

CHAPTER I

INTRODUCTION

1.1 BACKGROUND

Music enables humans to express the thoughts and emotions that exist in their minds and hearts while also connecting people who share similar tastes into a group. Currently, music can be listened to through a variety of media such as radio, MP3, and streaming music via music applications (Priyanti, 2021). Based on a survey by the Indonesian Internet Service Provider Association (APJII) regarding the 3-entertainment internet content most frequently visited by Indonesian people, there were 48,29 percent of respondents who frequently used the internet to open online music applications. There are several music streaming platforms that are most often used by Indonesian people namely YouTube music, Spotify, Google play music, Joox, Apple Music, Resso, Soundcloud, Shazam, Tiktok, My music, Vidmate, Langit music, dan Snack video. Spotify is in second place with a percentage of 17,52 percent, but it is still unable to beat YouTube music which is in the first ranked with a percentage of 44,18 percent (APJII, 2023).

According to cbncindonesia.com, Spotify has 515 million monthly active users. However, the majority of Spotify users are free users, only 40 percent are interested in paying a subscription fee. So paid users continue to decline from time to time. The percentage of Spotify subscribers decreased from 46 percent in Q1 2019 to 45 percent in Q1 2020, then to 44 percent in Q1 2021, and finally to 43 percent in Q1 2022. In short, 317 million individuals utilize the free services offered by Spotify, whereas 210 million utilize the paid service (CNBC Indonesia, 2023). It can be concluded from this statement that the number of Spotify Premium subscribers has decreased significantly over time.

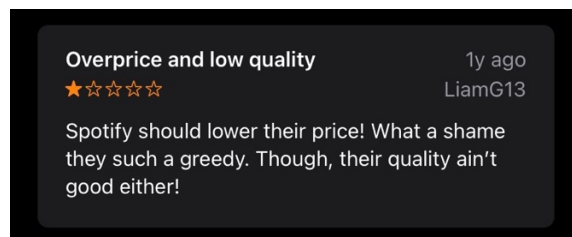
Spotify is a digital music application established in Stockholm, Sweden that was founded on October 7th, 2008 and has successfully penetrated the Indonesian and global markets, providing legal music enjoyment that can be accessed through streaming or online. Spotify's services include streaming, podcast, and advertising videos. Music from numerous genres and artists, both local and international can be listened to by users.

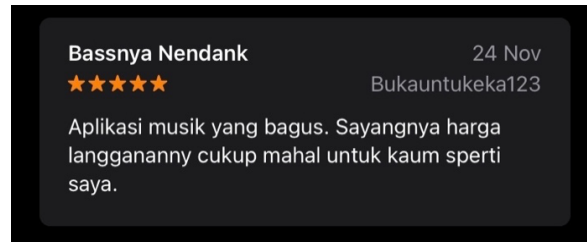
The Spotify application has more than 350.000 audiobooks, more than 100 million tunes of all genres, and more than 5 million podcast titles. Spotify users have a chance to share their playlists to other people. There are several features in this application such as Discover, Daily Mixes, and Release Radar. Discover is a feature created by Spotify based on a recommendation algorithm that contains the artists and albums most frequently listened to by users. Besides that, Daily Mixes and Release Radar features are created by Spotify based on the new releases of user's favourite artists. Moreover, there is also Discover Weekly feature that provide song recommendations based on user listening preferences which are updated every week. Spotify also has a lyrics feature that can facilitate users to enjoy songs. In addition, Spotify offers functionalities for social media, including the capacity to communicate with and follow other users, artists, and bands. The live listening activity and public playlists of other users are visible to users. Moreover, users have the ability to generate collaborative playlists that encompass a fusion of musical preferences shared by multiple users.

Spotify has two service models: free and paid (premium). These two offers have dissimilar levels of service quality. Users of the Spotify Premium will not encounter any advertisements, thereby enhancing the listening experience by providing uninterrupted music. In contrast, Spotify Free users will be interrupted by 15 to 30 seconds advertisement

after playing 6 songs. Additionally, the audio quality for Spotify Premium users is superior to that of Spotify Free users. The maximum bitrate for desktop and mobile audio quality on Spotify Premium is **320kbps**, whereas the maximum bitrate for desktop and mobile audio quality on Spotify Free is **96kbps and 160kbps** respectively. Another benefit of subscribing to Spotify Premium is the ability to acquire a collection of 10.000 songs for offline listening. Meanwhile, Free Spotify users are restricted to streaming and online music listening. Furthermore, Spotify Premium users have unrestricted ability to skip, select, and repeat songs. In contrast, Free Spotify users are restricted to skipping six songs and lack the ability to select and repeat their preferred songs.

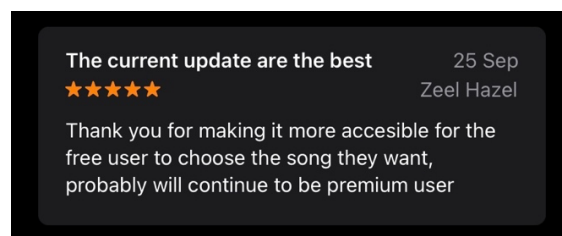
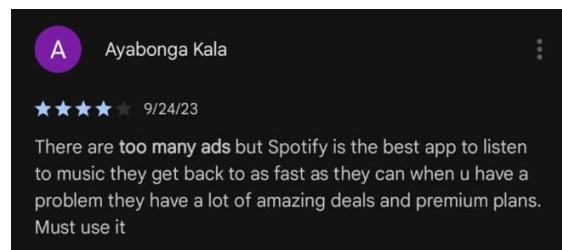
Free users may select from a variety of package variants for Spotify Premium at various prices in order to access premium services. The Spotify Premium package is offered in various variations, such as: (1) a **mini** subscription package for a single cell phone account for IDR 2,500 per day; (2) an **Individual** subscription package for IDR 54,990 per month for one account; (3) a **duo** subscription package for two accounts for IDR 71,490 per month; (4) a **family** subscription package for a maximum of six accounts for IDR 86,900 per month; and (5) a **student** subscription package for IDR 27,500 per month. These price variations are adjusted to the functionalities that are exclusive to users with premium subscriptions (Spotify, 2023).

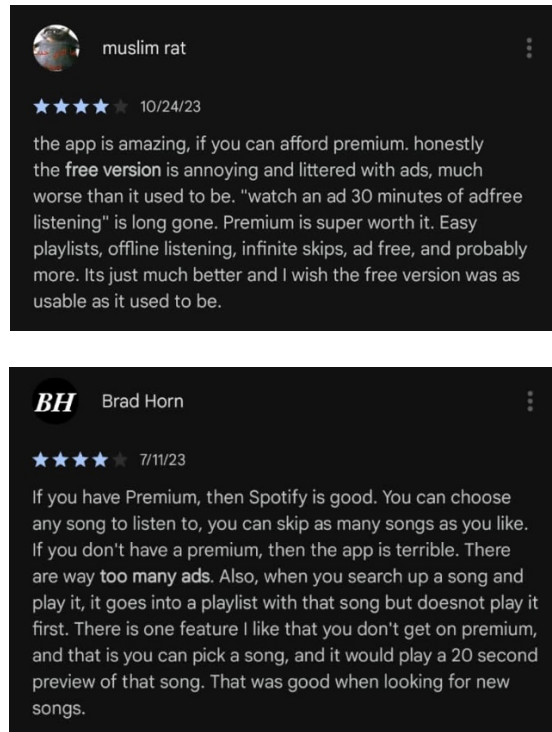




Picture 1. 1 Review Spotify Users about the Price

Despite the fact that Spotify Premium provides numerous benefits, the majority of Spotify customers continue to use the free service. Picture 1.1 and 1.2 show various customer testimonials demonstrating their preference for the free version of Spotify. Several reviews have given opinions on the Spotify service, and many of them agree that it provides an excellent music listening experience. Some users states that advertisements might be bothersome and show too often throughout their music listening sessions. Some reviews also mention the price of Spotify's subscription service, which some people find excessively pricey. They believe that the monthly cost of a Premium subscription may be too expensive for some people, particularly those on a more limited budget.





Picture 1. 2 Review Spotify Users

Source: App Store and Google Play Store Spotify Application Review

The testimonials from Spotify users above also illustrate that service users come from diverse social classes, as seen by their ability to pay for subscriptions based on user needs, as well as users who prioritize ease of service such as the ability to download music and listen to it offline. In other words, it can be said that customer satisfaction really depends on the service quality of a product, namely in this case the Spotify music streaming application.

1.2 RESEARCH PROBLEM

The background above shows that there is a decline in Spotify Premium subscribers, specifically from 46 percent in Q1 2019 to 43 percent in Q1 2022, which will have an impact

on Spotify's profitability. Many Spotify users continue to prefer the Free Spotify over the Premium Spotify.

In fact, Spotify Premium has made a number of attractive offers to free service users in exchange for premium services, such as the benefits the user will receive are the ability to listen to music without advertisements, download unlimited music that can be listened to offline, improve audio quality, and skip as unlimited skip songs. Aside from that, Spotify Premium includes a variety of low-cost plans that may be purchased individually or in group to save even more money.

So, do advertising, price, audio quality feature, music download feature, and unlimited skip have an influence on the decision to use the Spotify Premium application?

1.3 RESEARCH OBJECTIVE

To determine the price perception, advertising perception, audio quality perception, music download perception, and unlimited skip perception on the decision to use the Spotify Premium Application.

1.4 RESEARCH SIGNIFICANCE

1.4.1 Academic Significance

The academic significance of this research is that it is hoped that it will provide information and knowledge about the influence of price perception, advertising perception, audio quality perception, music download perception, and unlimited skip perception on the decision to use the Spotify Premium Application among people who live in Semarang city

in Indonesia. In addition, it is hoped that this research will provide additional information for similar studies.

1.4.2 Practical Significance

The practical significance of this research it is hoped that it will provide useful information for the Spotify streaming application so that they can evaluate their premium subscriptions in order to increase the number of Premium application users in the future.

1.4.3 Social Significance

The social significance of this research is that it is hoped that consumers can understand and gain information regarding the influence of the variables of price perception, advertising perception, audio quality perception, music download perception, and unlimited skip perception on the decision to use the Spotify Premium Application.

1.5 THEORETICAL FRAMEWORK

1.5.1 State of the Art

First, Ibrahim Kircova, Pinar Baydogan Turkay, and Sirin Gizem Kose did the study titled “Would You Like to be A Premium Customer? A Research on The Factors Related to The Intention to Pay for A Premium Music Service”. The primary goal of the Freemium business model is to convert users into premium customers in order to increase profit margin, even though it appears that the model is supported by the revenue from advertisements. Regarding this, the research investigated the dynamics of the user’s conversion to premium user. This study employs the theory of reasoned action, which uses subjective norms and attitudes to predict behavioral intention. The data was obtained from 240 persons using the online survey method. The results show that attitudes toward

premium versions improve when the perceived value of the version is higher. Also, attitudes toward the free version become negative when the premium version's perceived value increases. Another result shows that as the amount of personal innovativeness increases, so does the social influence associate to premium version (Turkay et al., 2020).

Second, Thomas M. Wagner and Thomas Hess did the study titled “What Drivers Users to Pay for Freemium Services? Examining People’s Willingness to Pay for Music Service”. In order to determine the elements influencing consumers intentions and attitudes regarding the premium version of music service when a free version is simultaneously provided, this study developed a research model based on the Theory of Planned Behavior. Survey methods are used in this study with 157 participants. In addition, the results show that customers propensity to pay for the premium version is negatively impacted by using the free version. The practical implications of this study indicate that music service providers ought to give priority to their premium offerings and provide a limited-time freemium plan (Wagner & Hess, 2013).

Third, Muhammad Syafiq Mat Suhod, Abdul Hafaz Ngah, and Samar Rahi did the study titled “Unravelling the continue of subscribing Spotify Premium among university students: the extended UTAUT 2 model”. Identifying the variables influencing Malaysian university students’ decision to keep their Spotify Premium subscriptions was the aim of this study. In this study, respondents who experience a new system or technology are asked to anticipate their future behavior using the unified theory of acceptance and use of technology (UTAUT 2). Furthermore, this study employs a quantitative approach in the form of an online survey. The study found that beneficial conditions, habits, hedonic

motivation performance expectations, price value, and ubiquity all had an impact in a subscriber's intention to keep their Spotify Premium package (Syafiq et al., 2022).

Fourth, Rattanan Jirayuwattana did the study titled “The Impact of Marketing Mixes (4PS), Technology Acceptance, and Lifestyle Factors Towards Purchase Intention of Spotify Premium”. This study sought to determine how Marketing Mixes (4PS), Technology Acceptance, and Lifestyle Factor affected the intention to purchase Spotify Premium. The study employed the convenience sampling method to gather data from 400 Spotify music app users located in Bangkok. The data were analyzed using multiple linear regression, frequency, percentage, mean, and standard deviation. The results of the study show that, at the statistically significant level of 0.05, three of the hypotheses’ elements—Marketing Mixes (4PS), Technology Acceptance, and Lifestyle Factor—had an effect on Spotify Premium purchase intention (Jirayuwattana, 2021).

Fifth, Hans Christian Yulianto and Augustinus Nicholaas Hillebrandes Oroh did the study titled “The Effects of Social Value, Value for Money, App Rating, and Enjoyment on the Intention to Purchase the Premium Service of the Spotify App”. This study sought to ascertain the impact of app rating, enjoyment, value for money, and social value on the desire to buy Spotify, more especially the premium version. A total of 135 samples met the following criteria: they were at least 13 years old, owned a smart device, lived in Surabaya, Indonesia, and had been using Spotify for at least a month—both for free and premium. The data analysis methods used were classical assumption test and hypotheses test on regression model, as well as multiple linear regression test. The finding demonstrates that, both separately and collectively, each independent variable significantly and positively

impacted the dependent variable. Value for money was the most important aspect, followed by enjoyment, app rating, and social value (Yulianto & Hillebrandes Oroh, 2021).

Sixth, Devi Apriyanti Walean and Ir. Indira Rachmawati S.T., M.S.M. did the study titled “Analyzing Music Streaming Application Adoption in Indonesia Using a Unified Theory of Acceptance and Use of Technology 2: A Case Study of Premium JOOX and Spotify in Indonesia”. The aim of this research is to investigate the impact of characteristics within the UTAUT 2 model on customers use of premium music streaming applications on Android mobile phones in Indonesia. Additionally, the study will analyze how age and gender affect the influence within the UTAUT 2 model. 400 respondents in Indonesia were selected using the Purposive Non-Probability Sampling Technique, and their responses provided the data. The finding shows that six UTAUT 2 model factors—Habit, Hedonic Motivation, Social Influence, and Performance Expectancy—have a significant effect on the behavioral intention of premium service of music streaming application adoption. Age and gender are not moderating factors for any influence on behavioral intention (Apriyanti Walean & Indira Rachmawati, 2018).

1.5.2 Research Paradigm

The paradigm in this research is the positivism paradigm, which is a method based on the belief that objective truth can be achieved and that the research process to find truth can be conducted without values. Positivism is a natural science method which combines numbers and deductive logic, as well as the use of quantitative tools in interpreting a phenomenon objectively. This approach rejects the notion that the legitimacy of science and research is determined by the use of precisely measured data, obtained through experiments, surveys, and statistics, as well as objective hypothesis testing (Neuman, 2014).

1.5.3 Price Perception

Schiffman and Kanuk define price perception as how a customer views a certain price (high, low, reasonable) (Schiffman & Kanuk, 2004). According to Kotler and Keller, price perception is related to customer perceptions of product quality. Low prices are those that consumers believe are reasonable in relation to the quality of the product or service given. On the other hand, high prices are prices that are considered to the expected quality or benefits (Kotler & Keller, 2012). The goal of setting prices for each company differs depending on the company's goals and aims. Consumers price perceptions influence their purchasing decisions. As a result, every company strives to provide a good perception of the product or service they sell.

1.5.4 Advertising Perception

Advertising is defined as a sponsored communication from a specific sponsor that uses mass media to convince an audience (Rodgers & Thorson, 2012). According to Kotler and Armstrong advertising includes all forms of non-personal presentation and promotion of ideas, goods, and services with a certain sponsor (Kotler & Armstrong, 2012).

Advertisement can be disturbing in a variety of ways such as making shocking and offensive content or being presented in an annoying way. Advertisements that are distracting may affect viewers ability to focus on important or enjoyable activities or even entirely stop them. The most significant element found to be useful in explaining negative attitudes regarding online advertising was the perception of interference with task-related objectives (Cho & Hongsik John Cheon, 2004). Pop-up advertisements that directly interrupt ongoing activities are known to be considered highly intrusive (Edwards et al.,

2002). Advertising systems that interfere with a person's primary responsibilities might foster unfavorable attitudes and improve emotions of irritability, leading to advertising avoidance (Cho & Hongsik John Cheon, 2004; Edwards et al., 2002).

Spotify promotes its premium service to free users by presenting pop-up advertising after the user has listened to or skipped 6 songs. Customers who subscribe to Spotify Premium receive premium benefits such as Ad-Free listening. However, for customers who do not have a Spotify Premium subscription, these advertising can be unpleasant when listening to music, making them uncomfortable

1.5.5 Audio Quality Perception

Audio quality continues to develop from time to time along with technological developments and changes in consumer behaviour, which is also related to people's desire to listen music with high quality audio. As a result, many companies are currently marketing audio products with premium quality standards, one of which is the Spotify Premium service.

Spotify has several different levels of audio quality based on the user account type and settings selected by the user. The following is the audio quality used by Spotify (Spotify, 2023):

1. Automatic: depending on the user's network connection
2. Low: equivalent to approximately 24kbps
3. Normal: equivalent to approximately 96kbps
4. High: equivalent to 160kbps
5. Very high: equivalent to 320kbps

Spotify Premium users can choose song listening options starting from the audio level 'Automatic' to the highest audio level namely 'Very High'. Meanwhile, Free Spotify users are unable to select song listening settings above the 'Very High ' level. Aside from that, the audio quality difference between Spotify Premium and Spotify Free is that when users play songs on the Web player, Spotify Premium users can listen to music with a bitrate of 256kbps, whereas Spotify Free users only have a bitrate of 128kbps. Although the Free Spotify service generates good quality sound, it cannot compete with the Spotify Premium service, which provides audio quality of up to 320kbps which produce sharper and clearer audio.

1.5.6 Music Download Perception

Download plays an important role in providing flexibility to users when listening to music. With the ability to download music, users can access songs anytime and anywhere without being limited by an internet connection, allowing them to listen to music while traveling, working, and exercising.

According to Mandelbaum, flexibility is the ability to adjust effectively to changing circumstances. This concept associates flexibility with two types of change such as changing circumstances and a response to these changing circumstances that involves a change in some state or activity (Mandelbaum, 1978).

1.5.7 Unlimited Skip Perception

Currently, many companies apply control to users, particularly in the context of using applications that allow users to control and manage a service based on their preferences. User may quickly and efficiently understand and control the system or

application with this implementation. Users have access to a variety of options that allow them to personalize, manage, and adjust settings to their preferences.

In the context of Spotify Premium service, users can control the “Unlimited Skip” feature, which allows them to skip tracks without restrictions and choose songs based on their preferences. Meanwhile, customers on the Free Spotify have a limit on the number of songs that may be skipped, which is six (Spotify, 2023).

1.5.8 Decision to Use

In this study, the decision to use is equated with the theory regarding to purchase decision. According to Schiffman and Kanuk (2008), purchase decision is the process of selecting two or more options which results in a decision to buy or not to buy. In addition, Kotler and Armstrong define purchase decision as a stage in the buyer decision-making process where customers actually buy (Kotler & Armstrong, 2014). According to Peter and Olson, purchase decision is a process that combines all of the knowledge gathered by consumers into relevant consideration values in choosing two or more options so that they can decide on one product (Peter & Olson, 2013).

Consumer purchasing decisions for Spotify Premium are important, where consumers will start by introducing the features in Spotify Premium, then evaluate them to determine whether the Spotify Premium service suits their needs and is worth buying.

1.5.9 Theory

1.5.9.1 The Influence of Price Perception on The Decision to Use

According to Kotler (2003), marketing mix strategy is a set of controllable variables used by a company to pursue the desired level of sales in the target market. In other words, 4P is a combination of marketing variables that are internal factors that the company can

control. The 4P variables are product, price, place, and promotion. Price is the amount of money paid by consumers to producers to get a product. The variables in the mix price are list price, discount, credit terms, and payment period.

Lee and Lawson-Body describes price perception as a customer's evaluation and related emotional form of the reasonableness, acceptability, or justifiability of the seller's pricing as well as the price when compared to other parties (Lee & Lawson-Body, 2011).

1.5.9.2 Theory of Planned Behavior

Icek Ajzen and Martin Fishbein developed the Theory of Planned Behavior (TPB), which is a development of the previous theory, the Theory of Reasoned Action. According to this idea, the intention to perform specific behaviors is influenced by two factors: subjective norms and attitudes toward behavior. The Theory of Reasoned Action was then replaced by the Theory of Planned Behavior after Ajzen introduced the concept of perceived behavioral control.

The Theory of Reasoned Action was then refined by Ajzen and Fishben (1988) into the Theory of Planned Behavior, states that people' behavior is motivated by their purpose to behave, which is influenced by a variety of internal and external factors. According to the Theory of Planned Behavior, three factors influence an individual's intention to behave: attitude toward the behavior, subjective norms, and perceived behavioral control.

In accordance to the Theory of Planned Behavior, perceived control over financial capabilities and simplicity of managing subscriptions may be the most important variables affecting a person's decision to use the Spotify Premium service. Moreover, a positive attitude toward service quality, such as listening to music without advertisements and with higher audio quality, can improve consumers' willingness to subscribe to Spotify Premium.

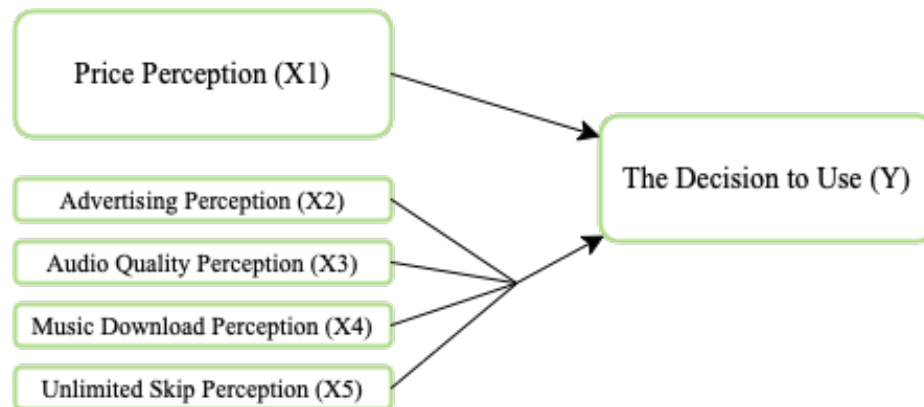
Spotify Premium is a subscription service that gives more value to premium consumers in order to distinguish them from free users.

The phrase “freemium,” which combines the terms “free” and “premium,” describes a business model where a basic product or service is offered without charge, and customers can pay for a premium subscription or make in-app payments to access more features or have a better overall experience (Anderson, 2009, 2013; Liu et al., 2014; Teece, 2010).

Maintaining customers who pay is a critical success factor for service providers using the freemium model (Kumar, 2014). Therefore, for freemium services, two post-adoption behaviors—upgrading and maintaining premium users—are very important. Thus, in order to preserve the delicate balance between the content of the free and premium versions, employing the freemium model necessitates constant user experience optimization. In order to maintain current customers and attract in new ones, the free version should offer sufficient value without negatively impacting sales of the premium version (Liu et al., 2014). **The premium version must offer more value-added to differentiate it from the free version.** Thus, using a freemium model can result in varying experiences for paying and non-paying customers (Shi et al., 2015).

Value-added in Spotify Premium offers many features that can only be used by Spotify Premium users to attract Free Spotify users to switch to paid users. The benefits offered by Spotify Premium are advertisements free so that users can listen to songs without any distraction. Spotify Premium also provides music download feature so that users can listen to music without internet or in the offline mode. Moreover, the audio quality in Spotify Premium is better and can reach 320kpbs/s. The last benefit is that

Spotify Premium users can choose any music they want and unlimited skip songs. As a result, the increased value provided by Spotify Premium is not only attractive to listeners, but also provides a strong incentive for Spotify Free users to upgrade service.



Picture 1. 3 Research Framework

1.6 HYPOTHESIS

H1: There is a positive influence of price perception (X1) on the decision to use Spotify Premium (Y).

H2: There is a positive influence of advertising perception (X2), audio quality perception (X3), music download perception (X4), unlimited skip perception (X5) on the decision to use Spotify Premium (Y).

1.7 CONCEPTUAL DEFINITION

1.7.1 Spotify Premium Price Perception

Price perception is defined as consumer views regarding high and low prices of the price variations offered by the Spotify Premium.

1.7.2 Spotify Premium Advertising Perception

Advertising perception is defined as consumer views regarding distracting advertisements.

1.7.3 Spotify Premium Audio Quality Perception

Audio quality perception is defined as consumer views regarding the features of the Spotify Premium audio service with clear and sharp sound.

1.7.4 Spotify Premium Music Download Perception

Music download perception is defined as consumer views regarding the flexibility of the download feature in the Spotify Premium where user can download and listen to music offline.

1.7.5 Spotify Premium Unlimited Skip Perception

Unlimited skip perception is defined as consumer views regarding user control over the unlimited skip feature of the Spotify Premium which allows user to freely select any song to skip at any time.

1.7.6 The Decision of Use Spotify Premium

The decision to use is the final decision that consumers make to use the Spotify Premium or not.

1.8 OPERATIONAL DEFINITION

1.8.1 Price Perception (X₁)

By comparing the costs and services afford by Spotify Premium, price perception can be measured using respondents' views of the affordability of the prices offered by the Spotify Premium.

1.8.2 Advertising Perception (X₂)

Advertising perception can be measured using respondents' views of the interference caused by advertising.

1.8.3 Audio Quality Perception (X₃)

Audio quality perception can be measured using respondents' views regarding the level of resolution afford by Spotify Premium.

1.8.4 Music Download Perception (X₄)

Music download perception can be measured using respondents' views regarding the flexibility of the Spotify Premium music download feature.

1.8.5 Unlimited Skip Perception (X₅)

Unlimited skip perception can be measured using respondents' views of unlimited skip control on Spotify Premium.

1.8.6 The Decision to Use (Y)

The decision to use can be measured using respondent's decision to use Spotify Premium over Spotify Free.

1.9 RESEARCH METHOD

1.9.1 Research Type

The type of this research is explanatory which aims to determine the influence of price perception (X_1), advertising perception (X_2), audio quality perception (X_3), music download perception (X_4), and unlimited skip perception (X_5) on the decision to use Spotify Premium (Y).

1.9.2 Population

The population in this study include men and women between the ages of 18 and 35 who lived in Semarang city in Indonesia, and use the Spotify application. The reason this study chose the age between 18-35 years old is that the majority of Spotify users are under 35 years old (Iqbal, 2023). Moreover, there is no population frame available for Spotify user data criteria.

1.9.3 Sampling

1.9.3.1 Sampling Technique

The sampling technique used in this study combines a non-probability sampling technique with purposive sampling, where sampling is limited to certain people who can provide information for this research regarding the use of Spotify.

1.9.3.2 Sampling Size

According to Roscoe (in Uma Sekaran, 2016) for most studies, a sample size of more than 30 people and less than 500 people is appropriate. The sample size in this research is 100 respondents, which meets the sample size requirements of not less than and not more than a good sample size.

1.9.4 Data Type and Source

The type of data used in this research is primary data, namely data obtained directly from data sources such as research respondents.

1.9.5 Data Collection Technique and Instrument

The instrument of this research is questionnaires, and the data collection technique used in this study is self-administered through an online platform. According to Uma Sekaran and Roger Bougie (2016) a questionnaire is a pre-written list of questions with pre-formulated responses that respondents are to record, typically in the form of clearly defined alternatives. The data collection technique in this research is to provide questionnaires to be filled out by respondents (Sekaran & Bougie, 2016).

1.9.6 Data Processing Technique

1.9.6.1 Editing

Editing is the process of clarifying, readability, consistency and completeness of data that has been collected.

1.9.6.2 Coding

Coding is the process of translating data into codes which are usually in the form of numbers. Coding aims to make it easier to transfer data to storage facilities.

1.9.6.3 Tabulation

Tabulation is an activity to describe respondent's answers in a certain way.

1.9.7 Data Analysis

In this research, simple linear regression analysis and multiple linear regression analysis will be utilized. To assess the influence of one independent variable on one dependent variable, use simple linear regression analysis. Meanwhile, multiple linear regression analysis is used to identify the influence of more than one independent variable on the variance in the dependent variable (Sekaran & Bougie, 2016).