low end of the market. (Anderson 2009)

**Customer type limited:** This type is similar to seat limited type. With this freemium model, provider charge the old, big companies while the young, small companies can get the product for free. This type was used in Microsoft's BizSpark where companies younger than 3 years old and earn revenue less than 1 million can use the package of business software for free. (Anderson 2009)

**The difference of freemium and free trial:** Anderson defined the free trial as time limited freemium. The concept is that customers have a time limited, for example 30 days, to use the

products for free. After that, they need to pay to continue using the product. This model is easy to proceed and low risk of cannibalization. However, the minus point of this model is that many potential customers are not willing to try the product because they know that they have no benefit after 30 days.

Unlike Anderson, Peter Froberg, the founder of freemium.org who has been consulting freemium cases for 10 years, argued that it is a misconception to combine free trial to freemium business model. He emphasized that freemium business model offers two versions of the product at the same time. Users start with the basic version and they decide to upgrade or not. No matter how they decide, they can continue using the basic version endlessly. Free trial has the time limited and the aim of free trial is to market the product to customers. Froberg claimed that free trial is a marketing method, not a business model. Fred Wilson's opinion in his blog (2006) also supported this idea: "Make sure that whatever the customer gets day one for free, they are always going to get for free. Nothing is more irritating to a potential customer than a "bait and switch" or a retrade of the value proposition". However, a freemium model can offer its premium version for one month free to let user try it. For instance, LinkedIn and Spotify apply the free trial marketing method to promote their premium products.

### **2.2.3. Benefits and drawbacks of freemium business model**

The freemium business model has the following significant benefits. First, the level of user acquisition is dramatically increased because freemium requires no monetary barrier to access the offering (Seufert 2014). Therefore, users can skip the "is it worth it?" question, especially those who lack of budget are to afford the product or do not believe in the price-value ratio equality of the product. The freemium model can acquire these two types of customers. In addition, the benefit of word-of-mouth marketing to the product is significant. If the free users have good feedback to the product, the spreading of the product in the market can be considerably accelerated without charge (Jang & Sarkar 2009). Furthermore, freemium also enhances the willingness to experience the goods thanks to its risk-free

characteristic. The experience on the free offerings can boost the demand for premium offerings. Besides, for several app categories (e.g. online games), the maximization of the total user base also stimulates the creation of network effects (Wagner et al 2014). When free users create and share the games or playlists in social media, they help to attract more players from their network and by that way, increase the value of the services. (Deubener, Velamuri & Schneckenberg 2016)

Everything has its two sides and so does freemium business model. Besides the above advantages, there are challenges when using freemium model. Instead of upgrading to paying version, many users continue using the free offering. This accounts for a loss in revenue (Cheng & Tang 2010). Another challenge is monitoring the conversion rate to a sufficient ratio to achieve the sales goal (Seufert 2014). In addition, freemium publishers must overcome the difficulty of low switching cost and low exit barrier when applying this model. As mentioning above about the drawback of free economics, users are lack of commitment with the products and services. They can easily switch to other free offerings in the market. Therefore, establishing a barrier to prevent users switching among the various options is a main challenge for freemium business model. (Deubener et al. 2016)

#### **2.2.4. Summary of freemium business model**

Freemium business model is increasingly more popular in web services. With freemium business model, free version and paid version are co-existing. The free version attracts a huge number of users and marketing for the paid version, while the paid version brings revenue to companies. Based on cross-subsidization and zero-marginal cost, companies applying this model can still gain revenue. Thanks to the power of free, freemium business model attracts a huge base of users and creates a significant word-of-mouth marketing and network effects. However, it is challenging to keep the balance between free version and premium version and establish an exit barrier so that users will not switch among freemium products and service easily. To overcome these challenges, understanding how customers value freemium products and services are in need.

### **2.3. Customer perceived value**

While freemium business model was first coined in 2006, customer perceived value (also known as customer value) concept emerged from 1990s. Since then, it has received extensive research interest, ranked as the research priorities for 2006-2008 (Marketing Science Institute 2006). Customer value has become an important topic in marketing (Holbrook 1994). If marketing is defined as “a process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goal” (Kotler 2000, p.4), customer value is the first step to understand marketing management process. Slater (1997) claimed that creating customer value must be the reason for a firm to be existed and focusing on customer value ensures its success. In both academic research and industry practice, organizations increasingly recognize the importance of perceived value in their strategic management (Mizik & Jacobson 2003; Spiteri & Dion 2004).

However, there is no synthetic definition of the concept “value”. According to Khalifa (2004), “value” has become one most overused and misused concept in both literature and practice. The understanding of customer value has been developed and redefined all the time depending on the researchers’ approaches. Sanchez – Fernandez and Iniesta – Bonillo (2007) classified two main research approaches to the customer perceived value concept: uni-dimensional (one-dimensional) construct and multi-dimensional construct. In this section, the two main approaches and the nature of perceived value will be presented.

#### **2.3.1. Uni-dimensional approaches to customer perceived value**

From the uni-dimensional point of view, perceived value is a single concept instead of a whole concept of various components. Although it can be affected by different antecedents, it does not include the view that value is a collective concept created from several components.

From this approach, customer value is the evaluation of what is get and what is given, of benefits and sacrifices. There are two representatives to this group: Monroe (1990) from price-based study approach and Zeithaml (1988) from means-end theory. From Monroe's proposition, value can be understood as a tradeoff between quality and price. The initial conceptualization of value from Monroe's research was defined as a "cognitive trade-off between perceptions of quality and sacrifice" (Dodds et al. 1991, p.308). Further researches followed and contributed to understand customer value from this price-based approach such as Dodds & Monroe (1985), Dodds et al. (1991), Agarwal & Teas (2001, 2002, 2004). The study resulted to external indicators such as price, brand name and store name would impact on the perceptions of product quality and value. Price is the indicator that has negative impact on value but positive effect on quality of a product.

Based on the quality-price model of Dodds and Monroe (1985), with means-end theory approach, Zeithaml (1988) has built the value hierarchy approach. The mean-ends theory approach (Gutman 1982) has given a framework to discover customer perceived value connecting with their behaviors. This theory proposed that in consumption behavior, the decision-making process is affected by the combination of product features, the consumption's perceived outcome and the personal values of consumers. In this theory, consumers are goal-driven. They want to obtain their goals and therefore, they use products or services as means to help them achieve that goal. Adapting the means-end theory, Zeithaml (1988) illustrated four explanations of value, which can be considered as a value hierarchy: value as low price, value as whatever customer wants in a product, value as quality obtained for the price paid and value as what the consumer gets for what he or she gives (Sanchez-Fernandez et al. 2007, p.432). Finally, Zeithaml (1988, p.14) defined "value is the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given". This hierarchy proposed that customers evaluate products or services based on their perceived price, perceived quality and perceived value, not by the actual price, actual quality or actual value. In other word, the value of a product or service is how customers perceive instead of how it really is. Zeithaml's model was more advanced than

previous studies, as the author considered value as a trade-off between benefits and sacrifices, not as a single notion such as price or quality. Supporting researches for Zeithaml's approach were Bolton and Drew (1991); Chang and Wildt (1994); Hartline and Jones (1996); Sweeney et al. (1999) and Baker et al. (2004).

Although there were extensive researches from this approach, limitations remain. Firstly, the definitions of customer perceived value are diverse and inconsistent. Table 1 presents main definitions to show the diversity in meanings. The similarity of these definitions is that all define customer value is ingrained in or connected through the use to some product. Secondly, customer value is distinguished by customers instead of a seller. It is how the customers evaluate the value of the product, not objectively determined by the seller. However, these definitions are based on other concepts such as utility, benefits, worth and quality. Therefore, to understand customer value, explanation for those terms need to be clarified. Those terms are not comparable; therefore, the definitions of customer perceived value remain inconsistent (Woodruff, 1997).

**Table 1.** Examples of customer value definitions

Monroe (1990, p.46)	Buyer's perception of value represents a <b>tradeoff between the quality or benefits</b> they perceive in the product relative to <b>the sacrifice</b> they perceived by paying the price.
Zeithaml (1988, p.14)	Value is the consumer's <b>overall assessment of the utility</b> of a product based on perceptions of <b>what is received and what is given</b> .
Anderson, Jain and Chintagunta (1993, p.5)	Value in business markets is the <b>perceived worth in monetary units of the set of economic, technical, service or social benefits</b> received by a customer firm in exchange for <b>the price paid for a product</b> , taking into consideration the available suppliers' offerings and prices.
Gale (1994, p. xiv)	Customer value is market <b>perceived quality</b> adjusted for the <b>relative price</b> of your product.

Another limitation of uni-dimensional approach is that researchers defined customer perceived value at the phase of purchasing the product or service. However, the nature of customer value is relativistic: perceived value is the overall evaluation of customers about the product, from pre-purchase, purchase, in use and post purchase. It is also different depending on the situation. The multi-dimensional approach described below fulfilled this limitation.

### **2.3.2. Multi-dimensional approaches to customer perceived value**

Multi-dimensional approach started later than uni-dimensional one, and therefore, fewer studies have pursued this approach. Sanchez-Fernandez et al. (2007) classified the researches from multi-dimensional approaches to five main streams: the customer value hierarchy, utilitarian and hedonic value, axiology or value theory, consumption values theory and Holbrook's typology of consumer value.

The first stream is the customer value hierarchy adapted from mean-ends theory, main contributors to this stream were Woodruff & Gardial (1996), Woodruff (1997) and Parasuraman (1997). While the uni-dimensional approach using means-end theory explained customer value as the "utility of a product based on perceptions of what is received and what is given" (Zeithaml 1988, p.14), the multi-dimensional approach took a broader perspective of value. Woodruff et al. (1996) proposed a "customer value hierarchy" that not just focus on product attributes but also consider consequences and customer desire end-states. Woodruff (1997, p.142) defined customer perceived value as a "customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situation". Customer value is not limited in attributes level but become a dynamic concept. Parasuraman (1997) followed Woodruff (1997)'s research and proposed a framework for managing customer value in terms of types of customers: first-time customer, short-term customer, long-term customer and defectors. Segmenting customers helps the organization to learn various aspects of customer value.

The second stream is classified customer perceived value to utilitarian and hedonic value. Utilitarian term represents to the instrumental, useful, practical, functional and rational outcomes, while hedonic means something non-instrumental, experiential and emotional. Although consumption activities create both utilitarian and hedonic results, studies before 1980s neglected the hedonic value. Babin et al. (1994) was the pioneer in developing a value scale from both forms. In the same stream, Lee & Overby (2004) defined two forms of value in online shopping: utilitarian value and experiential value. Utilitarian value is such as money savings, service excellence, time savings and selection dimensions. On the other hand, experiential value includes such as entertainment, visual, escape and interaction dimensions. Both types of value were proved to make positive effect on customer satisfaction.

The third stream is called axiology or value theory stream. It classified value as extrinsic, intrinsic and systemic value (Hartman 1967, 1973). Equivalently, Mattsson (1991) and Ruyter et al. (1997) suggested three value dimensions: functional, emotional and logical. While extrinsic/functional value implies to utility and intrinsic/emotional value to consumer's feeling, systemic/logical value refers to rationality in consumption. The logical value is the main difference of the second stream and the third stream.

The consumption-value theory established by Sheth et al. (1991) and developed by Sweeney et al. (1996), Sweeney & Soutar (2001), Wang et al. (2004), Pura (2005), Rintamäki et al. (2007) and Smith & Colgate (2007) is the fourth stream of customer perceived value under multi-dimensional approach. The concept of customer value emphasized on factors influencing customer choices. Sheth et al. (1991) defined five key dimensions affecting customer choices: functional, social, emotional, epistemic and conditional value. Similar to the above studies, functional value measures whether the product can perform its utilitarian, practical or physical purposes. Emotional value is related to the feelings, which can be positive (for example, confidence or excitement) or negative (anger or lack of confidence). Social value implies to an image a customer wishes to get when using a specific product according to the norms of the customer's friends or associates. Epistemic value refers a desire

for knowledge and conditional value reflects the effect of specific situations to customer choices. Important finding from Sheth et al. (1991) research was the above-mentioned dimensions of value were independent; market choice is a function of multiple values and the combination of these forms of value differentiate any given choice situation. Adapting Sheth et al.'s framework to different context of their studies, other researchers contributed to the understanding of consumption value theory. Sweeney & Soutar (2001) suggested value dimensions as quality/performance, emotional, price/quality for money and social dimension of products. Wang et al. (2004) aligned with Sweeney et al. (2001) but adding non-monetary sacrifices other than price (time, energy, effort) to the model. Rintamäki, Kuusela & Mitronen (2007) developed a framework for defining company competitive advantage in retails sector. The study examined economic, emotional, functional and symbolic value dimensions.

The last stream of the multi-dimensional approach was named Holbrook's typology of customer value. Holbrook (1994, p.22) defined customer value as "...interactive relativistic preference experience". This definition was popular when studying about the nature of customer value, which will be presented at the following part of this thesis. Holbrook proposed a typology of customer perceived value including eight types of value: efficiency, excellence, status, esteem, play, aesthetic value, spirituality and ethics (Holbrook 1994, p.12). The underlying dimensions of the typology were extrinsic versus intrinsic, self-oriented versus other-oriented and active versus reactive. According to Sanchez-Fernandez et al. (2007), Holbrook's view reflects the nature of consumer value from its complex: perceived value is a combination of a subject (the consumer) and an object (a product or service). Perceived value is provisional, individual, specific and preference.

The multi-dimensional approaches widen the scope of uni-dimensional approaches, demonstrate the complexity of customer perceived value. The variety of customer perceive value dimensions displays the dynamic nature of customer perceived value, as well as distinguishes this concept to similar constructs such as utility, quality and price. Because of the dynamic nature, the evaluation of perceived value must be considered as an on-going assessment within developing customer relationship (Sanchez-Fernandez et al. 2007).

**Table 2.** Mainstreams of multi-dimensional approach to customer perceived value

Mainstream	Customer value hierarchy	Utilitarian and hedonic value	Axiology or value theory	Consumption values theory	Holbrook's typology
Main authors	Woodruff & Gardial (1996), Woodruff (1997) and Parasuraman (1997)	Babin et al. (1994), Lee & Overby (2004)	(Hartman, 1967, 1973), Mattsson (1991) & Ruyter et al. (1997).	Sheth et al. (1991), Sweeney et al. (1996), Sweeney & Soutar (2001), Wang et al. (2004), Pura (2005), Rintamäki et al. (2007), Smith & Colgate (2007)	Holbrook (1994, 1996, 1999)
Main contribution	Customer value was not limited in attributes level but became a dynamic concept, considered consequences and customer desire end states.	Hedonic value was neglected in studies before 1980. This approach contributed to understand both utilitarian and hedonic ones.	Classified value an extrinsic (functional) value, intrinsic (emotional) value and systemic (logical) value	Defined key value dimensions that influencing customer choices. For example, functional, social, emotional, epistemic and conditional value (Sheth et al., 1991)	Nature of customer value & typology including 8 types of value: efficiency, excellence, status, esteem, play, aesthetic value, spirituality and ethics.

### 2.3.3. The nature of customer perceived value

It is necessary to differentiate the two terms: “value” and “values”. In some marketing academic, these two constructs are considered as the same concept (Sanchez-Fernandez et al. 2007). According to Holbrook (1994, p.187), “value” refers the trade-off between benefits and sacrifices. In addition, it indicates to the relationship of a customer and a product or service. In another word, value is the exchange of what is get and what is given. In contrast, “values” means standards, rules, criteria, norms, judgement or ideals that are considered as the basis for an evaluate judgement (Holbrook 1994, p.8). “Values” are important personal

beliefs, for example what is the meaning of their lives and what they live for. Therefore, perceived value and personal values are two distinct concepts.

In the research published in 1996, one of the main researchers of customer perceived value, defined the nature of customer value as interactive, relativistic, preference and experience.

In contrast to some studies saying that customer value was extremely subjective or extremely objective, Holbrook argued that customer value is an interactive notion. It is a counterpart between a customer (subject) to a product or service (object). The author emphasized that even though some physical or mental characteristics of the object could influence customer value, there would be no value in case no involvement of some subject who appreciated it.

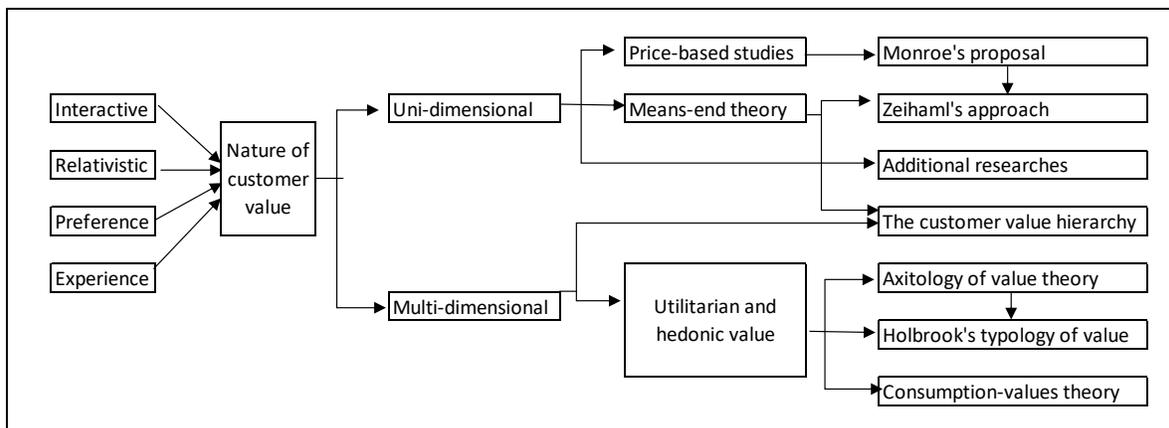
The second nature of customer value according to Holbrook is that it is relativistic. The customer value is equivalent among objects, individual and conditional depending on the specific context. To make an evaluation of a product or service, one must compare among products or services to decide which one is better. For instance, I can claim that “I like the red car more than the black car”, but not that “I like the red car more than you do”. In addition, customer value is personal. It means that the value of a product or service is based on personal assessment: a product or service can be 5-star to this person but 1-star to another one. Furthermore, customer value is situational, which means that with the same product or services but under different circumstances, customers are likely to have different opinions. Contexts are various based on different steps the purchasing process: pre-purchase, in use and post-purchase; time of purchase: first time customers, short-term customers and long-term customer; or used situation: at home or at work, etc. (Woodruff 1997; Parasuraman 1997). In summary, the relativism expresses the versatile nature of customer value and creates challenges as well as interests in studying this subject.

Next, customer value is preference. It means that customers adopt some judgement such as positive – negative, liking – disliking, approach – avoidance, etc. to evaluate the products or services. Lastly, customer value is considered as an experience. Holbrook claimed that

customer value resides in the consumption experience, not the purchasing experience. However, many studies (Woodruff 1997; Parasuraman 1997) proved that customer value appears in multiple contexts in different stages of the purchase. For example, the atmosphere of the shopping center can affect customer perceived value of products or services in that center. That is the experience of pre-purchase the product. When using the product, they will have some other evaluation and after use, their total experience can be the same or different with the initial experience of that product.

#### 2.3.4. Summary of customer perceived value

To summarize the literature research of customer perceived value, Figure 1 represents the research streams on this topic. Customer perceived value has received a lot of attention from both academical and practical researchers, there is no agreement on how to understand the concept. Holbrook proposed the four natures of perceived value: interactive, relativistic, preference and experience. Although multi-dimensional approaches appeared later than uni-dimensional approaches and therefore, have fewer researches than uni-dimensional ones, the multi-dimensional reflect the dynamic nature of customer perceived value concept and become more popular in the 2000s.



**Figure 3.** Research streams on perceived value (adapting from Sanchez-Fernandez et al. 2007, p.430)

Customer perceived value is an important part to understand customer behavior, increasing customer satisfaction and establishing a sustainable strategic management. Firstly, customer perceived value is a base to understand customer behaviors in different purchasing stages. How customer perceive value of product or service directly affects their choices of a specific product or a specific brand (in the pre-purchase stage) and whether they would commit with the providers or loyal with the brand (in the post-purchase stage) (Zeuthaml 1998; Petrick 2003). Understanding the nature of perceived value and the various of value dimensions will help to analyze customer behaviors.

Secondly, customer perceived value has a strong connection with customer satisfaction. While customer perceived value is the “trade-off between benefits and sacrifices” (Holbrook 1994, p.187), customer satisfaction is the result of the combination of desired value and received value. The more positive the benefits customer perceive, the more satisfied they become. In contrast, the negative perceived value will lower the level of customer satisfaction. According to Parasuraman (1997), before purchase, customers have some assumption about the products or services based on their demands, values and previous experience. During and after purchase, if experience exceeds the expectation, satisfaction has been reached. Knowledge of customer perceived value therefore can help to increase customer satisfaction.

Lastly, in the customer-centric era, to build a strong and sustainable strategy to increase competitiveness, companies need to put customer value into their strategic planning. Without creating the value that customers perceive to get, other business activities will be useless. As mentioned in the beginning of this section, customer value is the base for other strategic planning such as market segmentation, product differentiation and brand positioning. Satisfying customers is the final goal for a business to exist. Hence, creating a remarkable value to customers is one of the vital goals for companies to succeed in the market (Woodruff 1997).

#### **2.4. Synthesizing a theoretical framework**

The primary aim of the present study is to understand how customers from two different cultures perceive value of freemium business model. Through literature research and considering the scope of the study as well as the context of music industry using freemium business model, consumption value theory is the best fit. Consumption value theory emphasizes the factors affecting customer choices by classifying different value dimensions. Depending on different contexts of empirical researches, there were different ways to define value dimensions. In this study, the author will follow Wang et al. (2004)'s framework, which defined customer value as perceived cost, functional value, emotional value, and social value. However, the author will develop Wang's framework by adding aesthetic value. Starting from Holbrook's typology (1994), current researches highlight the role of aesthetic value, which is lacking from Wang et al. (2004). The study will find out how customer perceived value of the free version and of the premium version in each dimension. Details of the framework are following.

**Table 3.** Synthesis of theoretical framework

(Developed from customer perceived value framework of Wang et al. (2004))

	<b>Customer perceived cost</b>	<b>Functional value</b>	<b>Emotional value</b>	<b>Social value</b>	<b>Aesthetic value</b>
<b>Premium version</b>	Money	Convenience, high quality, unlimited functions, ad-free	Enjoyment, relaxing	Social approval, good impression	Sophistication
<b>Free version</b>	Non-monetary cost (time, energy, effort)	Limited functions, advertisement	Irritation	Shame	Basic

The customer perceived value framework of Wang et al. (2004) was developed based on Sweeney & Soutar (2001) model. Similar to other researchers, Sweeney et al. considered only price as consumer's cost in measuring customer value. However, Wang et al. (2004) claimed that there are many other kinds of cost, such as opportunity cost, psychological cost, or non-monetary cost for example time, effort and energy. In this study, customer perceived cost will consider both monetary costs and non-monetary cost. In freemium business model, customers pay for the premium version, normally through subscription fee. With the free version, the cost is time to spend on advertisement, time, energy and effort to fulfil some missions or requests before getting free products or service. Price-sensitive customers prefer spending time and effort rather than paying for the product or service. Vice versa, there are customers willing to pay because they perceive their convenience is more valuable than the price of the product or service. Commonly, customers are incapable of remembering the exactly price. Price in their consumption is encoded as more expensive or cheaper than other offers (Zeithaml 1988). However, in the freemium business model, there are typically only two prices: zero and the subscription fee. Therefore, mostly the perceived price in this case will be the same with the actual price.

Functional value is defined as "the perceived utility acquired from an alternative's capacity for functional, utilitarian or physical performance" (Sheth et al. 1991, p.160). According to Rintamäki (2007), functional value is achieved when the product or service can provide a solution for customer's demand with less cost, time and effort. Smith & Colgate (2007) considered a service obtaining functional value when it possesses desirable features and performs desirable functions. In freemium business model, the customer perception on functional value is about how the premium and the free version distinguish from each other, how the system works, how convenient they are to help customers save money, time and energy. The premium version has unlimited functions, ad-free while the free version has limited ones and normally going together with advertisement. For example, Grammarly is a software that helps checking writing mistakes. While the free version fixes only grammar, spelling and punctuation errors, premium version can recognize inappropriate writing style, ambiguous sentence structure, misused words, incompetence vocabulary as well as

plagiarism. Although the actual functions are clearly distinguished, the customer perceived functional value may be different. Customers will consider if the perceived functional value they get from the premium version is bigger than the perceived sacrifices (11.66usd/month) to switch to the premium version. In another word, to persuade customers using the premium version, company needs to design a premium version that brings more desired characteristics and performs better desired functions that worth the perceived sacrifices comparing to the free version.

Emotional value is defined as “the utility derived from the affective states that a product or service generates” (Liu & Ho 2017, p.275). Emotional value is about the experience or feelings of customers when using a product or service. Emotional dimension focuses on “how” instead of “what” a product or service provides to customers. According to Sweeney et al. (2001), emotional value dimension is important in predicting customer’s willingness to buy a product or service, while perception of functional value has an influence on people’s expectation of problems. In freemium business model, the premium version with unlimited function and higher quality is expected to bring more pleasant and relaxing feelings to customers. The free version with its limitation can be sometimes annoying and irritating that interrupts the smooth experience with the product or service.

Social value is “the utility derived from the product’s ability to enhance social self-concept” (Liu et al. 2017, p.275). Social value is related to how a specific product or service improves the user’s image within a society. Some products make the users feel that they got social approval and respect by possessing that products. They can help to express customers’ personality, financial status or beliefs (Smith & Colgate 2007). In freemium business model, by using premium version, users can obtain social approval or impress other people that they are trendy, fashionable and wealthy.

While social value is other-oriented; the role of others is important for value experience, aesthetic value is self-oriented. Aesthetic value acquires from the perception of sense of beauty or personal expression. To a wider range of conceptual categories, aesthetics value is

“form and expression, harmony and order, symbolism and imaginary, beauty, taste and feeling” (Carroll 2001). Aesthetic value has been researched in fashion, personal care, arts, performance, visual images and cultural history (Venkatesh & Meamber 2008). In freemium business model within the case study of music streaming app Spotify, using premium can be a symbol of a more sophisticated taste of music, while using freemium may reveal that you have a basic, popular taste.

It is important to emphasize that customer perceived value is greatly affected by culture (Song 2008). Different cultures have different values, ideas and other symbolic-meaningful systems that shape how people perceive value and therefore, affect their consumption behavior (Kroeber & Parsons 1958). In the scope of this study, the author is not going deeply on researching about culture and culture values. However, the customer perceived value of freemium business model will be applied with customers from two different countries (Finland and Vietnam), therefore it may reveal how different customers from different cultures perceived about the same product, especially with the social value and the aesthetic value of the product.

### **3. RESEARCH METHODOLOGY**

The aim of this section is to explain about the choice of research methodology using in this thesis. In more details, in this part the author outlines the research approach, the research method, the methods of data collection and the data analysis process.

#### **3.1. Research approach**

There are two main approaches in scientific research: positivism and interpretivism. The positivism claims that the world is external (Carson et al. 1988) and reality is unique, objective and independent without considering the researchers' own perspective. Reality can be set apart so that it could be calculated and examined. Positivism affirms that only which we can know through five senses (sight, smell, hearing, touch, taste) that generates knowledge. The aim of research is to use current phenomenon to create general rules and predict future. Positivist researchers remain a clear difference between the participants' logical and feeling, between science and personal experience, fact and value judgement. Hence, positivism is about objective statements and only objective is the concern of researchers. (Hudson & Ozanne 1988; Greener 2008)

On the other hand, interpretivism believes that reality is mental and perceivable. This approach is much more common in social sciences including business and management. Because business and management's phenomenon include people as well as objects, researches need to be done within the context surrounding that phenomenon. From interpretivism approach, the world can be seen under many different lenses and therefore, has many realities existing at the same time, not just "one reality" like positivism. The main goal of research is to provide a comprehensive understanding about the current phenomenon within the context. The current knowledge could influence but not predict the future phenomenon as the context will change. In contrast of positivism, interpretivism considers the interaction of various factors makes the difference. The researchers have to interact directly with research objects to get a complete experience. In the interpretivist research, it

is vital to understand the background of the context such as motives, meanings and reasons (Hudson & Ozanne 1988; Neuman 2000).

As this thesis is a social science research, studying about a social phenomenon (customer perceived value on freemium business model), and as customer value is considered as a context-based and individual preference dependent phenomenon, the interpretivism is the proper research approach.

### **3.2. Research method**

The main purpose of this research is to explore and analyze how Finnish and Vietnamese customers perceived the value of freemium business model. Although quantitative method allows authors to conduct the study without personal bias, it cannot provide a thorough understanding of the topic (Savela 2018). Especially, when it comes to human behavior, there is a place for perception study to understand what people think and feel about some events or objects. Human behavior is difficult to stand still but always changing; therefore, different context and audiences bring different research result (Greener 2008). Hence, the qualitative research method is chosen to describe freemium business model from customer's perspective and discover their experience when using the free and premium versions of Spotify.

The validity and reliability are the challenges of qualitative method (Alam 2005). To overcome this issue, the research process is conducted following the predefined theoretical framework. Processes and procedures are explained in details so that readers could examine the validity of the methodology and the reliability of the whole research.

In-depth interviewing is a “qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, program, or situation” (Boyce & Neale 2006, p.1). Although this interview method is considered as a time-consuming data collection technique (Tuten & Urban 2001), it is widely used in qualitative research within the consumer context. By interviewing,

researchers could gain richness in data through detailed and open discussion. Interviewer could examine the analyzed item from respondent's point of views and discover their experience (Alam 2005; Carson, Gilmore, Perry, & Gronhaug 2001).

### **3.3. The case study**

Case study is defined as an “empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context” (Yin 2009). Case study is a popular method throughout various disciplines from psychology, sociology to business. Case study helps to understand the phenomenon within a specific context, which is suitable to the purpose of this topic. Therefore, the author chose case study as the qualitative method to study customer perceived value on freemium business model.

The company using freemium business model chosen as the case study for this thesis is Spotify. Spotify, the music streaming service, was founded in Sweden in 2006, has changed the listening habit of young people around the world. Spotify is a commercial music streaming service providing music content from a range of major and independent record labels. With Spotify, music listeners instead of buy a song, they pay for subscription fee to listen to the song from cloud through their devices anytime they want. Music can be searched by parameters such as artist, album, genre, playlist or record label. One of the biggest strengths of Spotify over its competitors has been the easy playlist creation on its mobile apps. When users create playlists, Spotify will continuously suggest songs based on the users' musical taste, genres, artists or even the name of the playlist itself. Therefore, users can keep their playlist fresh and easily discover new songs based on their taste. In addition, users can create, edit and share playlists or tracks on social media and make playlists with other users. Spotify is available in Europe, America, Australia, New Zealand and a part of Asia. Until May 2018, Spotify has 170 million monthly active users; 75 million of those are paying subscribers (Wikipedia, 15.09.2018). In 2017, Spotify reported 4.7-billion-euro revenue.

Spotify offers free and premium versions for its users. The comparison of the two versions is displayed in Table 2. Spotify promotes premium version by offering a 1-month free trial for users. The price of premium version is different depending on the market to increase the competitive advantages. In Finland, the standard price of premium version is 9.99€/month while in Vietnam, it is 59000VND (around US \$2.99).

**Table 4.** Spotify Premium and Freemium versions (Source: Spotify.com)

	Spotify Premium	Spotify Freemium
Monthly Price	9.99€ (4.99€ for students and 14.99€ for family account with up to 5 members)	Free
Library	More than 35 million songs	More than 35 million songs with on-demand access to hundreds of songs every day
Availability	PCs, smartphones, connected devices, Smart TVs, PS3 & PS4, Android Auto, Apple Carplay	PCs, smartphones, connected devices, Smart TVs, PS3 & PS4, Android Auto, Apple Carplay
Special features	High quality, ad-free listening, offline listening, (downloadable), unlimited skips, mobile streaming	Mobile streaming

To be more specific, according to Simon of TechHive (2018), there are four main reasons for choosing premium tier. Avoiding ads is the first and the main reason why people pay to upgrade Premium. With the freemium version, every 30 minutes free users have to listen a 15-second ad. Therefore, those who do not want to hear ads between songs, which may interrupt the flow of the music, stay with the premium version. Second, the premium version allows users to access the library of 35 million songs whenever they want. Although free

users can search the entire catalogue, select songs for playlists, add anything to their library, only paid users have the ability to play them whenever they like. If a user wants to hear Coldplay's "Scientist" without waiting for it to appear on one of the free version's unrestricted playlists, he or she needs to upgrade to premium. Next, one advantage of premium version is downloading music and listening offline. Spotify's new app might have the data-saver mode for on-the-go listening, there is still the case that you cannot connect to internet, especially in some developing markets such as Vietnam. The other difference of premium version over the freemium one is the ability to listen through a smart speaker such as Google Home, Amazon Echo to receive a voice-controlled experience at home.

While Finland is one of the first markets of Spotify because of its leading digitalization status, Vietnam is on the other hand the totally new market. After six months of operating, there are still some limitations in the offerings (for example, the Family account has not been valid yet, as of October 2018). In addition, Vietnamese music library in Spotify is much more limited than the local music service players which have been years in the market. It can be one challenge for Spotify to attract the Vietnamese music listeners.

### **3.4. Sampling**

In general, the author interviewed 16 Spotify users: 8 Finnish and 8 Vietnamese. Among them, 4 Finns were premium users and 4 were free users. The same rule applied for Vietnamese interviewees. There were two criteria to choose respondents. Firstly, regardless of using free or premium tier, they were active users. Active users were defined as users who play Spotify with at least 1 hour per day averagely. Secondly, they are from 15 to 30 years old. The age limited helps to target a specific group of respondents so that they may share similarities on interest or income for instance. At this age, respondents may be students or young workers who enjoy the modern way of experiencing music but maybe more price-sensitive than the older groups. The author applied the snowballing technique to identify key informants (Moriarty 1983) by asking the respondent to introduce their friends and friends of friends who would be interested in participating in the interview.

To understand customer perceived value, the author started by get to know the interviewees' music listening habit. How important music is for the interviewees, the reason why they listen to music, how frequent they listen to music and how willing they spend on their hobbies are general information that provides an overview about the interviewees. They will also help to explain later why everyone has different perceived value about the same product. Pseudonym starts with "Fin" is for Finnish customers, while "VN" implies Vietnamese customers.

**FinA** likes to listen heavy metal bands or Finnish folk metal bands. Depend on his mood, he may listen to other types or genres of music. He likes to repeat some playlists. Sometimes he goes to live concert and summer festival to enjoy live music. Music helps to motivate him when he goes to practice sports, relax before going to sleep and enhance the mood. He is an occasional heavy user of Spotify, which means when he listens, he listens a lot. However, there is period that he has not opened Spotify for weeks. He listens to Spotify both from phone and computer, always with headphone. FinA is a Premium user. He has been using Spotify for around 5 years.

**FinB** considers music is an important thing to her life, as she really enjoys listening to music. Music is a way for her to relax, enjoy and as a background when she is doing something. When she is going to a party or putting makeup every morning, music helps her relaxed and in a happier state. She is a teacher at school, so she also uses Spotify as a background when her students do exercises as she thinks music help them to calm down. FinB likes dance music and relaxing music which brings a positive and bright meaning. She usually listens to her own playlist. She prefers listening music at home rather than going to live show, as people at bar normally speak so loudly and the acoustics there are not so good. FinB started using Spotify since her high school time 6 years ago, first couple of years as a free user then a Premium user.

**FinC** usually listens to Spotify with his computer. Whenever opening computer, he would open Spotify. Music is a background when he is doing something at home alone. Therefore,

he does not care much which songs are playing or advertisements. He does not have favorite music genres or bands. He likes to repeat old songs, not listen to new release. Not so often he goes to summer festivals, if there are some good artists there. FinC used to be a Premium user but he changed to free user.

**FinD** has been using Spotify since Spotify has just been launched to Finnish market 10 years ago. He has always been a Premium user: Spotify is the only channel he listens to music. FinD listens to music quite a lot, especially when he is at home alone or going somewhere. Music helps him kill the time when he travels, as well as he just enjoys listening to great music. He listens to every type of music but not pop. FinD spends quite a lot of money to his music hobby, from buying CDs to going to concerts. He goes to live shows whenever he can, usually once a month.

**FinE** is a Spotify light user and he owns a free version. He prefers to listen national radio. In addition, his girlfriend has Spotify premium therefore if they have guest, she can open music from her Spotify. FinE likes to listen to Finnish bands, such as Hallo Helsinki. Music is played as a background all the time, at home, at work or when he is jogging. He may go to live concert once a year in summer time.

**FinF** is a heavy user of Spotify: she uses it almost every day. Typically, she listens to music in the evening after school time. She listens alone in her room with headphone. FinF also plays piano. She likes pop and boy bands. She is a free user at the moment but considering upgrade her membership to Premium tier.

**FinG** likes rock, heavy metal and movie music. She usually opens Spotify as a background noise as well. Typically, she listens to Spotify 1 hour a day when she walks to school and back. One of her favorite band is Ramstein. She spends money to buy CDs of her favorite bands to support them, as well as goes to their concert whenever her favorite bands have them. FinG is a light user of Spotify, as she uses other platforms to listen to music as well. She used to be a Premium user, but at the time conducting the interview, she was a free user.

**FinH** started using Spotify since she was 15 years old. Until now, it has been 8 years. She likes to listen to new music as well as repeat old songs. She mainly listens to Finnish rap music. As she lives alone, she almost opens Spotify 24/7 and listens by her headphone. Music is background noise as well as brings her a better mood. When she feels sad or angry or some negative feeling, it is her habit to listen to music to feel better. She enjoys listening to live music at some bars when there are some artists she likes perform there. FinH is a Premium user.

**VN1** is an office worker. During working time, she cannot listen to music. Therefore, she usually listens to music at home after work, while eating dinner and before going to bed. She likes to repeat old songs as well as discover new ones. She listens to music from all over the world, especially Korean, Japanese and Chinese music. Although listening all types of music, she prefers ballad and indie most. Not so often can she listen to live concert, because of expensive ticket price. She has been using Spotify for 2 months as a free user. Besides Spotify, she is using Youtube and mp3zing and nhaccuatui.

**VN2** is a Premium user. She can listen to music at work as well, therefore, she plays Spotify all the time. She is using only Spotify and Youtube. Only when there is no available song from Spotify, she would search from Youtube. VN2 listens to various types of music from all over the world. Music helps her to concentrate on her work, exercise and sleep better. VN2 used to play piano. Previously, she went to acoustic coffee shop to listen to live music once a week. Recently, she usually goes to live music once a month or once in two months.

**VN3** likes to listen over and over some old playlists. She uses headphone to listen music on the bus to go to work and back. Music helps her to relax. She likes to listen to Vietnamese songs more than foreign music. She does not go to live shows often, just about 1 – 2 times per year. VN3 is a Premium user.

**VN4** is a free user. She usually plays Spotify while showering or before going to bed to relax. She does not listen to music when she needs to focus on something such as working or

studying. She likes pop ballad and EDM. She prefers repeating familiar songs to discovering new ones. She only listens to music alone, as she thinks her music taste is not in common with any one she knows. She does not play any musical instrument. She never goes to any concert, but sometimes she goes to live show in some bars.

**VN5** likes to listen to Vietnamese and Korean acoustic and ballad songs. She usually listens around 1 hour in the evening when coming home from work. She likes to surf the Internet at the same time. She listens to music alone, to relax and raise her mood. She does not play any musical instrument. She rarely goes to concerts, except of her favorite bands. VN5 is a free user of Spotify. She is more familiar with Youtube and mp3zing.

**VN6** is a Premium listener. Her music taste depends on her mood. When she is happy, she prefers searching new songs. When being sad, she likes to repeat some old acoustic. Most of the time, she will repeat her own playlist. When listening to music, she likes to focus only on listening rather than doing something at the same time. She has been using Spotify every day for almost a year.

**VN7** found Spotify from a Facebook ad, when she felt the two other Vietnamese platforms (mp3zing and nhaccuatui) could not provide her the service she needed. She has been using Spotify few months, around 2 – 3 hours per day. She likes to follow the billboard but at the same time, repeat her own favorite albums. She likes young Western singers such as Ed Sheeran, Taylor Swift. About Vietnamese singers, My Tam is her most favorite one. She plays music as a background when doing gym, or to relax before bed. VN7 is a free user.

**VN8** is a Premium user. Before Spotify, she usually used Youtube, as for her, the Vietnamese musical platforms do not have wide music libraries for her music taste. She likes to listen instrumental and indies. Usually, she repeats an album for 2 – 3 weeks before moving to another one. She plays music as a background to feel motivated when doing exercises, to relax or to focus on reading and writing. She used to learn piano. She likes to listen to music

loud, therefore she invests speaker, headphone and earphone. She attends to some rock concerts 3 – 4 times per year and goes to coffee shop for acoustic more often.

### **3.5. Conducting interviews**

Interviews were designed as semi-structure interviews. The method of semi-structure interview is common in social research, as it allows for open exploration while keeping the predefined themes at the same time. The predefined theme was used as a guideline to direct the interviewees to the specific topic. Questions were open for modified along interview process. The interview was conducted in an informal and flexible way so that the conversation could develop naturally and informatively. (Edwards and Holland 2013)

The author prepared a set of questions following important themes to conduct interview. Respondents could freely share experience in their own words and discussed theme that they found important. The questions were not in a strict order but in a flexible flow to create a natural and informative conversation. In which point interviewer found interesting or unclear, interviewee would be asked for further explanation. Interviewer repeated to confirm and asked for clarification to assure correct understanding of interviewee's response. Records and notes were taken during interview process to compare and reflect in the analyzing stage.

Data was collected from different communication channels, from face-to-face to video call. The languages of interview were English for Finnish respondents and Vietnamese for Vietnamese interviewees. Interview length depended on the interviewee's response and the content of conversation. However, all the interviews went through all the predefined themes related to the topic to make sure that all interviews were conducted in a similar way and no theme was neglected. The author aimed to keep the conversation as natural as possible and remained a neutral position in the conversation.

As a result, there were 16 interviews conducted from 09 November to 30 November 2018. 8 interviewees were from Finland and 8 from Vietnam, ranged from 15 to 30 years old. Among

them, four were conducted face-to-face and 12 were online calls through Facebook Messenger. Regardless of the communication methods, the conversation flows were kept as natural and the interviewer remains in the neutral position. The average length of interviews was 31.5 minutes. The longest conversation took 54 minutes and the shortest one last 20 minutes. Men tended to talk shorter than women (22.25 mins comparing to 34.5 mins). Interviews with Finnish respondents were shorter than Vietnamese averagely (26.6 mins comparing to 36.25 mins). Regardless of the length, interviewer went through all the themes of the topic with all the respondents. Therefore, all interviews were conducted in the similar way and no theme was neglected. All interviews were recorded and taken notes for further analysis.

**Table 5.** Interviewees' list

No	Pseudonym	GenderAge	Country	Interview date	Interview length	Interview method	Spotify tier
1	FinA	M28	Finland	09.11.2018	23 mins	Face-to-face	Premium
2	FinB	F24	Finland	09.11.2018	54 mins	Video call	Premium
3	FinC	M28	Finland	12.11.2018	25 mins	Face-to-face	Free
4	FinD	M29	Finland	10.11.2018	21 mins	Face-to-face	Premium
5	FinE	M28	Finland	11.11.2018	20 mins	Face-to-face	Free
6	FinF	F15	Finland	09.11.2018	29 mins	Video call	Free
7	FinG	F24	Finland	30.11.2018	21 mins	Video call	Free
8	FinH	F23	Finland	23.11.2018	20 mins	Video call	Premium
9	VN1	F25	Vietnam	11.11.2018	37 mins	Video call	Free
10	VN2	F26	Vietnam	12.11.2018	50 mins	Video call	Premium
11	VN3	F28	Vietnam	10.11.2018	26 mins	Video call	Premium
12	VN4	F26	Vietnam	10.11.2018	38 mins	Video call	Free
13	VN5	F23	Vietnam	11.11.2018	28 mins	Video call	Free
14	VN6	F21	Vietnam	13.11.2018	23 mins	Video call	Premium
15	VN7	F25	Vietnam	15.11.2018	39 mins	Video call	Free
16	VN8	F25	Vietnam	12.11.2018	49 mins	Video call	Premium

### **3.6. Data analysis**

First, all interview recordings were transcribed into 66 pages in Word. The Vietnamese recordings were transcribed in Vietnamese, then translated to English. Second, the transcript of interview records was read twice. After that, an Excel table was created to present the answers of all participants by themes to compare their opinions.

The analysis was firstly conducted from market point of view. Customer perceived value from each market was analyzed separately under the key defined value dimensions. Then, analysis from product category was made to compare how customer from different markets perceive the value of the same product. By this way, the author can grasp an overall idea about how customer perceived the value of Spotify with both free and premium versions.

#### 4. CUSTOMER PERCEIVED VALUE IN SPOTIFY

This chapter presents key findings from empirical data to answer the research question of “How Finnish customers and Vietnamese customers perceive freemium products’ value?”. Data was analyzed using the lenses of customer value dimensions. The theoretical framework has predefined 5 dimensions of customer perceived value: perceived cost, functional value, emotional value, social value and aesthetic value. They are the bone of the below analysis part: findings will be grouped under the appropriate value dimensions for each market. Under each dimension, the value of Premium version and free version will be analyzed. At the end of the empirical section, the comparison of the two markets will be presented.

##### 4.1. Finnish customer perceived value

To provide reader an overview of how Finnish customer perceived value in Spotify, this section uses inductive reasoning to present from more general to more specific. Key findings of the market are presented, followed by the detailed discussion regarding different value perception of each dimension.

##### 4.1.1. Key findings from Finnish market

**Table 6.** Finnish customer perceived value in Spotify

	Perceived cost	Functional value	Emotional value	Social value	Aesthetic value
<b>Premium version</b>	(-) 9.99€ (reasonable)	(+) Convenience (+) Unlimited access (+) Wide selection with high quality music	(+) Better flow of music (+) Enjoyment, relax	(+) Contribution to music artists	None
<b>Free version</b>	(+) 0€ (-) Convenience	(+) Free basic need (-) Limited functions (advertisement, shuffle play only)	(+) Experiment the trend (-) Annoyance sometimes	(+) Be a part of the society	None

The theoretical framework can be reflected in Finnish market as the above table. The first finding is that while the perceived cost, functional value, emotional value and social value of Spotify exist in Finnish market, there is no evident of aesthetic value. Spotify has become so popular that it is considered as a basic need in Finland. Therefore, using Spotify did not bring to users any aesthetic value. They did not perceive themselves' image better nor the society thought that they were better people. There was no "beauty" of the app that users found from Spotify. They just considered it was practical and easy to use. All they cared was how the application functioned. It was a basic and personal experience, where people could find songs and create playlists for their own need. No one would justify if someone used a Premium or a free version to assume that they were trendy, sophisticated or oppositely, basic and boring. The Premium version was also not expensive to point out someone's financial status. From the interviews, the author concluded that there is no significant aesthetic value of Spotify in Finnish market.

The second finding is that in Finnish market, the biggest difference of Premium and free version of Spotify is the convenience. With Premium version, users experience unlimited access to the library, have all functions with high quality music. With free version, users sacrifice the convenience of the service: "advertisement", "shuffle play" and "no skip or repeat" are the significant limitations. These limitations affect the emotion: free users usually feel annoyed, irritated, while the Premium users enjoy the music flow as there is nothing breaking down the flow.

The third finding is about customer satisfaction with the service and their perception of the price. While Premium users perceived the current subscription fee was reasonable, free users thought it was expensive and therefore, they would not upgrade to Premium. From the interviews, Spotify Premium seemed to create an effective exit barrier by providing good service to users. With the current price, Spotify satisfied its Premium users. Free users were satisfied with the free version as well, but they would not be committed to the service because they could not heavily customize their Spotify account. With some special offers to target segment such as students and young users, Spotify can convert more free users to Premium.

The biggest advantage of Spotify in Finnish market is that Spotify was a pioneer and so far still perceived as a unique and dominant player. Users have not found any similar providers therefore the switching possibility is not high.

Another finding is that social value is slightly affected the purchasing decision and has room to improve in Finnish market. The interviews showed that the decision purchasing Premium was not affected by social pressure or social effect, as it has been widely popular and become a basic need. At the beginning, this might be a new thing that people wanted to try because of the social effect. Nowadays it has become their personal choice of using or not using Premium. Free users did not feel shame because of using the free version. However, Spotify did bring to them the feeling of social contribution. From the interviews, some people felt they were supporting the society, some have not yet been sure about what they would contribute by their purchasing behavior. To get the sustainable development, the social factor should be taken into more careful consideration. By making a clear report and deliver more meaningful messages through marketing, Spotify would be able to provide users a better understanding of the connection between Spotify and the music artist society. The more they feel they support their favorite artists, the more they support to Spotify.

#### **4.1.2. Key value dimensions**

Data collected from interviewed were grouped under key value dimensions following the theoretical framework. Firstly, perceived cost of Premium and free version is presented. Secondly, the functional value of the two versions is discussed. Emotional value, social value and aesthetic value are followed accordingly.

##### **4.1.2.1. Perceived cost**

To get benefits of the Premium version, customers have to pay the subscription fee 9.99€ per month. Through the interviews, every interviewee agreed that subscription fee was the only cost they would spend for Premium. Vice versa, free users do not spend money on the service,

but they have to sacrifice the convenience of the service. That is the cost they pay to use the free service.

All the Premium interviewees considered that they did not spend any other cost such as time, effort or energy to get the Premium. They just needed to register once, add their bank information and the subscription fee would be deducted automatically every month. Another option was paying through telephone network provider. Therefore, they did not spend time for payment or make any effort to maintain the membership.

*“I think the registering was quite easy as I always have my phone with me. I think I don’t have to make any effort to get it. There is no difficulty in payment, as I have my card registered there. The money just goes away from my bank account every month, so I don’t really have to do anything.” – FinB*

*“There is no difficulty in maintaining Spotify premium. I pay together with the Telia phone package. Spotify has collaboration with phone network provider. I think it’s very convenient that way.” – FinA*

*“Only when I don’t have money in my account, they will let me know. If I have money in my account, it is just automatically deducted, so I don’t even have to think about it. I think it’s great, it’s better they don’t inform me. I don’t need to know”. – FinH*

To understand how the interviewee perceived cost of Premium, various questions about the subscription fee were asked. All the four Premium users thought the price was “reasonable”, “worth its value”, or even “too cheap”. It is interesting that people perceived the cost based on different comparison, such as what they get from the Premium offer, the frequency of using the service, the annual income, or the price in shop for some snacks. This finding proves the relativistic nature of customer perceived value: the real value/cost of the product is different with the perceived value/cost of each consumer.

*“I think it’s reasonable. I listen to it every day. It’s 120€ per year, not expensive at all. I would pay for that.” – FinH*

*“I think it worth its value, because if you compare it to prices in Finland, when you buy some chips or lemonade or something like that or some alcohol beverages, it doesn’t feel too much, I think. I listen on Spotify so much. I can use it all the time and I can find anything I want, so I don’t think it’s a big deal. At least it’s not too expensive.” – FinB*

*“I think it’s reasonable in, for example, Finland, the salary for one year would be something between 25 – 30 thousand euros. Comparing to that, Premium fee is not that much. In addition, it’s still going to the service and most of the money going to the artists, so it should be ok.” – FinA*

*“I think it’s so cheap because you can discover almost all music in the world.” – FinD*

To discover if the price of Premium is at the right level, the author asked the interviewees two questions: “In case Spotify increases its price, will you continue the Premium and how much is the maximum price you accept?” and “Should Spotify lower the price to convert more free users?”. With the first question, the answers were diverse, while with the second one, all interviewees gave the same idea: Spotify should not lower the price.

FinA and FinB considered 10€ fee was the maximum that they would pay to maintain the Premium membership. In case the price would increase, they would switch to free version or find other music apps with more reasonable price.

*“10€ is the upper limit. If there are few euros arise I most likely consider seriously about turning into free. I’m not really sure if I would switch to some other service, most likely I just use Spotify free because I haven’t discovered other music service with offering similar experience.” – FinA*

*“I wouldn’t pay double the current price, it would be too much. In that case, I think I would try to search some other platforms. But if I couldn’t find any, I would just use the free version.” – FinB*

FinD and FinH perceived the value of Spotify Premium was greater than its current price, and the gap between the current price with the price they could accept was quite big. As mentioned in the introduction, both FinD and FinH were heavy users and Spotify was the only channel they had been using to listen to music.

*“I think I’ll stay with Spotify, it’s my favorite. I think the price now is 10€ per month but if it goes to 20€, it would still be fine. I would still use it.” – FinD*

*“I would say probably if I pay for my phone like 30€ per month, I would actually even pay for 30€ or 40€ per month for Spotify, I really need this app.” – FinH*

Although there were different ideas on the maximum price Premium could charge, the minimum price idea was the same throughout the interviews. All the interviewees who were using Premium thought that the current price was the minimum. To convert more free users to Premium, Spotify should not focus on price, but promote by some attractive offers. FinA pointed out that the price was to cover Spotify’s operation as well as to pay the fee for artists. Therefore, he would not support the idea to lower the price, as it would affect the sum the artists get from Spotify.

*“I don’t think Spotify needs to lower the price. With Spotify, you have almost all the music in the world. I think 10€ per month is pretty cheap.” – FinD*

*“I think that they should have some kinds of offer, such as first time premium users in the first 5 months, the price would be 5€/month. After that, they could increase the price to 10€ like normal.” – FinB*

*“Of course, it should be smart offer and so on. I think current price is ok, Spotify has calculated which price level should be so that they can pay for the artists. If they lower the price, they would take away from the artists too.” – FinA*

While Premium user perceived 10€ per month was reasonable, that was the barrier keeping the free users stayed away from Premium membership. They perceived that 10€ per month was expensive and they would be interested in Premium if Spotify lower its price. 5€ was the suggested price that would convert free users to Premium.

*“10€ doesn’t sound a lot but if I can get what I need for free, why would I need to pay for it.” – FinC*

*“I think for students, 10€ per month is quite expensive. It can be quite a large amount. I guess it depends on how much you use Spotify.” – FinG*

*“I think definitely it would attract more users if they lower the price. I think 5€ is quite cheap, so 7€, even 8€, could make a big difference.” – FinG*

*“I think reasonable price would be 5€/month” – FinF & FinE*

Instead of monetary cost, free users sacrificed the convenience when using the service. The keywords they used to describe the inconvenience were “annoying”, “irritating”, “disturbing” and “boring”. They had to listen to a 30 second advertisement in every 30 minutes. There were some limitations such as they could not choose the song they wanted to listen but had to shuffle the playlist. In addition, no skip or repetition was allowed. These limitations affected the experience with the service. From the background information above, these free users did not listen to music heavily or they played music as background noise. FinF was an exception, she was a free user because she was still young and could not afford the price.

*“The advertisement is disturbing. It stops the music and I have to listen to it. However, because I don’t use Spotify so much, it’s not too bad.” – FinE*

*“The cost I spend for free version maybe just advertisement. Sometimes it’s annoying but when the music is just a background then I don’t care. Couple of ads doesn’t really matter to me when I listen alone. I understand that the bit threads are higher in Premium. However, I’m not that into music, I just play them as background.” – FinC*

*“I’m a free user just because of the cost. I think it’s a little bit too expensive. With free version, I have to listen boring ads that come between the songs. They are very boring.” – FinF*

When being asked which the best thing of Premium version was, the interviewees also expressed the best thing of Premium was the convenience. They did not care about the higher music quality, but the convenience was the key.

*“I think that if I can skip the songs, that would be great. And yeah, no advertising, that would be good. The offline function is also good.” – FinE*

*“I would say the best thing is no advertisement. For example, I am using Spotify on the phone and there’s advertisement, it’s kind of annoying. I think that’s the main reason, at least for me.” – FinC*

*“You can’t really skip songs in the free version and if you have playlist you can’t pick the song you want to listen to, you have to put it on the random. I think those are the main differences of Premium and free versions.” – FinG*

*“I don’t like the fact that I couldn’t choose the song I want. I don’t like that I couldn’t choose the song, but I have to wait. If I have a list, I sometimes have to wait until the end of the list to hear the song that I want to hear at the beginning. I wish the free version has the function that you can skip songs more, for example once in 1 hour. I’m happy with Spotify but I think I will switch to Premium in the near future. I don’t like getting on my nerve.” – FinF*

#### **4.1.2.2. Functional value**

Related to functional value, there were 2 themes appeared from the interviews: the convenience and wide range of music with high quality. If using Premium, users get the convenience with 3 main functions: no advertisement, downloadable, skip and repeat. In addition, they can access in the whole music library anytime anyhow they want. With free version, they obtain only basic need and with limited function. They sacrifice the convenience of the service to compensate the money to spend.

##### **a. Convenience**

Similar to the free user group, the Premium group also evaluated convenience as the first thing they would benefit from upgrading to Premium version. The convenience of the app was the main reason for them to upgrade to Premium. To be more specific, the convenience of Spotify Premium could be presented through three main functions: no advertisement, downloadable, skip and repeat.

*“I think the most important is that no advertisement, simple to use, convenient to use. Using with phones, downloading songs, that’s basically it. For some specific group, I think the quality also matter. For me, the convenience is the most beneficial thing.” – FinA*

*“For me the feature that I don’t need to shuffle all the time is the key factor.” – FinD*

*“Well, the main thing I like is that there is no advertisement there. It’s just continuously playing the lists. In addition, the platform itself is easy to use. There are also other platforms offering wide range of music, but still I think Spotify is more convenient.” – FinB*

*“I was about to say the best thing is no advertisement, but maybe the fact that you can repeat same song over and over, that’s the best. Because it’s really annoying when you can’t do that with the free version.” – FinH*

Advertisement is always the main difference of premium and free versions. Although advertisement is not a must in freemium business model, many services apply advertisement as a method to sponsor the service as well as to create a gap of premium and free services. With Spotify, advertisement was considered as the main factor affecting the upgrading decision. All 8 interviewees, both Premium and free users, agreed that no advertisement was the most desired and important benefit from Premium tier. Even with those free users who did not listen to Spotify too much, they still sometimes felt annoyed with the advertisement. Even the advertisement was short, it usually repeated, and users could not skip it. Therefore, it is affected the flow of listening to good music.

As mentioned in the perceived cost of free version, shuffle play was a limitation that annoyed the free users. It was also an important factor impacting on the upgrading decision. Being a Premium user, it is no limited access. Therefore, users can play a specific song whenever they want, repeat as many times as they like and skip some songs if they do not want to listen. If the advertisement interrupts the flow of music, shuffle play may bring uncomfortable, even irritating feeling when users are forced to listen some songs they are not keen on. With some users who only play music as a background or they do not have a specific taste, this feature may not affect. However, if they listen to music frequently and more demanding in what they are listening to, they might switch to Premium or quit the service because of this feature.

Another main feature of Premium tier is downloadable. It means that Premium users can download the albums they like to their account. Those downloads will stay in Cloud, not in the phone. Therefore, it will not consume too much storage of the phone, but the user can play the music offline. It is convenient when travelling, for example. However, in Finnish market, this feature was not highly appreciated. Some people might use it, but it was not a reason for people to upgrade to Premium.

*“In Finland, I’m always online. If I’m travelling, normally there is wifi. Therefore, I don’t need to download.” – FinA*

*“I have never used that function. I always have Internet or wifi.” – FinB & FinH*

*“I downloaded some of my playlists. It’s easier when I travel with the train for example. The connection can be quite bad on the train.” – FinD*

#### **b. Wide range of music with high quality**

Obviously, Spotify offers a better quality of music and a non-limited access to the library to Premium users. First, about music library, while free users can access to the library with the limit of few hundred songs per day, Premium users can play any song at any time they want. In addition, Premium users can listen to new releases at the day they were published, while free users have to wait for two weeks. From the interview, it is interesting to find that interviewees were aware about the differences of Premium and free version in terms of the convenience, which was mentioned in the previous part. However, many of them did not notice the difference of the two versions in terms of music library accessibility.

There was no big difference in the answer of Premium and free users about their satisfaction with Spotify library. There was not any expression that they could not find songs because the limit of the free tier. It is inconvenient to shuffle the playlist, but at the end, the free users can still listen to the songs they want to. Obviously, the Premium users also can find all the songs Spotify library has.

*“Basically, I can find any songs I want. Only some quite niche things if I search, they might not be there.” – FinA, Premium user*

*“There are couple of songs that I couldn’t find in Spotify, then I just listen from Youtube. They are international band, quite a big band. I feel quite disappointed about that because that is one of my favorite bands. But it’s okay.” – FinD, Premium user*

*“I’m quite satisfied with the library. I always find the music that I want to listen. I’m not so good in remembering the band’s name, so that’s mainly the reason why I couldn’t find songs that I want to find.” – FinE, free user*

*“I can’t remember if I have ever not found any song. Maybe sometimes there has been difficulties because of different names but I think I always found songs I want. If I remember correctly, a couple year ago, if you had a free version, you could only listen about 3 hours music per week. Nowadays the limit is hundreds of songs per day, so I think that’s enough.” – FinC, free user*

*“I am really satisfied with it. I think I could always find the song I searched, from Disney songs or some kinds of Indie songs that people rarely know. I have found them all.” – FinB, Premium user*

*“I think I can pretty much find anything, just when I want to hear some remix songs, then those are typically in Youtube.” – FinH, Premium user*

One small feature in the accessibility is that with Premium account, users can listen to new release at the published day. With the free account, after 2 weeks, that new song will start to appear in the search. However, throughout the interview, none of the interviewees noticed that difference. They were surprised when knowing that. However, this feature was not considered as a key factor to upgrade to Premium from most of the interviewees’ point of view nor to keep them stay with Premium. Only 1 interviewee thought it was an important factor, while the rest considered it might be important to someone but not to them.

*“Depend on the people and on the band. If it’s a big band, a famous one, it may be a reason for fans to upgrade to Premium, so they can listen to their favorite bands. But for me, it is not affecting.” – FinA, Premium user*

*“I think it would make some impact on people’s decision, but not too much. For me, it does not impact, I mainly listen to 90s songs. For those who like to listen new tracks and would like to listen first, then maybe that would impact on them.” – FinC, free user*

*“I think the difference is one of the main factors. I didn’t notice that as a Premium user, they gave that to me on the released date. Social media and news come so fast and you can read that she or he releases that song. Then I have to wait for 2 weeks more and then, it could be the situation that I don’t even like that song. I have to wait for 2 weeks to listen a song I don’t like, it sounds frustrating.” – FinB, Premium user.*

*“I don’t think it influences, because you can still find the song in Youtube, for example.” – FinG, free user*

Second, Premium version offers the better music quality to their members. Among the interviewees, there were 3 of them mentioned the quality as a benefit of the Premium version. FinA considered that the Premium version with better quality brought “a better flow effect”. The Premium version without advertisement and high-quality music provided “a better experience. There is nothing breaking down the flow”. FinB and FinD also told that the quality of music with Premium version was better, comparing to Youtube. However, when being asked which the best offer of Premium version was, none of them mentioned the quality of music as the highest priority. FinC who has used all free and Premium versions said that with the normal headphone, the difference of the quality was not too vivid.

Related to the experience with music quality, the author asked the interviewees if they used supporting devices such as high-quality headphone or speaker when listening to music, and whether those devices could be an important influence of the upgrading decision. Although none of the interviewees possessed a high-quality speaker or headphone, they all agreed that those supporting devices were a considerable factor that would make user decision to the Premium tier.

*“With speaker, Premium is a must. In addition, nowadays you can connect your phone to speaker system so it’s convenient to use Spotify on the phone.” – FinA*

*“I think it would affect because those users who listen too much on Spotify and have high-quality headphone, they would want the premium.” – FinD*

*“Definitely if you have high-quality speaker or something like that, you should really pay for the Premium tier, because why would you want to hear the ads between the songs with your speaker.” – FinH*

In conclusion, higher quality music and no limit access seems to be obvious with the Premium version. It is an advantage of Premium version that everyone acknowledges. However, it is not a real disadvantage of the free tier. Comparing to the convenience of the Premium version, the offering of wide range of high quality music with no limit access to the library has not showed a strong effect on people’s decision of using or not using Premium version. The explanation for it can be threefold. It can be that the free users do not use Spotify too much. Therefore, they do not recognize the limitation of accessibility. It can also be explained that this feature affects some segments, such as some sophisticated listeners who invest high quality music devices or people who work in the music related industry, rather than every user in general. With normal phone’s speaker, listeners do not recognize the difference in music quality clearly. Another reason is that Spotify has not made a clear distinguish regarding to the free and Premium tiers’ music library policy. As FinC mentioned, previously the limitation of free version was 3 hours listening per week, in that case he would upgrade to Premium. However, with the current version, the limitation is hundreds of songs per day, therefore, it is enough for him. In this case, Spotify should consider the balance of the two versions in terms of the music library accessibility, as the free version may be cannibalizing the profits of the Premium one.

#### **4.1.2.3. Emotional value**

Another advantage of Premium version that emerged from the interviews was a better flow of music. When mentioning that Spotify Premium provides a “better flow of music”, interviewees compared it with the free version and other music platforms. When they listened to music to relax or practices sports, it is important that music would be non-stop, “nothing breaks down the flow”. In that way, they could focus on their things and enjoy music.

*“When using the Spotify free version, I was annoyed because of the advertisement. I usually noticed advertisement first. “Again, this advertisement I heard 10 times already today.” The Premium brings a better flow effect. It helps me to enjoy music better because I can hear new record, new music much faster. Otherwise, I need to buy a record or visit certain site to have music and pay separately. With Spotify Premium I can go and already listen to my favorite band’s new music. Comparing to Youtube, of course when you watch a long video, there will be less and less advertisement per hour. Still, the experience is better in Spotify, there is nothing breaking down the flow.” – FinA*

Spotify creates better flow of music also because of AI technology. Spotify can recognize listeners’ music taste and suggest the similar music genres based on their preferences. Although free users also get this suggesting feature, Premium users can play the list in a more flexible way with better quality of music and no advertisement. Therefore, the experience with Spotify Premium satisfied most of the users.

*“When I choose a suggested playlist like relaxing song or songs that I can focus on something else, they are what they promised. Therefore, I feel my mood is better when I can listen the right songs at that moment.” – FinB*

One benefit of Spotify Premium that already mentioned in the previous part is that users can freely skip and repeat the songs they want. This feature brings not only the convenience for listeners but also provides a better listening flow. Many people have a habit to repeat the same songs whole day. With Spotify Premium, they can do that. In addition, if they listen to some suggested albums and found songs they do not like, they can freely skip them. In short, Spotify Premium provides unlimited choices for users to explore and experience good music every day.

On the contrary, free version with advertisement and the limited access brought the annoyance to users. They feel “irritating”, “annoying” and “boring” when the flow of music was interrupted because it affected the mood. The emotion directly impacted on their experience with the service. From the interview, only 1 free user intend to upgrade to Premium and stayed with Spotify, the other 3 planned to stay with free version and may try some other applications if possible. They have lower commitment with the service, even

though they think it is a good service and they are currently satisfied with it. As mentioned in the theory section, this is one of the disadvantages of free: low commitment with the service.

#### **4.1.2.4. Social value**

To understand whether Spotify brings social value to users, the author asked the interviewees several questions regarding to social effect, social pressure and social contribution. All the Premium users agreed that there was no social pressure of their purchasing decision. Using Premium is their “personal choice”. Using Premium does not help them to “impressed other people”. Neither does Spotify help them to feel better about themselves image, as in Finland, Spotify Premium becomes a basic need. The interviewees again confirmed that they used Premium just because of its convenience. They had demand of listen to good music without ads and Spotify Premium provided that service.

The reaction of the interviewees about the community Spotify creates was not significant. Users can connect their Spotify account with social media account such as Facebook to share their music taste to friends. They can also follow their acquaintances or having them as followers. During the interviews, although two of the interviewees thought connecting Spotify to social media was quite an interesting function, they had not have used it themselves. Most of the interviewees said that they as well as their friends did not use that function. They created their own account and did not want to connect to anyone they know. They wanted to keep their music corner private.

*“I think for some people, it might be important. For me, I don’t care, and none of my friend shares anything. Sometimes we have discussion like “hey, have you heard that song? – yeah, search it”. But it’s not like they’re going to share it for me by social media. It’s not working like that. I think social media is not so advance in Spotify. It’s not working like a social network that well.” – FinA*

*“I think here in Finland people just ignore it. I saw some friends shared on Facebook but not so many.” – FinC & FinD*

*“I don’t really care for that. I don’t think anyone really like it. I think everybody just wants to make their own playlists and listen their own songs. I don’t think they check that often what is everyone else doing.” – FinH*

However, some of the interviewees considered that purchasing Premium was a way to contribute to the society. To be more specific, by using Spotify Premium, they were supporting to music artists financially. They were aware that Spotify paid for the artists according to the views of the songs. Therefore, paying subscription for Spotify, they indirectly paid for the artists’ work and motivated them, especially the independent artists. It is interesting that all Premium users did not think about social contribution or supporting to artists when they first bought the Premium. They only thought about what they would get and how convenient it would be to use the Premium. The decision was for their own sakes. However, during the consumption period, this idea has come up. They became more aware of how the artist received support by this channel and it was one reason for them to maintain the membership. This finding proves the customer perception value varies during different phases of consumption.

*“It was really for my own benefit but after that, I heard some artists talked about they don’t really get money from making music. Therefore, I think nowadays it’s better than I do pay at least something...But at first, it’s just for my own benefit.” – FinH*

*“I think some people, especially those who are working in the music industry, most likely pay Premium to support artists. However, I paid for the convenience. I didn’t consider about supporting artists when I paid Premium. But when I listen songs, I consider that. For example, there are friends who are independent artists, so of course I listen to their songs and sometimes I even replay so they can get more views.” – FinA*

While FinA and FinH thought using Premium is a way to support the artists financially, FinB and FinD have different ideas. FinB did not know *“how actually Spotify pays for the artists, whether they get better money from Spotify comparing to other platforms”*. She wanted to *“see the number and the method about that”*. FinD thought that if users wanted to support artists, they should still buy CDs. *“I think that the amount of the artists get is way less than if I could support the artists by actually purchasing their albums, for example.” – FinD*. On

the other hand, FinE thought Spotify was useful and in the right direction. *“I think it is useful, especially for new artists, because not so many people buy CDs any more. People listen and discover songs on Spotify.”*

Even though the interviewees confirmed that there was no social pressure on their decision of using Spotify, some of them mentioned that they tried Spotify because of curiosity. Spotify has launched in Finland 10 years ago and it was a trend at that time. Everyone mentioned about it with friends. Therefore, the free version was the first step to experiment what kind of service it would be and what it would offer. If the demand of music is not so serious and not worth the price, people can decide to use the free version. If they decide to just use free version, by this way, they have a source of music to listen when they want to and catch up with the trend.

*“Maybe people use Spotify because they like to follow other people, follow trend. Friends use it so maybe you want to use it. Like Facebook or Whatsapp.” – FinE*

*“If someone tells me they don’t use Spotify, I would really surprise. Using Spotify makes me feel like I’m being a part of something.” – FinH*

At some point when they get used to the service, feel annoyed with the limitation or have demand to experience the better service, they can easily update to Premium. Otherwise, staying with free version would be enough. The free version is a safe experiment without any risk. Different from the free trial, there is no limited time of using free, therefore the experience with the service is much more relaxing. When being asked if they would recommend Spotify to other people, all the interviewees said they would. FinC said if someone asked something that would play music well and free, he would say Spotify would be good. The word of mouth marketing worked well in Finland market. After ten years, Spotify is the most popular and dominating music streaming apps.

## 4.2. Vietnamese customer perceive value

Similar to Finnish market section, the key findings of Vietnamese customer perceived value in Spotify is also presented at the beginning of this section to provide a big picture of how Spotify value is perceived in Vietnam. After the overview, details of each dimension value perception are presented.

### 4.2.1. Key findings in Vietnamese market

**Table 7.** Vietnamese customer perceived value on Spotify

	<b>Perceived cost</b>	<b>Functional value</b>	<b>Emotional value</b>	<b>Social value</b>	<b>Aesthetic value</b>
<b>Premium version</b>	(-) 59000 VND (reasonable to cheap) (-) Willing to pay	(+) Wide selection with high quality music (+) Smart suggestion (+) Unlimited access (+) Convenience	(+) Better music experience (+) Enjoyment, relax	(+) Contribution to raise copy right awareness (+) Impress other people	(+) Sophisticated taste of music (+) Better financial and educational status (+) Enjoy life
<b>Free version</b>	(+) 0€ (-) Convenience	(+) Free basic need (-) Limited functions (advertisement, shuffle play only)	(+) Experiment the trend (-) Annoyance sometimes	(+) Trendy (+) Support their favorite artists	(+) None

The first finding is about the perceived cost. Different from Finnish market, in Vietnamese market, beside money cost 59000VND/month, the willingness to pay (WTP) for the service was the intangible cost. 59000VND was perceived as reasonable or cheap from both Premium and free users. Therefore, the WTP was the more important factor that Spotify would need to focus if they wanted to increase their market share. More advertisement would be recommended, as from the interviews, not so many people in Vietnam had known about Spotify and its offerings.

The second finding is that among Premium features, high-quality music library was the most impressive function of Spotify perceived by Vietnamese users, following by the convenience that Premium provides. Using Premium, users would receive wide range of music with high quality and smart suggestion. The smart suggestion of Spotify was evaluated as a higher level than other music apps. In addition, Premium tier offered the convenience to use the application without advertisement or any limitation. With a smooth process, simple design, smart suggestion and high quality of music, Spotify provided a better listening experience to its users.

One significant finding is that in Vietnamese market, aesthetic value of Premium Spotify exists. As paying for service was not popular in Vietnam, users perceived a better image about themselves when they purchased the Premium version. It reflected their young, well-educated and high-income status. It showed that they had sophisticated taste of music as well as they knew how to enjoy life.

Another key finding of Vietnamese customer perceived value of Spotify is that social value was perceived variously from both free and Premium users. When using Premium version of Spotify, users felt that they were pioneer in the piracy evolution. In addition, using Premium helped them to impress other people. When using the free version, users could find songs that they could not find in other platforms because of copy right. They could connect and catch up the international music trend. Another special benefit of Spotify that perceived from

fangirls was that they could support their idols directly on their official sites by streaming their playlists every day.

The challenge of Spotify in Vietnamese market was that there were similar music streaming apps in the market. While in Finland, Spotify was the pioneer in the market and the dominant one so far, in Vietnam, competitors existed. There were Vietnamese big operators such as mp3zing and nhaccuatui. There were also other semi-illegal to illegal ones. In addition, there were some Chinese operators. These applications had both official releases and unofficial music, such as users' own record and upload to there. Therefore, the library was rich, but the quality of music was various. Some apps, for example mp3zing, had been using freemium business model as well. Mp3zing offers the Premium version with subscription fee 2000VND/day (8 cents/day) for a higher quality and unlimited excess than the free version. However, the free version was still more popular. Vietnamese customers had not been familiar with paying for online services. It has been many years that they could use services for free, even if those services were illegal. The copy right law has not yet been strict; therefore, it would depend on users' self-consciousness more than on policy. These characteristics were kept in mind when the author analyzed customer perceived value of Spotify in this market.

#### **4.2.2. Key value dimensions**

Similar to the Finnish market section, the author classified themes from interviews' data to perceived cost, functional value, emotional value, social value and aesthetic value to analyze how Vietnamese customer perceived value of Spotify.

##### **4.2.2.1. Perceived cost**

Spotify offered the Premium subscription fee 59000VND/month (2.99USD/month) for Vietnamese users. This was at the same level with mp3zing, the Vietnamese application. Comparing to the international price of Spotify Premium (9.99€/month in Europe and

9.99USD in USA), it was a much cheaper price. This was a smart move of Spotify when customizing the price according to the market to gain the market share. The giant Netflix did not gain so much success in Vietnam when applied the international price to this market. Among the Premium interviewees, two of them considered the price was too cheap, one thought that this was a reasonable price, while another one said it was a little bit expensive.

*“Personally, I think it is cheap. 59000VND is just the price of two cups of milk tea, but it ensures me a huge spiritual channel. Spotify’s functions meet my demand, such as categorized playlist, search function. I usually search my favorite songs on Spotify and save them to my playlist. Spotify also has podcast and radio, which I can use when I want to practice listening English. 59000VND for listening to music and practicing English, I think it’s a bargain. Other Vietnamese musical apps also have Premium with the same price of Spotify but not at the same quality.” – VN2, Premium user*

*“Too cheap. A whole month of unlimited, high quality music. If listening with speaker, you can hear every single sound of the instrument. It’s so enjoyable.” – VN8, Premium user*

*“Not expensive but not cheap if you compare with other apps, such as mp3zing. I compared between Spotify and mp3zing, Spotify is better for me, so I chose it.” – VN3, Premium user*

*“I think it’s quite expensive. I can afford the current price but if it increases 10000VND more, I would quit.” – VN6, Premium user*

It was interesting to compare the perceived price of Premium version from the free users’ point of view. In the previous analysis of Finnish market, the Premium users perceived the cost was reasonable while free users thought 10€ was expensive and therefore, they were not willing to use the Premium version. However, in Vietnamese market, free users perceived the Premium fee was “acceptable”, “reasonable” or even “cheap”.

*“In Vietnam, the subscription fee 59000VND is cheap.” – VN1, free user*

*“It’s reasonable.” – VN5 and VN7, free user*

*“The current price is reasonable, but not cheap. If the price is 1USD/month then it’s cheap. With the current price, it will cost 600000 – 700000 VND per year. If it would cost 200000VND per year, then it would be cheap.” – VN4, free user*

In general, most of the interviewees, regardless of Premium users or free users, considered the price of Spotify Premium was “cheap” or “reasonable”. The price was not the barrier of upgrading to Premium. In fact, from the interviews, even if the price would increase from 18% to 154%, it was still in the acceptable range. Most of the interviewees agreed the maximum price could be 100000VND, which 69% higher than the current price.

*“I think the reasonable price could be at the same level with the 3G or 4G monthly fee, which is currently 90000VND. I think that would be the maximum.” – VN1, free user*

*“Under 200000VND would be okay. 150000 – 180000 VND is acceptable.” – VN2, Premium user*

*“70000 VND would be the maximum I can afford. If it cost more than that, I would switch to free version or use some other apps.” – VN3, Premium user*

*“I think 100000VND would be okay for users to maintain the membership. If it cost 150000VND per month, only those who really love it would use. Normal consumers will not accept that price.” – VN4, free user*

*“Around 100000VND. In Vietnam, there are plenty of alternatives for listening to music.” – VN5, free user*

*“If the price increases 10000VND more, I can still afford. More than that, I would quit.” – VN6, Premium user*

*“100000VND is the maximum.” – VN7, free user & VN8, Premium user*

Therefore, the perceived cost of Premium was not purely about money. Beside the money cost (59000VND), there was the real cost comes from the intangible factor, in addition to cash. In the Spotify case, it was the willingness to pay for service, which they could find the free alternatives somewhere else.

*“About price, I think the current price 59000VND is not a big amount. Even 100000VND is still acceptable. The real issue here is about the consumer awareness of music copy right. Spotify should educate the customers what is the difference of Spotify and other existing music apps in the market. It is about paying for the artists’ effort.” – VN7*

From the previous analysis, the subscription fee was not perceived as expensive that kept the free users to stay away from the Premium services. From the interviews, there were two main reasons for them not to use Premium. The first reason was that they did not spend too much time on Spotify. Therefore, they were hesitated to pay for Premium.

*“The reason I haven’t updated to Premium is because I don’t have too much time to listen to music. I can only listen in the evening. If I could use many hours, it worth to pay. Now I can only listen in the evening. There are also days I watch Youtube videos and not open Spotify. Therefore, I think it is unnecessary at this moment. If I want to listen to a playlist, I can do that in mp3zing instead of Spotify.” – VN1*

*“I’m not a heavy user. In addition, usually I don’t desire to listen to any specific song badly. It’s okay to play a playlist, therefore the free version is fine for me. Although the price is not expensive, I use Spotify 3 – 4 hours per week. I think it does not worth the price.” – VN4*

Another reason for not using Spotify Premium was because of the payment method. Spotify required to pay with Master Card or Visa. Banking services has still not been advanced in Vietnam. With office workers, those international cards could be quite popular. However, with students, housewives or small entrepreneurs, most of the daily transactions has been still with cash or through national bank. Therefore, they found it difficult to pay for Spotify Premium.

*“I don’t use Premium because it requires to pay through Master Card and Visa. It is not convenient to me.” – VN5, student*

*“I don’t have international cards. When I asked my husband to use his cards to pay for me, he was hesitated. There was a case of the accommodation renting website Booking or Agoda revealed customer’s CSC information. Because of that, my husband was hesitated to use this payment method.” – VN7, housewife*

Like the Finns, the Vietnamese free users thought that the cost of using free was the convenience of the service. Some users were aware that it was the price for free services. However, most of them felt annoyed with the advertisement, no skip and no repeat.

*“Everything has its price. When using Premium, we pay by money. When using free, we pay by spending time on advertisement. Spotify got revenue from that. I understand that, so I don’t feel annoyed too much. That’s the cost we have to spend for a free service.” – VN4*

*“I feel annoyed with the advertisement. For example, after a song I must listen to the advertisement. I can’t skip it but must listen to that 30-second ad. In addition, I can’t download the songs or change the songs freely. Spotify does not allow free users to change songs more than 5 – 6 times, if I understand correctly. I have to listen to its playlist. Anyway, Spotify playlists are quite okay, so I just listen.” – VN1*

The inconvenience became more remarkable, as the customers compared the Spotify free version with other free applications. For example, with mp3zing or nhaccuatui, the advertisements ran as a banner, or users could skip ads after 5 seconds. With Spotify, there was no other choice than listen to the 30-second advertisement. In addition, Vietnamese apps allowed users to download songs to their devices. With Spotify Premium version, downloaded records would stay in Cloud. Unlike Spotify, mp3zing and nhaccuatui let users download songs to computers or phones, so that they could copy them to other devices freely. They were just a few examples among other advantages of Vietnamese apps. As users had been using mp3zing and nhaccuatui for many years before trying Spotify, it was easy for them to feel annoyed with the disadvantages of Spotify free and quit the service completely. VN1 and VN8 had the same opinion: they thought that the free version was for experience the service. After a few months, there would be 2 options: users would upgrade to Premium or they would quit, as there were alternatives to listen to music without advertisement and other limitations.

#### **4.2.2.2. Functional value**

Unlike Finnish market where the music library placed at the second priority, the Vietnamese prioritized the wide range with high quality of music the best thing Spotify Premium offered. After that, they consider the convenience of the service. Followings these two points were analyzed.

##### **a. Wide range with high quality of music and smart suggestion**

One problem with the Vietnamese music applications was that the quality of music was not synthesized. There were official records which were high quality. At the same time, there were unofficial or illegal ones with bad quality. When listening to a playlist, it was common that some songs were clear and loud while some were not. About music library, the Vietnamese platforms had much wider of Vietnamese collections. Although Spotify was building up its Vietnamese music library, comparing to the existing platforms, it had not yet that various. However, for those users who liked to listen foreign music or instrumental music, it was hard for them to find all the songs they wanted from mp3zing and nhaccuatui because of copy right. Not just foreign music, some influencing Vietnamese artists with millions of fans started to raise their voices against the illegal publishers. Listeners could not find their songs from free platforms anymore but had to buy CDs. Spotify was more than welcomed when it entered the market, as it provided what the customers needed: wide collection, high quality music with reasonable price.

*“I chose Spotify because of high quality music. While other Vietnamese musical platforms use various sources therefore the quality is not high, Spotify has only official music with high quality. I almost listen to music 24/24. Only when I cannot find a song on Spotify, I will use Youtube.” – VN2*

*“The best thing Spotify offers to me is a huge library with many songs that other platforms don’t have.” – VN3*

*“There are many songs that I couldn’t find on mp3zing, I found them on Spotify. For example, recently I am listening to AKB48, Spotify have a lot of that band’s songs. Japanese music has strict copy right, therefore, it is difficult to find on Vietnamese apps. Normally I use Youtube, but with Youtube I can’t open other apps and the phone battery consumes fast. Spotify therefore is my choice.” – VN1*

*“Previously, I listened to music from Youtube, as Youtube offers a wider range of music than Vietnamese platforms. In addition, few years ago, My Tam (the most famous modern Vietnamese singer) raised her voice against illegal publishers. As a fan, to listen to her new album, I had to buy CDs. Since then, I have been aware about the music copy right. I tried Spotify since it launched to Vietnamese market and immediately started using Premium. The quality of music is high, and the library is great.” – VN8*

Not just premium users, free users also complimented the stability of Spotify music. While other platforms input songs from different sources including self-recorded songs, the quality control was missing. Spotify did not have that problem, because Spotify uploaded and managed the input of the library themselves. Therefore, users could enjoy a quality music with the free version.

*“I can see that the quality of music on Spotify is more stable. I used to listen on mp3zing, usually there were big volume songs and then small volume ones in the same album. It was annoying, I have to adjust the volume all the time.” – VN1*

The interviewees were highly appreciated the function of suggesting new songs. Artificial intelligence (AI) was an important factor in digital music industry, as consumers did not want to hear same songs over and over. Therefore, the service would need to be intelligent enough to read the music taste of each user and suggest new songs based on their tastes. In this perspective, Spotify overpowered the local platforms completely. From the interviews, the satisfaction with the suggestion from Spotify was significantly high. 7 out of 8 interviewees, both Premium and free users, expressed that they were happy with the suggested playlists from Spotify.

*“Sometimes I add my favorite songs to a playlist. Then I see that Spotify suggests other playlists with similar genres, I tried them and liked them. I don’t know about other people’s opinion but for me, it was a great function.” – VN3*

*“It is a quite interesting function. When I am getting bored of my own playlists, I use the suggestion to refresh it. From the suggestion, I would find new songs and add to my playlists.” – VN2*

*“Spotify’s suggestion always matches with my taste. I feel like it understands me and only suggests what I want. I think other people like it too.” – VN5*

*“Previously, I used suggested lists of mp3zing and nhaccuatui, but they didn’t satisfy me. While I am jogging or doing gymnastic, I really can’t think of what songs I want to listen, and those apps were failed in suggesting new songs to me. With Spotify, I feel quite satisfied. For example, if I want to listen to sad songs, it can recommend new sad songs suitable to my taste. Sometimes, when I listen to Ed Sheeran, because he has both sad and happy songs, if I skip so many happy ones, after that Spotify will play only sad songs to me. I think Spotify is*

*very smart. I always let Spotify suggest songs for me. I don't need to spend time to search.”*  
– VN6

With Spotify Premium, users could listen to new songs on the released date. This function was not make any significant difference between Premium and free version in Finnish market. However, in Vietnamese market, it showed a slight impact. VN1 told that it was a reason for her to consider upgrading to Premium. VN2 thought that maybe it was not the main factor for upgrading but it would be a function to keep Premium users maintaining their membership.

*“I think it has an impact on the decision of upgrading to Premium. For example, there was one time my favorite band released a new album. I searched from the Vietnamese platforms and couldn't find it. There was video on Youtube but with Youtube, I couldn't use other apps at the same time on my phone. I tried Spotify but there was none either. I thought maybe I should try to upgrade to see if it had in the Premium version or not. At the end, I was lazy, so I didn't do it. However, I have thought about it.”* – VN1

*“If someone is using free version, they normally use other platforms at the same time. Therefore, I don't think this is a key factor, as they can listen to new songs from some other apps, such as Youtube. However, to keep the Premium users maintain their membership, I think it is important. Because they usually use only one channel and listen as a habit. Therefore, when there is a new song of their favorite singer, they would want to listen to it in the usual paid platform. Because of this function, they may not want to switch to free version.”* – VN2

*“It depends on a person. It is not an important factor for me but with those who are trendy, they would like to listen to new releases immediately, it must be a key.”* – VN4

## **b. Convenience**

It was noticeable that during the interviews, when comparing the quality of Spotify music, Premium users did not compare it with the free version. They compared to other Vietnamese platforms. From their perception, Spotify in general had higher quality music than the local ones. If the high quality of music and wide collection of songs were the key factors for users to choose Spotify rather than other platforms, convenience was the key for them to upgrade

to Premium. No advertisement and freely listen to any songs with any order were the reasons to upgrade.

*“Free version has so many inconveniences: advertisement after every 30 minutes, the advertisement is long and no skip. Therefore, I decided to upgrade to Premium.” – VN6*

*“I think the most desirable function of Premium is that I can freely choose songs I want to listen.” – VN1*

*“The main reasons I upgraded to Premium was because of no advertisement. Advertisement from both Spotify and Spotify partners between songs affected my listening flow. This reason accounts for 60 – 70% of my purchasing decision.” – VN2*

As mentioned previously in the perceived cost section, some interviewees considered that no one would use the free version for long time, as the limitations annoyed them. They would rather upgrade to Premium or quit Spotify to use the local platforms. Although this may not be true in all cases, the fact was after the interviews, VN1 and VN7 had upgraded to Premium. Some users who would not use Spotify often and who would play music as a background may not feel annoyed enough to upgrade or to quit.

Another convenience the interviewees mentioned was the payment method. With those who possessed an international card and were familiar with online payment, this was an advantage of Spotify Premium. They did not need to remind themselves every month to pay the bill. From the interviews, Premium users considered this was an easy and effortless method. The most important thing was that Spotify was an international well-known brand they could trust. VN8 expressed the trust for the international brand: *“Previously, I used a Chinese platform. It has a lot of nice songs too, but also with advertisement. There is also a paid version without advertisement, but I don’t trust the Chinese brand to add my card information. Spotify is a famous brand I can trust.”*

In addition, the digitalization in Vietnam had been developed rapidly. It created a network across industries. For example, Grab had Grab Rewards campaign to encourage customers to pay with e-Grab. Customers could use the rewarding points to pay for other services, such

as Spotify (600 points = 60000 VND = 1-month subscription fee of Spotify Premium). This collaboration increased the number of users for both services.

The interviewees also listed some disadvantages of Spotify functions comparing to mp3zing. First, Spotify did not present lyrics along with the song while mp3zing had it. Previously, Spotify had this function, but they had removed it. Nowadays, to view lyrics, users needed to install another additional apps and the process was complicated. Karaoke was a hobby of many Vietnamese: they liked to sing along with singers. When people tried Spotify for the first time, this would be a significant different that made their impression about the service may not be positive. Second, there was no timer on Spotify that users could set the time for Spotify to stop playing. VN1 expressed *“I have a habit to listen to music before sleep. A playlist usually too long, I fall asleep without turning off my phone. I wish there is the same function with mp3zing which I can set timer to stop Spotify.”* Despite of the disadvantages comparing with other platforms, in general, all interviewees satisfied with the experience they got from Spotify.

#### **4.2.2.3. Emotional value**

High quality, no advertisement, understanding users’ music taste together with the freedom to discover the library brought a better experience of listening to music for Premium users. Especially if they listened to music through speakers, the difference of the Premium music and free music became vivid. Spotify had developed a homogeneous system to bring the best experience to customers. Not just high-quality music, the convenience of the apps, the ease of the interface, the smooth of payment, etc. together make listening to music became more enjoyable. The interviewees expressed that they were satisfied with the experience. Although Spotify had not yet been in Vietnam in a year, users had enough time to compare Spotify with other services to choose the best one.

*“Of course, Spotify is not a perfect app, there are some functions I wish they would develop in future. However, comparing to other apps, I think Spotify Premium is much better. There is one Vietnamese website chiasenhac.vn, music quality is good but there are no suggested*

*playlists, and there is advertisement as well. Spotify combines many great functions so that we can experience music better. I don't care much about price, but about the experience. If Spotify keeps improving its service to bring a better experience to me, I would stay with Spotify.*" – VN2

*"I am satisfied with Spotify Premium. I feel comfortable to listen to my favorite genres and find a lot of indie music there. So far this is the best app I have ever used."* – VN8

About free users, although advertisement and other limitations made them feel annoyed sometimes, they all agreed that Spotify was a good service. VN7 said the free version provided 70% - 80% of her demand for music. It was more than her expect and she had always found songs she wanted to. VN4 expressed that Spotify helped her to satisfy her demand for music, as she could not find her favorite songs from national platforms. Because it was free, she did not mind couples of advertisements. She understood that listening to advertisement was the way she paid for the service. VN5 liked Spotify suggested playlists, as it could recommend her new songs that she might like.

#### **4.2.2.4. Social value**

Discussing about social value interviewees achieved by using Premium service, interviewer had asked questions related to social effect, social pressure and social contribution. Interviewees perceived that there were little of social pressure or social effect on their purchasing and consuming Spotify Premium. Spotify has been launched in Vietnam since March 2018. However, not so many people knew about the platform so far. 5 out of 8 interviewees, both Premium and free users, thought that Spotify would need to advertise its services more actively. Word-of-mouth seemed to be not effective enough. VN1 said *"many of my friends don't know what Spotify is. People are not using Spotify not because it is expensive, but because they don't even know its existence."* VN5 thought that *"if Spotify becomes more popular, maybe there will be social pressure to use Premium."* So far, people have been using the platform because of their own interest, not because of social pressure. VN7 said *"I don't think people use Spotify because of some social factors for now. Maybe until there is a copy right evolution in Vietnam, social media may talk more about it, then*

*Spotify may become important and people start using it because of social effect. At this moment, the awareness about that issue is not high, therefore we just use any platform we find suitable for our need.*” As the awareness of people about copy right had not been high, Premium users were the pioneers in this evolution. Two of the Premium interviewees, VN2 and VN8, thought that their behaviors were “to raise awareness about copy right to their acquaintances.” Not just music but they tried to consume other services: movies, games, apps, e-books, etc. at the original sources and paid for obtaining them. They believed that “small actions, big impact.” Their attitude was an example the next young, well-educated and international-oriented generation. However, this social factor was not perceived by all the Premium interviewees. VN3 and VN6 said the only purpose of using Premium was for their own benefits. They paid to get the better service.

In general, Vietnamese people, especially young generation, were interested in international trend. They caught up fast with big trends in the world thanks to social media. VN4 said that she knew about Spotify because when it came to Vietnam, her network was full of shares about that event. 6 out of 8 interviewees mentioned that they tried Spotify because of curiosity. They would like to experience the most popular streaming application in the world. Free version was the risk-free option to discover the application.

From the interview, it was noticeable that users felt trendy when using Spotify. Spotify was an international brand, therefore, they thought that it was “a classic”, at “another level” comparing to national apps in terms of design, interface and quality. They felt proud and helpful when they suggested the apps to other people. *“I like the feeling that I talk about something my friends haven’t known yet and I can recommend them to use it.” - VN1.*

As mentioned previously, interviewees considered that free version was for experiencing the service. In Vietnam, because the subscription fee was cheap and there were alternatives, they thought that no one would stay with free version for a long time. They might upgrade to Premium or quit the application after experiencing it. Because people had not been used to

paying for service, they would avoid the service when fee would be applied. As there was no switching cost applied on free users, the ratio of quitting could be high.

One interesting part of Vietnamese music listeners was a crowded community of fangirls. They were not just normal supporters to music artists. Idols were an important part of their lives, in some extreme cases, even the most important part. Therefore, they would do everything to support their idols. Most of fangirls were young students who did not have money to support financially to their idols or they did not possess international bank account. VN5 and VN7 were the two examples. They used the free version of Spotify to support their idols by streaming their songs every day. VN7 said *“When my idols said they have published new album and please listen from Spotify to support them, I immediately do it.”* VN5 streamed her favorite band’s playlist every day to increase the popularity of her idol. She said *“The payment method is not convenient to me. Otherwise, I would use Premium to support my favorite band. Currently, I support by buying their albums.”* Spotify was the international channel; therefore, it had an advantage comparing to national channel. Fans could show their support to their idols more directly by listen from their official channel.

#### **4.2.2.5. Aesthetic value**

In Finnish market, using Premium version or free version was purely personal choice because of the convenience of the service. It did not bring any perception about being a more conscious consumer or a better person. In Vietnamese market, when being ask if purchasing Premium Spotify made them feel better about themselves’ image, the answer was different. 3 out of 4 Premium interviewees perceived that there were positive messages about themselves in their purchasing decision.

Firstly, purchasing Premium differentiated them with people who always used free services. It was to show that they had a better financial status and were willing to pay for a better service. *“Purchasing Premium made me feel that I am different with those who always use free. It shows that I care about the quality of the service, not about the price. If I see someone*

*who would use Premium, I think that they have high income and enjoy their lives. We have a sentence: you get what you pay for. I think this is the case.” – VN3*

Second, using Premium showed their love and passion for music. They considered those who used Premium had more sophisticated taste of music. VN2 said: *“I think those who love music, they can pay for it. The current price is not something to consider if they passionate for music. Someone who only consider music as an entertaining tool and not too necessary to their lives, they can listen to any song anywhere. In addition, usually those people have basic taste of music, it is easy for them. However, those who have a more sophisticated taste and passion, they definitely purchase Premium.”* She also expressed that Spotify Premium helped her to share her music taste with only those who were serious with music. When sharing a song to Facebook, only Premium users could listen to the whole song while others could only listen a part of the song. According to VN2, this way of publicity would help her to refine her connection and truly link with friends who had similar tastes.

Lastly, using Premium was considered as a behavior to impress other people. VN2 shared her thought: *“I feel that I contribute to the evolution of copy right in Vietnam. My behavior may help to raise other’s conscious about paying for artist’s labor. When I pay to listen to music, I respect it more. When people look at my behavior, they also evaluate me that I am different from those who always use free.”* VN8 had similar perception with VN2. She considered *“using Premium show my respect for artists. It’s a way to show I am young, well-educated and respectful for other’s labor. Because Spotify Premium hasn’t been popular in Vietnam, if I see someone who use Premium, I will think that they have strong opinion about themselves behaviors.”*

In general, purchasing Premium was a decision of not only the convenience but also the positive messages Premium transmitted. It showed users’ financial status, the love and passion for music as well as their high awareness about copy right and labor respect. If Spotify Premium in Vietnam become as popular as in Finland, the perception may change.

Customer perceived value is relativistic; therefore, these benefits of Premium may change by time.

### **4.3. Comparison of customer perceived value of Spotify in the two markets**

The above sections presented customer perceived value from the market perspective. Customer value has been analyzed in each market separately. After a thorough understanding of customer value in each market, this section presents a comparison of the two markets about Premium and free version of Spotify. The aim of the comparison is to answer the research question how Finnish customers and Vietnamese customers perceived value of Premium and free version differently. The value dimensions defined in the framework are used.

#### **4.3.1. Premium**

The emotional value was perceived quite the same between the two markets. With Premium service, both Finnish users and Vietnamese users expressed the enjoyment because they could experience better flow of music. The functional value of Premium Spotify was similar in both Finnish and Vietnamese market. The difference was the priority of the convenience and the quality of the service. In Finnish market, people upgraded to Premium because they wanted the unlimited access, freedom to skip and repeat as well as no advertisement. In Vietnam, the convenience was also important but the main reason for them to choose Spotify in general and Premium in specific was the quality of the service. Spotify offered the wider selections of songs with high quality and smart suggestion. The quality of service made it outstanding comparing to similar services in Vietnam. Besides, downloadable and able to listen to new music at the released date showed more impact on the upgrading decision in Vietnamese market more than in Finland market.

The first significant difference between the two markets was the perceived cost. In Finland, the subscription fee 9.99€ was perceived at the only cost for Premium. While Premium users thought the fee was reasonable or even cheap, it was perceived as expensive by free users.

The subscription fee was the reason for free users not to upgrade to Premium. In addition, the possibility to increase the fee was not high. Only 2 Premium users thought they would continue if the fee would be higher; the other two said they would quit. 10€ was perceived as the maximum they would pay to get the service. In Vietnam, the current cost 59000VND (2.99USD) was perceived as reasonable or cheap by almost all interviewees, from both Premium and free users. The maximum price could be 69% higher than the current one, which is around 100000VND. The money cost 59000VND was not perceived as the barrier of Premium. It was the intangible cost: the willingness to pay (WTP) for the service, when they can find similar offers for free. In addition, not everyone in Vietnam possessed international bank cards, therefore it was difficult for them to upgrade.

The social perceived value was also different between the two markets. In Finland, purchasing Premium was perceived to support music artists financially by some users. It was also interesting to notice that social contribution acknowledgement came during the consuming phase, not at the purchasing phase. However, some thought that the amount Spotify would pay for artists were not significant to consider as a main reason to use Premium. In Vietnam, people perceived using Premium was to raise people's awareness about copy right and fight against piracy. It was also considered to impress other people, because paying for service was still unpopular. Premium users were the pioneers in the evolution of licensed music.

The biggest contrast of perceived value of Premium between the two markets was the aesthetic value. While in Finland, Spotify was so popular that everyone had been using or known about it. Using Premium or not was just personal choice based on their demand for music. It did not contain any positive message that users would want to express about themselves images' through the purchasing decision. In Vietnam, Spotify was a new trend and therefore, pioneering in using Premium had several meanings. It would mean the person had a sophisticated taste of music, therefore they would demand high quality music and listen to songs that might be hard to find in other national platforms. It would also mean that they

were in a better financial and educational status. Therefore, they would pay to enjoy a better service.

The comparison between the two markets can be summarized in this following table.

**Table 8.** Comparison of customer perceived value of Premium Spotify in Finnish and Vietnamese market

<b>Premium</b>	<b>Finland</b>	<b>Vietnam</b>
<b>Cost</b>	Money (9.99€, reasonable)	Money (59000VND, reasonable to cheap) + WTP (intangible cost)
<b>Functional value</b>	<ul style="list-style-type: none"> <li>. Convenience (Finnish market 1<sup>st</sup> priority)</li> <li>. Unlimited access, high quality music (Vietnamese market 1<sup>st</sup> priority)</li> </ul>	
<b>Emotional value</b>	<ul style="list-style-type: none"> <li>. Better music experience</li> <li>. Enjoyment, relax</li> </ul>	
<b>Social value</b>	Contribution to artists financially	<ul style="list-style-type: none"> <li>. Contribution to raise copy right awareness</li> <li>. Impress other people</li> </ul>
<b>Aesthetic value</b>	None	<ul style="list-style-type: none"> <li>. Sophisticated music taste</li> <li>. Better financial and educational status</li> <li>. Enjoy life</li> </ul>

#### 4.3.2. Free version

Similar to perceived value of Premium version, perceived functional value was quite similar between Finnish and Vietnamese customers. With free version, customers who had basic demand satisfied with what Spotify offered. They can experiment the most popular streaming service for free. Although the access to the library was limited with free version and advertisement was always a disturbance, for many of those who did not focus on music but

play music as a background, free version offered what they would need. All interviewees satisfied with the free version although they felt annoyed sometimes with the limitations.

The difference in the emotional value of free version was that while in Finland, customers accepted it as a cost of free, in Vietnam, it could lead to quit the service. While in Finland, customers perceived that Spotify was the only option and they had not been aware of any other similar providers, in Vietnam, the situation was different. Spotify was not the market pioneer. There were existing competitors who offering free version with less limitations. Therefore, in Finland, the switching possibility at the current time was not high. In Vietnam, because of available service providers and cheap subscription fee, consumers tended to upgrade to Premium or switch to use other more convenient services. Spotify free version was perceived as a safe method to experience the new trend, new service. Those who would listen to music frequently did not plan to use free version for the long term.

Spotify was at the two different phases in their life cycle. In Finland, Spotify has reached its growth. Spotify was so popular and became a basic need. It would be a surprise if someone did not use Spotify. Therefore, some free users would use Spotify to feel being a part of the society, although there was no pressure for them from society to upgrade to Premium. Using free version or Premium version was purely personal choice. It did not reflect the person's financial status or educational background, for example. Free users did not feel shamed because of using free version. In Vietnam, Spotify had just started the launching phase. Many people had not understood what Spotify was and why they would need to try it. Word of mouth seemed to be not so effective and more advertisement about the service was recommended by most of the interviewees. However, because Spotify was a famous international service and it was new, people felt trendy when using it. In addition, a part of young fangirls would use Spotify free version to support their idols. By streaming their playlists, they could increase the popularity of their idols in the billboard.

Following is the summary of customer perceived value of free version Spotify in the two markets:

**Table 9.** Comparison of customer perceived value of free version Spotify in Finnish and Vietnamese market

<b>Free version</b>	<b>Finland</b>	<b>Vietnam</b>
<b>Cost</b>	. Free . Sacrifice the convenient, do not have other option	. Free . Sacrifice the convenient, can switch to use other alternatives
<b>Functional value</b>	. Free basic need . Limited functions	
<b>Emotional value</b>	. Experiment the trend . Annoyance sometimes	. Experiment the trend . Annoyance sometimes (in Vietnamese market, the annoying feeling can lead to quit the service)
<b>Social value</b>	Be a part of the society	. Trendy . Support their favorite idols

## **5. CONCLUSION**

In the conclusion part, the author aims to answer the research question and sub-questions that have been raised at the beginning of the study. After that, discussion about theoretical contribution and managerial contribution of this thesis will be presented. Finally, limitation of the study will be pointed out and future research directions will be suggested.

### **5.1. Answer to the research question**

The research question of this study was “How Finnish customers and Vietnamese customers perceive freemium music service’s value?”. To clarify the research question, two sub-questions were created. The first sub-question was “What are the key dimensions on customer value perception in freemium business model?”. The second one was “How the customer value perceptions differ between mature and emerging market?”

Regards to the first sub-question, from the customer value theory approach, in the context of freemium music service Spotify, 5 key dimensions were defined: perceived cost, functional value, emotional value, social value and aesthetic value. Perceived cost of Premium version is money plus the willingness to pay for the service that they can obtain the basic version for free. Perceived cost of free version is found out as the sacrifice of the convenience. Functional value was the most important value for customers to decide whether to use or not using Premium. While the Premium had all features with unlimited access and no advertisement, the free one had a short advertisement after every 30 minutes, limited access to the library, no offline function as well as no skip or repeat songs as the users want. Premium brought better flow of music to users and therefore, created a positive, relaxing emotional value. On the other hand, free version with the interruption of advertisement and inflexibility of controlling the application sometimes created annoyance, irritation feeling to customers. Because Premium provided better experience, the satisfaction and commitment of users with the services were higher than free users. In Spotify case study, social value was found in

various perspective. Some Premium users found social contribution by purchasing Premium. Some of them considered using Premium helped them to impress other people. With free version, social value was found by bring customers the feeling of being a part of the society, catching up the trend or supporting for the customers' favorite artists. Finally, aesthetic value did not exist in all cases. In the mature market, Premium becomes a standard and using free or Premium version was purely personal choice. Using Premium did not bring any value of a better selves' image. In contrast, aesthetic value proved a significant existence in emerging market. From the case study, using Premium service might reveal user's financial status, sophisticated music taste, attitude about copyright and their lifestyle. This study did not reveal which dimension has greater impact on customer purchasing decision. It can be a direction for further research, as understanding the weight of each value dimension would help companies when developing their products and services using freemium business model.

With the second sub-question about the differences of customer value perception between mature market and emerging market, the empirical study revealed the distinguish mainly placed in the perceived cost, social value and aesthetic value. In emerging market, people were not yet familiar with paying for something that they can get for free, even the Premium version provides higher quality. Therefore, the main concern is not the money, but the willingness to pay. In the case study, the Premium fee in Vietnamese market was perceived as cheap by most of interviewees including free users. However, they did not feel they need the Premium one when the free version met their basic demand. In the mature market, people got used to the services and therefore, they were willing to pay for it. Social value and aesthetic value are impacted heavily from the environment. Therefore, these value witnesses a significant difference between mature market and emerging one. In mature market, the Premium has become a norm, a standard. Therefore, no one would be impressed if someone uses Premium. However, as everyone uses the same services, there could be social effect of using to be a part of the society. In emerging market, things go in the opposite way. As the products or services are new, using Premium might impress other people. Some users would try the free version to catch up the trend. About aesthetic value, as mentioned in the previous part, its existence is mainly in emerging market. Using Premium service might reveal user's

financial status, sophisticated music taste, attitude about copyright and their “premium” lifestyle. In mature market, since Premium became too popular, this value disappeared.

For the research question, section 4.3 has already pointed out the distinguish of how Finnish customers and Vietnamese customer perceive freemium music service’s value in detail. Table 7 compared how they perceived value of Premium and table 8 presented their perception of free version. In general, toward the same service, people from two different countries (different cultures) perceived in different ways. Finnish customers who have been using Spotify services for more than 10 years do not perceive Premium as a luxury service. They perceive the cost of Premium is worth the total value and willing to pay for it. The main reason they use Premium is for its convenience. Some of them consider consuming Premium Spotify is a way to support music artists. However, there is no social pressure of using or not using Premium. It is their personal choice depends on their demand. Free users do not feel shame because of using free version. Spotify is too popular, and Premium is too common, therefore, using Premium does not make customers feel better about themselves’ image. Hence, Spotify do not bring aesthetic value for Finnish customers.

Vietnamese customers have just been getting used to Spotify since March 2018. Since then, people have not been familiar with paying for digital services, as many free alternatives exist. Therefore, even the subscription fee was customized to be reasonable in Vietnam, Spotify has not yet become popular, as word-of-mouth marketing has not showed its effect. Digitalization has not yet completed in Vietnam, therefore, payment method requiring international internet banking has been a barrier for a group of users. In addition, the alternatives offer similar services for free: that is the biggest challenge of Spotify to conquer Vietnamese market. In Vietnamese market, customer perceive monthly subscription fee is cheap. However, the willingness to pay is the main concern, as mentioned above. Vietnamese customers highly evaluate the high quality of music in Spotify application and the wide range of music with smart suggestion. That is the main reason for them to use Spotify. Most of them tried Spotify because they wanted to catch up the international trend. When upgrading

to Premium, they do feel impressing other people and achieve better perception about themselves' images.

## **5.2. Theoretical contribution**

Freemium business model, defined and discussed in the previous section as a new form of business model in digital era, has become a research phenomenon. There have been two main focuses of research: freemium as a revenue model and customer behavior towards this model. This study contributed to the understanding of freemium business model under customer perceived value perspective.

The definitions of the two main concepts “freemium business model” and “customer perceived value” were reviewed and presented systematically to provide a thorough understanding before going to build a theoretical framework between these concepts. The theoretical framework has been created based on Wang et al. (2004) with an adjustment of adding aesthetic value from Holbrook’s approach. Through analysis part, this framework proved its appropriated to analyze freemium business model.

In freemium business model, perceived cost of Premium is not always equal to perceived benefits of free version and vice versa, depending on which dimensions of customer value. With functional value, it can be quite clear that the sacrifice of the free version is the benefits of the Premium version. This is usually the key factor for users to upgrade to Premium. However, when considering other value dimension, such as social value, that rule may not be applied. For example, in Finland market, purchasing Premium Spotify made some users feel social contribution. However, there was no finding of perceived sacrifice of the free version related to social value. They did not feel shame or uncomfortable with other people because of using free version. This study did not aim to compare Premium or free version was perceived more benefits. Therefore, it could not support Niemand et al. (2016) finding of customer perceived more value with free than with Premium. However, it can be related and considered for future researches.

The study of customer perceived value in the context of music industry has reaffirmed and enhanced the meaning of customer value dimension concepts. The customer value dimensions were proved in the context of tourism services (Petrick, 2002), products consumption (Sheth et al, 1991), retails and shopping experience (Kuusela, 2007; Babin et al, 1994). Here in the context of music streaming service using freemium business model, the customer value dimensions were a useful tool to identify and analyze the customer value. The perceived cost, functional value, emotional value and social value of Premium and free version were clearly stated from the empirical data, while aesthetic value was more challenging. The interrelation, contradiction and confusion of customer perception made the process of identifying the sacrifices and benefits of Premium and free versions under five dimensions somehow overlapping or undifferentiated. It can be explained as previously, that not all the benefits of one version are the sacrifices of the other one and vice versa. Another explanation is the holistic and dynamic in nature of customer perceived value.

### **5.3. Managerial contributions**

The theoretical approach of perceived costs and perceived benefits, as well as value dimensions provide a better understanding of customer behaviors and discover reasons behind their decisions. To increase customer value, there are two main directions for managerial application: either increase benefits or reduce sacrifices (Zeithaml 1998) and build a strong value dimension that is difficult to imitate (Rintamäki 2016).

For those companies who are using freemium business model, the findings of customer perceived value can be used for strategic planning. The difference of markets should be considered carefully to adjust the price level and the offerings. The flat approach may harm the perceived benefits and increase the perceived sacrifices when comparing with similar offers in the market. To increase the benefits of the Premium version, company should not only focus on competing on price and functions of the services, but also enhance the experience of customers and create meanings for the purchases. For example, Spotify should

advertise more of the contribution Spotify has made to support artists and narrow the “value gap” of music industry. Giving customers more meanings to their purchases will increase customer satisfaction and loyalty with the service. In addition, the model with price and functions can be easily imitated, but intangible value (emotional, social and aesthetic value) can differentiate service providers. Enhancing intangible value is the choice of sustainable development.

One finding of the case study was that the perceived cost of Premium is not just the price (physical cost), but also the willingness to pay (intangible cost). It is important for companies using freemium business model understand that. They need to minimize not just the price of Premium but also increase the WTP for the Premium service. Physical cost can be reduced when the number of subscribers increases. To achieve that, the balance of free and Premium version needs to consider carefully. Free version needs to be attractive enough for users to try. However, giving too many benefits to free users will cannibalize the revenue of Premium. To increase the WTP, defining the key functions of Premium is the vital step. In addition, adding intangible value for the Premium services as mentioned previously is also important. Customers become more conscious about their consumption. They care more for the sustainable development of the society. Therefore, developing value related to social contribution and social development would increase WTP.

To build a strong value dimension model that difficult to imitate, companies need to define their competitive resources. They may refer to the VRIO (valuable, rare, hard to imitate and organized) framework to define resources. Freemium business model works mainly with digital products and services; therefore, important resources are brand name, patents and intellectual property. It may be easy to imitate the functions and copy the price model. However, other value dimensions such as emotional value, social value and aesthetic value are related to the interaction between customers, company and society. These intrinsic values are harder to imitate. Therefore, companies using freemium business model should develop high-quality functions with an excellent service together with creating a strong community

for users to interact and connect. The research of Östreicher-Singer et al. (2010) mentioned in the theory part proved that active network users tend to pay more for the Premium services. This is the vital characteristic to pay attention when developing the value dimension.

#### **5.4. Limitation and future research directions**

This study is based on qualitative research with interviews from Spotify Premium and free users in Finnish and Vietnamese market. The interviewees shared their opinion and experience with the service. The qualitative data collection method can bring bias. Firstly, the size of the interviews was small because the scope and the scale of the thesis. Small samples may not generalize all perspectives of the market. Secondly, interviewees were chosen randomly from the author's network. With a limited time and small network, the variation of interviewees' backgrounds was not high. Although the study did not aim to study the effect of age, gender or occupation, it may be affected when the interviewees were all female like in Vietnamese market. Thirdly, the language barrier also affected the conversation flow. It was noticeable in the interview length that interviews in Vietnamese language (the author's native language) were averagely longer than Finnish ones. The author observed that because interview language was English in Finnish market, in some cases, the interviewees could not pick the right words or did not know how to express their exact ideas. Similarly, when translating Vietnamese into English, the author also met difficulty in describing the exact terms interviewees used (slang, idioms, statements, etc.). Nevertheless, interviews were carried out in a manner as flexible as possible to allow interviewees to share their ideas more freely. Parallel questions were asked to make sure the author understood the answer correctly and deep enough. For further study, it is suggested to expand the data sources. For example, online surveys can be considered to get more various interviewees' background. In addition, Finnish and Vietnamese markets with all the contradictories were an interesting combination to research freemium business model. Future research can continue research freemium services of the two markets under different angles, such as from companies or managerial perspectives.

In terms of theoretical background, there are limited researches on customer perceived value on freemium business model. Because customer perceived value is a complex research field, using different lenses of customer perceived value to research freemium business model may be an interesting direction. Besides, looking into the drawbacks of this model from customer perceived value will also be valuable for future research, because until now, there are still debate on whether freemium business model is the model to bring success for future business or not. Another direction is to weight which value dimension impact more on customer purchase decision. Knowing which dimension is more important will help company makes the right strategy when developing their services.

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