Freemium as a Business Model for Mobile Video

S E R G E J  K O T L I A R

KTH Computer Science and Communication

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Abstract
Facing a new media landscape, media companies are struggling to find ways to generate revenue through digital channels. The TV industry is facing problems with new user behaviors and increased competition in the online advertising space. In light of this, questions are being asked among traditional ad-supported channels whether or not it would be viable for them to start charging for their content, either by locking in or by creating a 'freemium' service where free users can watch content with ads, and a premium users get premium service for a fee.

This thesis, commissioned by TV4/Expressen Mobilab, mobile division of TV4, analyzes whether or not freemium is a viable business model for their mobile TV service called TV4 Play. The analysis was made through drawing conclusions from the paid content debate that has been raging among media and online companies the last few years, as well as analyzing the outcomes of different payment schemes implemented by different types of other media companies.

The conclusions are that in deed freemium seems to be the way to go, that a free service is needed to compete with piracy and other services, but that it is the paid users that will be bringing in the revenues. However, I found that just being ad-free is not enough for a service to be successful as a premium service, it needs to have more features than that.

Freemium som affärsmodell för mobilvideo

Sammanfattning
I det nya medialandskapet kämpar medieföretag med att hitta nya intäktsmodeller i digitala kanaler. TV-industrin kämpar på nätet mot nya digitala konsumtionssätt, och ökad konkurrens på onlineannonseringsmarknaden. Däremot växer frågor bland traditionellt annonsfinansierade kanaler huruvida det är lönsamt för dem att börja ta betalt för sitt innehåll, antingen genom att låsa in det helt, eller genom att skapa s.k. 'freemium'-tjänster, där gratisanvändare kan se innehållet med annonser, och premiumanvändare kan få ytterligare eller bättre tjänster mot betalning.

Detta examensarbete, beställt av TV4/Expressen Mobilab, TV4:s enhet för mobila plattformar undersöker huvudida freemium är en hållbar affärsmodell för deras mobil-TV-tjänst, TV4 Play. Analysen har gjorts genom att undersöka och dra slutsatser från de senaste årens debatt kring betalt innehåll, och genom att studera utfallet hos olika typer av försök med betalt innehåll bland andra typer av mediaföretag.

Slutsatserna är att freemium är en bra väg att gå, med en gratistjänst som behövs för att konkurrera mot gratistjänster och piratkopiering, men att de riktiga intäkterna kommer från de betalande användarna. Dock fanns det att bara vara " fri från annonser" inte räcker för att en premium-tjänst ska vara framgångsrik, utan att det krävs ytterligare mervärden för att motivera att användare ska betala.
Table of contents

Foreword.................................................................................................................................................1
Structure of this thesis .................................................................................................................................1
Acknowledgements .....................................................................................................................................2


1. Introduction ........................................................................................................................................4
  1.1. Background .......................................................................................................................................4
    1.1.1. Trouble in the ad-supported content industry ........................................................................5
    1.1.1.1. TV industry faces potential competition ............................................................................6
    1.1.2. New business models are needed ...............................................................................................6
    1.1.3. Possibilities for payments on the mobile ....................................................................................7
    1.1.2. Problem .......................................................................................................................................7
    1.1.3. Purpose .......................................................................................................................................8
    1.1.4. Delimitations .................................................................................................................................9
    1.1.5. Audience .....................................................................................................................................9
  1.2. Definitions ......................................................................................................................................10

2. Method ..............................................................................................................................................11
  2.1. TV4 / TV4 Group ..............................................................................................................................11
  2.2. Experiment .......................................................................................................................................11
  2.3. The prototype ...................................................................................................................................12
  2.4. Questionnaire ..................................................................................................................................14
  2.5. Qualitative vs Quantitative methods ............................................................................................15
  2.6. Population choice ............................................................................................................................16
  2.7. Reliability / Validity ........................................................................................................................17
  2.8. Literature .........................................................................................................................................17

3. Literature studies .............................................................................................................................19
  3.1. Mobile content consumption .......................................................................................................19
    3.1.1. Boom of mobile use for content consumption/internet use .................................................19
    3.1.1.1. Emergence of a new class of mobile devices .........................................................................20
    3.1.2. Popularity of mobile video content ............................................................................................21
    3.1.3. New usage patterns ...................................................................................................................22
  3.2. Payments debate ............................................................................................................................23
    3.2.1. Charging for content? ...............................................................................................................23
    3.2.2. Content as an experience good .................................................................................................26
    3.2.3. Advertising avoidance ...............................................................................................................27
    3.2.4. Willingness to pay on the mobile ...............................................................................................28
  3.3. Freemium .......................................................................................................................................29

4. Outcome scenarios ............................................................................................................................32
  4.1. Percentage of views .......................................................................................................................32
  4.2. Scenario A: Pessimistic .................................................................................................................32
    4.2.1. Conclusions ...............................................................................................................................33
  4.3. Scenario B: Optimistic ...................................................................................................................33
    4.3.1. Conclusions ...............................................................................................................................33
  4.4. Scenario C: Realistic .......................................................................................................................34
    4.4.1. Conclusions ...............................................................................................................................34

5. Discussion ..........................................................................................................................................35
  5.1. Selection of participants / content ...............................................................................................35
5.2. Competition with free option ................................................................. 35
5.3. Pay-per-view is a gateway to subscriptions ........................................ 36
5.4. Paid service means high expectations ................................................. 36
5.5. What is a “good” paid percentage? ..................................................... 37

Part 2. (2011) ................................................................................................. 38

6.1. Paywalls are up ..................................................................................... 39
6.2. Paid content debate .............................................................................. 40
   6.2.1.1. Forrester research ...................................................................... 40
   6.2.1.2. John Einar Sandvand ................................................................. 41
   6.2.1.3. Nielsen Research ...................................................................... 43
6.3. The iPad .................................................................................................. 44
6.4. Blurring of lines between hardware classes ........................................... 45
6.5. 'iPhone moment' nearing online TV ..................................................... 45
6.6. In the U.S: Hulu, Netflix, Apple ............................................................ 47
   6.6.1. Hulu & Hulu Plus .......................................................................... 47
   6.6.2. Netflix .......................................................................................... 48
   6.6.3. Apple iTunes / Apple TV .............................................................. 48
6.7. Google lagging behind - Amazon and Paypal catching up .................... 48
6.8. Spotify financial data ........................................................................... 49
6.9. TV4/Expressen Mobilab shut down ..................................................... 50
6.10. The launch of TV4 Play Premium ......................................................... 50

7. Conclusions .............................................................................................. 51
7.1. Premium service is win-win ................................................................. 51
7.2. Premium needs to be more than ad-free .............................................. 51
7.3. Content is king (Learn from Spotify) .................................................. 52
7.4. Quality and ease-of-use first ............................................................... 52

8. Recommendations .................................................................................... 54
8.1. Everything must be cross-platform .................................................... 54
8.2. Don't lock out the freeriders ............................................................... 55
8.3. Make it easy to pay .............................................................................. 55
8.4. Give them something to pay for ......................................................... 56
8.5. In summary ........................................................................................ 56

9. References ............................................................................................... 58
9.1. Books ................................................................................................. 58
9.2. Reports ............................................................................................... 58
9.3. Web ................................................................................................. 59
Foreword

Structure of this thesis

This thesis is divided in two parts, written at two different times. The main body of this thesis was done in the summer and autumn of 2009 at TV4/Expressen Mobilab. As the theoretical part of the work came to an end and it was time to perform the outlined experiment the project got held back for different reasons. First there was a lack of resources for the development of the prototype, then there was a political discussion inside TV4 on whether or not paid content was the way to go, and other things that got in the way of doing the experiment. After a period of waiting for it to happen I decided together with my mentor to outline three possible outcome scenarios and draw conclusions from that, as to prepare for a future execution of the experiment - an experiment that still to this date has not happened.

As a result, now that the final touches are being put down in the beginning of 2011, there are elements of the thesis that seem outdated, and it seems fair to add some points about things that have happened since. Some things in the thesis have become somewhat outdated - like the talk of a hypothetical "larger iPod" device and some statistics from 2009 (the TV4 Play app wasn't even released then). Yet on the large scheme of things the debate around paid content is still going on with experiments being done by many players worldwide, which I have added to this thesis in a second part.

What I have done is divided this thesis in two parts. **Part one**, which was written in 2009 is the theoretical build-up for the thesis, the description of the experiment that was prepared for, and the theoretical discussion of possible outcomes of a potential study, and what conclusions should be drawn from them. **Part two**, written in early 2011 describes what happened later, with the developments of tablet devices, new freemium services and the media industry experimenting with different types of paid content business models. Thus part two sheds some further light on questions asked in part one based on developments in the media industry worldwide, and points in a direction of which business models media companies are moving to, and tries to form an indication as to how media companies should develop digital business models in
general, and how TV companies in particular should adapt to the ever changing mobile/digital landscape.

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**Morris Packer**, my corporate mentor at TV4/Expressen Mobilab, for thoroughly introducing me to the media industry, helping me understand its' [sometimes irrational] behaviour, and helping me see different ways of doing things and the transitions that media companies need to go through.

**Mats Lodin** and **Erich Hugo**, colleagues at my later employer Bonnier Digital Consumer Services, which I met in between the writing of parts 1 and 2 of this thesis, for helping see the bigger picture of the challenges of media companies today, and giving me a perspective that has made this thesis even more rounded and closer to actual media companies decision making process and needs.

**TV4/Expressen Mobilab**, the whole team, including Otto Sjöberg, Josefine Lindén, Josefine Granding Larsson, that took me in and made me feel welcomed like a member of the team, showing me the ins and outs of work at TV4.
1. Introduction

*Can media companies charge for their content online?* Can they charge for content on a mobile phone? As media companies battle to stay relevant, in competition with user-generated content, falling advertising revenues and the constant increase of piracy, this question has been debated intensely lately. Some industry leaders tout payments as the savior of the media, while others say that it is impossible - that people just aren’t willing to pay online.

This thesis project aims to study whether or not it would be possible for a traditional media company such as a TV channel to charge for it’s content when distributed to mobile phones. It will test real-world users’ willingness to pay, but also their feelings about interruptive advertising as we will give them the choice of seeing ads or paying for the content directly, in a real-world mobile on-demand video app developed by TV4/Expressen Mobilab.

This thesis is about business development, about finding sustainable business models to support content on the mobile. It will span over many disciplines, including media management, mobile technology, consumer behavior and advertising. It will feature an in-depth literature study spanning the current payments debate both internationally and locally in Sweden, as well as a few of the more recent business models such as payment for content, micropayments, “freemium”. It will also discuss advertising from the perspective of consumer preferences, and top it all off with an account of the state of mobile technologies with focus on mobile video.

In the end it hopes to be an advisory for media companies researching possibilities for consumer-paid media content services.

1.1. Background

*As media consumption moves online, revenues for many traditional suppliers of content fall, “print dollars are traded for digital nickels”. The reasons for this are many: content online can be shared much easier, advertising prices are lower, and there’s much more competition for the ad revenue. And consumer expect to get their content on demand, and for free too. As content consumption moves to the mobile however, opportunities arise to easily charge small amounts and finance the content with payments instead of advertising. Some consider this to be one of the ways to get the media industry out of their*
current crisis. Yet one key question needs to be answered: are people willing to pay?

1.1.1. Trouble in the ad-supported content industry

Newspapers everywhere are experiencing financial problems like never before. Different web-based business models are eating away at the advertising pie and the once exclusive role media houses had on people’s attention (Sidea 2009). Web based services replace the traditional classified ads of the newspapers. Readers move from reading the paper versions to getting the content online - without paying the cost of purchasing the paper version. Online readers are not worth as much as paper readers due to the lesser price of advertising online (Jarvis, 2009). The expression “trading print dollars for internet nickels” seems to be true. In fact, web advertising can be orders of magnitude cheaper than advertising in traditional media, and has the advantage of being interactive, and much easier to measure. Another big problem for advertising is the ever increasing rate of advertising avoidance - consumers becoming competent enough to find ways to ignore advertising, rendering advertising investments unseen (Callius, 2008). As a result of this, the same business models that used to work for media in the pre-web world do not necessarily work in the new media world. We have already started to see the beginning of the demise of many newspapers, notable examples in Sweden are the cancellation of Schibsted’s “Punkt SE”, Bonnier’s “City”’s reduction to bi-weekly and the free ad-supported newspaper Metro’s stock value dropping 83% in a single year (Sidea, 2009).

Most of today’s media industry has come to rely on a simple business model: create content that draws an audience, and sell that audience to advertisers. As this business model becomes increasingly difficult to sustain, the industry struggles to find alternative ways to finance their existence, sparking an intense debate on micropayments and whether it would be possible (i.e. profitable) to charge consumers directly, instead of relying on the indirect income of advertising. We shouldn’t be mistaken into thinking that this is only a newspaper problem. As technology develops, with increased computer capacities and bandwidth, as well as the easy redistribution of content, the problems the technological shift that has caused for newspapers will similarly affect the TV industry, which indicates cloudy skies on the horizon.
1.1.1.1. **TV industry faces potential competition**
As media consumption moves online instead of the traditional newspapers and TV sets, TV companies face a similar battle to that of the newspapers - the battle with content being easily redistributed without the added advertising. One of the ways this is happening is of course through content piracy. As the situation is today - pirated content has quite a few advantages to legal, despite the obvious disadvantage of being criminal and prosecutable. Pirated content is completely free of charge, always on demand, available immediately and ad-free. The web-based offerings of Swedish media houses today, namely the flash-based “Play” channels of SVT, TV3, TV4 and Kanal5 and all are good competitors. Their content is also on demand, available somewhat quickly, and free of charge. They also have obvious advantages of being safe/legal and hassle-free - no need for special software. On the other hand, in an on-demand environment advertising breaks are perceived as much more annoying than in broadcast - you cannot simply switch channels, and in the moment of the most excitement the user must wait 30 seconds until the ad has been shown. This has led to online video sites being cautious about the amount of advertising related to their videos, and it is in fact significantly less than the amount of advertising in the traditional broadcast TV set\(^1\). If more and more users prefer to watch TV-produced content through other channels than those provided by the TV channel, the channel loses out on its profits from advertising. And even though the content still is popular, the industry needs to explore new ways of transforming that popularity into revenue.

1.1.1.2. **New business models are needed**
The word business model is being thrown around loosely these days. It has come to signify many things and is often confused with the word strategy. A business model is about two things: figuring out the math of what the costs and revenues are, but also about telling a good story, finding a good way to explain itself and its benefits to the potential customers. A business model doesn’t deal with competition - that is the role of strategy. “A successful business model represents a better way than the existing alternatives. It may offer more value to a discrete group of customers. Or it may completely replace the old way of doing things and become the standard for the next generation of entrepreneurs to beat” (Magretta, 2002).

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\(^1\) Interview with Mattias Fyrenius, Head of TV4 New Media
In the case of TV4, it is very much interesting to find new potential models for a day in the future when perhaps that which works today won’t necessarily work anymore.

Magretta (2002) also says that “business modeling is the managerial equivalent of the scientific method - you start with a hypothesis, which you then test in action and revise when necessary”. This is exactly how this thesis is intended to be arranged - by telling a story of how a paid mobile video service could work, and testing whether or not it works in the free.

1.1.1.3. Possibilities for payments on the mobile
One potential route suggested in the raging debate on “how can the media industries change their business models” is the question of payments, sometimes referred to as micropayments. Important arguments against payments have been experiences from the web where many payment-based solutions have failed to gain traction. However, there has long been an impression that while people are often not willing to pay for content online, they are often willing to pay on their mobile, provided it is affordable, and most importantly - simple. An example of this has been the launch of Apple’s App Store for their line of iPhone mobile phones, which had a revolutionarily simple and unbarked user interface for paying with a credit card. The App Store has in less than two years created a billion-dollar market selling small software applications for the iPhone. Which again awakens the question: are people willing to pay for digital content? And if so - could this be a new revenue source for media houses?

1.1.2. Problem
While it today is still rather hassle-ridden to perform an online purchase with a mobile phone, there are solutions on the way with many possible outcomes of potential de facto standards of payment methods. Many actors are involved in this - phone companies, device manufacturers, banks, credit card companies, and e-payment companies such as Paypal. With a hint of techno-determinism we can assume that within a reasonable amount of time there will be viable options available for charging for content/services delivered to mobile devices, and thus it becomes interesting to investigate possible business models for media houses to try to charge directly from the consumers instead of advertisers, regardless of whether it is through subscription fees or micropayments.

The important questions remain:
1: Is it possible to charge for TV content on a mobile device? Are people willing to pay?

Spotify has launched a music service using a business model called “freemium”, which in Spotify’s case means that users can choose between a free, ad-supported version, or a 99SEK/month “premium” service that doesn’t interrupt music with advertising, and has a few extra features such as higher sound quality and mobile access. Spotify hasn’t released any figures yet, so we don’t know how large percentage of users opt to pay for the premium service. This of course is also very interesting to try out in a TV environment, and asks the question:

2: a) How much of a nuisance are the advertising breaks, especially in an on-demand world?

b) Would people prefer to pay to get rid of the advertising in a mobile video service?

1.1.3. Purpose

With advertising-supported business models for content companies showing uncertainty, it would be very much relevant and interesting for media houses to see whether or not there is money to be made by charging users directly. This would mean a great change for companies such as TV4 that has relied almost entirely on being ad-supported. In the case of TV4 the math is simple, especially when you compare to the revenues that TV4 Play in the web browser generates. At a CPM\(^2\) of ca. 120SEK, and a maximum of 6 advertising spots in a tv show\(^3\), this gives that the maximum profit generated per viewer of a TV4 episode is 120/1000 * 6 = 0.72 SEK. If you charge a viewer 5 SEK for the same episode ad-free, your revenue is (minus VAT and 30% in transaction fees) 3.50 SEK which amounts to a sizeable increase in revenue, and shows the potential of paid TV viewing.

As another possible benefit, this could lead to a more user-friendly world where good content is rewarded directly through sales and not through the success of the advertising sales departments of the company, which in an ideal world would encourage more high-quality content to be created.

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\(^2\) Cost per 1000 impressions

\(^3\) Data from TV4 New Media sales department
As more and more media consumption moves to mobile devices it is incredibly important to find out whether or not that environment is welcoming to charging for content or not.

1.1.4. Delimitations

The debate on payments is a very wide one with lots of things being true for one type of content or one type of channel, and untrue in another. This thesis aims to research willingness to pay for TV content in a mobile device. Thus, its results should not be interpreted as any form of argument for or against payments in general. The study will be geographically limited to Sweden, and the Swedish TV industry, which has similarities to and differences from TV industries in other countries.

An important assumption is that people might be willing to pay only if the payment process itself is quick and straightforward. Currently, not all mobile devices have the infrastructure to make these payments simple enough, even though it is safe to assume that this will happen in the near future. Thus, the experiments in this thesis will be aimed at users that currently have access to the super-simple payment methods such as the ones presented through Apple's App Store.

Obviously, there are many other business models involving payments, other than charging directly for the content in question. For example, there is a very viable opportunity to act as a promotional channel for games and applications which are somehow related to the core business of the channel. Examples of this are American Showtime, ESPN, and Svenska Dagbladet here in Sweden that use their brands to sell applications and games. However, I have decided to limit the scope of this thesis to focus on charging for moving image content, and charging for it directly.

1.1.5. Audience

This thesis aims to try some of the arguments in the ongoing payments debate, to see what applies and what doesn’t apply to Swedish mobile TV. It’s aimed at three different audiences:

- Members of the Swedish media industry interested in the sustainability of paid- or freemium business models, or business models for mobile content.

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4 http://moconews.net/article/419-mobile-app-boom-to-top-4-billion-by-2013-says-yankee-group/
5 http://blogg.svd.se/utvecklingsblogg?id=15111
• Decision makers of the Swedish TV industry, particularly those at TV4. Hopefully the results of this thesis will be of assistance when laying down the business models supporting the mobile video services of tomorrow.
• Academics in the field of media technology, management and economics.

1.2. Definitions

**Content** - Media content such as text, music, video etc. In this case, we will mostly be concerned with video (moving image) content.

**CPM** - Cost per 1000 impressions. Standard metric in the media industry for counting advertising impressions.

**Freemium** - Business model for digital goods/services where part of the offering is free of charge, and premium service is paid for. Described further in chapter 2.3

**Mobile TV** - In the broad sense, signifying any service aimed at providing content in video form for mobile devices such as phones and smartphones.

**On-demand** - Video services that show a video on the request of the user, unlike broadcast where the viewer is fed a streamed version of what is broadcast on TV at that moment.

**Micropayment** - Electronic payment of any “small” amount, usually less than ~1 USD.
2. Method

2.1. TV4 / TV4 Group

TV4 is the largest commercial TV channel in Sweden. It’s organized under the TV4 Group which operates a number of TV channels under the TV4 brand, such as TV4+, TV4 Film, TV400, and a handful of others. Most of the channels are ad-supported and a few are parts of commercial packages. Since December of 2008, the TV4 Group owns C More Entertainment, operating Scandinavian TV channels under the brand of Canal+.

TV4 Nya Medier (New Media) is the department in charge of internet efforts and operates a number of popular websites such as fotbollskanalen.se, nyhetskanalen.se, recept.nu, and many others.

TV4/Expressen Mobilab is a small company of five people developing mobile services for TV4 and Expressen, part of an ongoing effort on merging the “new media” departments of TV4 and Expressen, both owned by media house Bonnier AB.

2.2. Experiment

With the assistance of TV4/Expressen Mobilab, a prototype for an iPhone version of the TV4 Play service was developed, with access to all of the content of the Play service they offer on the web. The application had a feature presenting a choice for the viewer: before playing a show, the application would ask the user to choose from one of three payment options:

- Watch for free (Ad-supported)
- Pay 5-10 SEK per show for ad-free content (pay-per-view)
- 99 SEK monthly to unlimited ad-free access to all of their content (subscription)

The experiment was limited to the iPhone because of the comparative ease and hassle-free-ness that it offers when it comes to dealing with payments. Payments were processed through iTunes with a user-friendly confirmation dialog for payments. During a trial period of a couple of weeks, the application was intended to be distributed to 100 test subjects, current owners of an iPhone, and usage data was recorded. We intended to record the following things:
• MSISDN\textsuperscript{6} to uniquely identify individual users

• The Clip – The item of content that was seen

• Payment choice – whether or not the viewing was seen through the ad-supported, pay-per-view or subscription options.

From this, the most important figure extracted is simply the percentage of views that have been paid for, either through subscription or pay-per-view. Other important figures are the relationship between pay-per-view and subscription among the paying viewers, and the individual trends after using the service a longer period of time, whether or not users switch from the ad-supported version to one of the paid versions or vice versa.

2.3. The prototype

During the time of researching this thesis, TV4/Expressen Mobilab set out to build an iPhone version of the TV4 Play service, which offers TV4-created content in an on-demand environment on a mobile phone. For the purposes of this experiment, a prototype was created based on the TV4 Play iPhone app. This prototype differs from the regular app in that it has an option to pay for premium service to get rid of advertising. There is one button offering a subscription service (99 SEK/month), and when playing clips (if unsubscribed), the user gets to choose whether or not they wish to pay a small fee to get rid of the advertising.

\textsuperscript{6} In this case, this means the users phone number. More info about MSISDNs can be found here: http://en.wikipedia.org/wiki/MSISDN
Figure 1. Very early mockup of a TV4 Play app, before graphic design had been applied. The idea is that the users simply press the episode they wish to see.

Figures 2 and 3. How the payment processing for single purchases can look. Once the user has chosen an episode, they are presented with two options: watch for free, or pay to view it interrupted by advertising. The second screen shows the standard built-in iPhone purchase confirmation dialog.
Figures 4 and 5. Shows the informational page regarding terms and conditions for the premium service, and the built-in payment confirmation dialog of the iPhone confirming the payment for one month of premium service.

2.4. Questionnaire

After having tried out the prototype for the designated period, participants would be asked to fill out a questionnaire on their feelings about the service, and about their views and values surrounding paid mobile video services. The questions asked were:

- How well did the service work?
- How satisfied are you with using the service?
- Did you at some point choose to pay for content?
  - If yes: Was it worth the price?
Why / Why not?

- Are you interested in continuing to use mobile TV?
- Would you be willing to pay for mobile TV?
- How would you preferably finance your mobile TV viewing?
  - (Pay-per-view, Subscriptions, Ads)
- What did you think of the subscription price? (99SEK/month)
  - Too cheap – too expensive
- What did you think of the per-show price? (5 SEK/episode)
  - Too cheap – too expensive
- For you to pay for mobile TV, how important is it that the service has...
  - ... high image/sound quality?
  - ... quick and simple payment process
  - ... a simple user interface
  - ... a wide variety of content
  - ... a low price

2.5. Qualitative vs Quantitative methods

Gathering of knowledge according to the scientific method can be done in two ways: qualitative or quantitative.

Quantitative methods are the ones traditionally used in experimental studies, quantitative methods means in simple terms that the researcher gathers a data set from a large number of sources, in some sort of unified way, and by studying the relations between the data, and using statistical probability comes to conclusions that generalises knowledge from the concrete situation to general rules and models. (Bell, 2006)

Qualitative methods are used when quantitative are not possible, or where more depth is needed to understand for example the behavior of a smaller group of people. The qualitative method does not provide any grounds for statistical analysis, but can bring deeper understanding to phenomena that aren’t
necessarily seen from the surface of the quantitative study. Qualitative studies are less rigid when it comes to following a decided form, and doesn’t come with the need to show general conclusions, which makes them more suitable for for example understanding people (Bell, 2006).

This project is mainly of the quantitative kind, as it aims to show business models at a large scale. For the experiment in this study to show successful results, it does not require that any particular user chooses to pay instead of viewing advertising when watching TV on their mobile, it doesn’t even need any particular user to choose that option every time they watch. All this experiment is interested in is what percentage of views is paid, and what percentage is non-paid.

2.6. Population choice

What is important in this study is to study the willingness to pay among users of the TV4 Play Mobile service. Since no such service exists today, it’s difficult to draw from that pot. Instead, we have to ask people whether or not they would use a service like this, and only study their behavior - it is utterly irrelevant whether people who would never watch TV content on a mobile phone would pay for it or not. Those who would be willing to take the step are probably people who today have access to devices where this service would work at it’s best, among early adopters of new technology. Since a pre-requisite for the mobile revolution has been the advent of the devices with capacitive touch screens, a good sample would be users of a such a device, and to limit development costs we’ve chosen to focus on the most popular of these devices - namely the iPhone. Of course, users of iPhones mean to represent current users of capacitive-touchscreen smartphones that are also available from vendors such as HTC and Palm. This choice of population also allows us to access the built-in payment-processing infrastructure of the iPhone app store, thus minimizing bias related to difficulty of payment.

Other than that, possibly important data will be gathered about the people such as their occupation and income to see if there is any difference in willingness to pay between high-income people and low-income people, and of course to measure differences in choice between users who use the service often, and those who use it more rarely.
2.7. Reliability / Validity

Considering that the study was intended to include only 100 people and during a relatively short period of time, the results should be seen as indicative rather than conclusive. On the other hand, these 100 people would perform thousands of views, and when aggregating the statistics of the number of views rather than users, users would have a higher reliability as it places more weight on the heavier users than on the lesser users. One can assume that many users would test both versions in the beginning and that their behaviour further on in the study would be more accurate as to their long-term choices. Therefore it's a good idea to see how users' patterns change over time and perhaps even disregard some of their first 'experimenting' usage attempts.

As to validity there are also some potential problems. To begin with, a key property when testing willingness to pay is that the payment should be real and involve the users' real money. Willingness to pay with imaginary or other people's money is obviously much higher. The next issue is whether the test group is a fair representation of the actual mass of users of mobile TV Play services. As will all limited studies this is a problem, and one should compare the demographic data of the users in the study and compare it with other similar studies done in other places - to see if there are differences in user behaviour that are missed in the study. One example of such a difference could be that people with jobs (if testing on employees) would perhaps be more willing to spend money than students or unemployed who generally have a lower spending budget. Testing on employees of the company also has a bias since obviously employees will value their employer's product higher - after all, they have a part in the creation of it and a stake in its' success.

The results of this study are intended to be used as decision basis for TV4 for deciding the revenue model for the final Play apps. Should it come out with a paid/freemium model, obviously that data would outmatch this study in every way, including both validity and reliability. But analyzing that would perhaps be a task for a later thesis, assuming the data isn't considered a trade secret.

2.8. Literature

There is a raging debate going on in the content business about a question that some people consider crucial to the survival of the content industry - “Can you charge for content?”, and if yes - “Which content can you charge for and how much?”. Newspapers are currently experiencing a crisis, especially in the U.S.
where they suffer from loss of advertisers and falling prices on advertising. All of which can easily lead someone to think: maybe we should charge the users for it? Important sources of inspiration have been renowned media gurus such as Chris Anderson, Clay Shirkey, Rupert Murdoch, Kevin Kelly, Jeff Jarvis, whose blogs and books have been a good point of entry into the debate and further research. Following relevant news sites has also been important to assess the situation as things develop, important sources have been paidcontent.com and moconews.com. The paid-content debate is going on in Sweden as well, with lots of good research and theories being put forth by thinkers such as Sara Öhrvall, Joakim Jardenberg, Anna Serner and many more.

Other than that I’ve been gathering data and statistics from different Swedish and international media research groups to get a feel for mobile use, what behaviors and trends there are among their users, and statistics from different companies whose business areas touch mobile use, content, paid content, payments and the freemium model. The traditional scientific world has also contributed with important data, even though in a fast-moving field like mobile data grows old very quickly. For example, growth has been exponential since the advent of capacitive touch screen phones in 2007 (such as iPhone, Android, et al), bringing about new ways of using mobile devices, which can obsolete some older studies. I’ve deemed statistics from companies working in these fields as a more reliable and fresh source of information, especially since when it comes to behavior - a users actions, and their wallet say more than interview-answers. When it comes to the world of research, I’ve searched databases of technology- and economical papers for keywords such as “micropayments”, “content”, “willingness to pay”, “freemium” as well as for more general search terms around mobile and mobile media consumption. Quite a few interesting studies have been made by fellow students of mine from KTH, which have been very helpful both with using their results, but also to learn about research methods and report writing techniques.

To even further immense myself into the situation and problems around payments and paid content I’ve participated in the debate on Twitter and through my own blog, and also participated on live conferences, both general media conferences such as “Sweden Social Web Camp” and “Re-boot”, but also very specific ones like Mobile business’ seminar on using the mobile as a wallet.
3. Literature studies

3.1. Mobile content consumption

Six months after their release to the market, iPhones represented over 50% of mobile traffic on Google. It seems the launch of the iPhone was the point when mobile technology finally reached critical mass when it comes to media consumption. Since then, the rate of innovation has been high when it comes to both devices and services, pushing smartphone use from the realm of innovators and early adopters and into the early majority. With it, this change has created new ways of using the devices and a demand for content, such as mobile video. 2009 saw skyrocketing growth of mobile video viewing, and now TV industry giants all over the world are scrambling to come up with mobile services to meet this demand.

3.1.1. Boom of mobile use for content consumption/internet use

It seems as 2008 was the breakthrough year for use of mobile devices for consuming moving image content and browsing the web. An increase in mobile browsing correlates with the large numbers of iPhones sold, and statistics show that smartphone owners use media features to a much greater extent than owners of other phones. For example, according to Google data, already by the end of 2007 the iPhone was contributing the majority of mobile searches on Google, which is remarkable as the phone only had 2% of the smartphone market at that time (Helft, 2008, Kelsey Group, 2008). This could be seen as evidence that the new technologies for mobile browsing introduced by the iPhone, such as thumb scrolling, full-screen browser, high-resolution screen, etc, have finally made the mobile phone an attractive device for consuming content, attractive enough for people to use it rather than finding the nearest computer. Of course one shouldn't overexaggerate the wonders of the iPhone - most of its features have been available long before the iPhone, but it does signify the start of an era where people are going to be using their mobile phones for more than just calling and text messaging, something that has been predicted to happen “next year” every year since the late 90’s. As Wifi availability increases, 3G bandwidth and processor capacities increase, watching moving image content on the mobile phone will be just as - or perhaps even more - pleasant than watching the same content on the computer or on a TV set.
3.1.1.1. Emergence of a new class of mobile devices

Mobile phones and computers are converging into many different kinds of small portable devices. Smartphones are phones approaching computers, and netbooks are computers approaching cell phones. With their operating systems overlapping more and more (iPhone runs a version of OS X, Netbooks can run Google’s Android, Linux operating systems run on many handheld devices) we see the emergence of a new class of devices that have high quality screens and 3G internet connections, while perhaps not matching processor speeds or input capabilities of traditional computers. Nokia tried a few years ago to launch internet tablets, small linux-based devices with screens larger than those of smartphones but smaller than those of netbooks, with wifi capabilities and touchscreens. While their attempts with their N770/N800/N810 series’ were not wildly successful, many of the features they had back then began spreading only when delivered with 3g connectivity and somewhat better processor speeds to ensure smooth web browsing and video viewing. Rumors keep circulating on the internet around different types of tablet devices being on the way, devices that would have something like a 10” touch screen and 3g capabilities, devices that would be ideal for media consumption and quite possibly could change the playing field for how media is consumed. A prominent rumor is that Apple would release an iPhone-like device with a large screen\(^7\), another possibility is that Amazon’s e-book reader Kindle would get video playing capabilities\(^8\). In either way we could soon see a popular device that is very portable and excels at different media functions such as reading, watching, playing games and performing simple tasks. How these devices would look and how they will be used is a matter of speculation, but a usage model similar to that of today’s print media is not unlikely, like books/magazines/newspapers - mobile devices optimized at consuming media content of different kinds.

Regardless of specialized devices like this, we are seeing an ever growing use of smartphones. According to a survey, 41% of people are planning on buying a smartphone as their next phone\(^9\). And smartphones have already evolved to have smooth upgrade methods for their underlying software making new features quick and easy to implement as long as the needed hardware is there.

\(^7\) ZDNet News (2009) Apple tablet rumor rehashed, this time October and $800 http://blogs.zdnet.com/Apple/?p=4392
Experience from Apple’s recent upgrade of its iPhone OS, these major software upgrades reach a vast majority of users within just a few weeks (Admob 2009b), as compared to how mobile devices used to be upgraded - only with the purchase of a new phone. These developments mean that as new features are added to mobile operating systems, as has been the case with Apple adding payment features to their offerings, these features will appear in already distributed devices, adding a significant increase in speed of adoption.

3.1.2. Popularity of mobile video content

It is clear that this boom of mobile devices we’re seeing also applies to people watching TV content on their phones. In the U.S., in 2009 there were over 13 million users of mobile video, a 52% increase over the previous year (Burkitt, 2009), with paid service MobiTV reportedly having 7 million customers paying $10/month (MobiTV, 2009). In South Korea, a pioneering country when it comes to technology adoption, 50% of the population view TV content on their mobile phones, with similar figures in neighbouring countries such as Japan (Burkitt, 2009). The British BBC predicts that by the end of 2009, there will be a usage figure of 44% in the UK, and has research showing that lots of people, mainly young people, state that their number one feature request for their mobile phone is being able to use the BBC iPlayer software (BBC, 2009). The BBC iPlayer on the iPhone rose very quickly to account for 3% of total traffic of the iPlayer in total, and according to the BBC reaches audiences that previously didn’t watch TV - up to 20% of the mobile audience are not previous viewers of “traditional TV” (Mobile Entertainment, 2009).

The fall of 2009 saw an international uptake of mobile video with the launches of apps of news giants such as CNN, Al Jazeera\(^\text{10}\), AFP, and the Wall Street Journal\(^\text{11}\). The business models differ, but a clear pattern is that they all charge in some form. While Al Jazeera, AFP and WSJ charge a monthly fee of between $2 and $4 per month, CNN is choosing a one-time fee and advertising\(^\text{12}\). Time will tell which of these models proves to be the most successful.

An extensive study by the U.K. research company CCS Insight (CCS Insight, 2009) shows that 32% of people aged 16-35 in the U.K. regularly watch mobile videos. The study found willingness to pay being relatively low, with 13% of

\(^{10}\) [http://moconews.net/article/419-al-jazeera-adds-subscription-mobile-video-apps/](http://moconews.net/article/419-al-jazeera-adds-subscription-mobile-video-apps/)

\(^{11}\) [AFP (2009) CNN launches paid iPhone app featuring video](http://www.google.com/hostednews/afp/article/ALeqM5h1TTfcTbldVDGYo8Rs3f_suOZaeQ) Fetched 2009-10-06

URL [http://www.google.com/hostednews/afp/article/ALeqM5h1TTfcTbldVDGYo8Rs3f_suOZaeQ](http://www.google.com/hostednews/afp/article/ALeqM5h1TTfcTbldVDGYo8Rs3f_suOZaeQ)

\(^{12}\) [http://www.google.com/hostednews/afp/article/ALeqM5h1TTfcTbldVDGYo8Rs3f_suOZaeQ](http://www.google.com/hostednews/afp/article/ALeqM5h1TTfcTbldVDGYo8Rs3f_suOZaeQ)
people watching mobile videos having paid for videos. It is unclear whether this is an inherent unwillingness to pay or a result of a lack of high-quality paid-for services. Of those paying for video content on their mobiles, a majority preferred to pay per download, rather than a fixed subscription fee (CCS Insight, May 2009). Youtube claims they have evidence that people are more inclined to accept pre-roll ads when viewing professional content (Waters, 2009).

In Sweden, where mobile video viewing has not yet spread as much, this year (2009) saw a 250% increase in people watching TV content on their mobile phones (Sveriges Annonsörer, 2009). The numbers are somewhat small, but in major cities the percentage of people viewing TV on their mobiles is approaching 11% of the population, indicating a continuing increase in adoption. It is important to remember that those numbers refer to the current broadcast versions of mobile TV offered by the operators, meaning that the viewer sees a streamed version of what is being broadcast on TV, and that these services have had, and often still have technical difficulties related to the streaming technologies. When on-demand video content becomes readily available and with good quality of service, it is reasonable to expect a dramatic increase in those numbers.

### 3.1.3. New usage patterns

Mobile devices have one obvious advantage over TVs and PCs - they are completely portable. While PCs can be portable over either WiFi or even using 3g modems, it's certainly not the same simple portability as is seen with the mobile phone, which is with you at all times.

The advent of web-based TV showed us that there is a different usage pattern online than on the TV set. While TV traditionally has its prime time around 19.00 - around the time most people have gotten home from work - web based television offerings have brought about lunch prime time (Öhrvall, 2008), meaning that people often watch it while having lunch in front of their computers. Similarly, mobile services have found another peak in usage: The BBC found that access to its iPlayer service through iPhones peaked much later in the day than other channels - somewhere between 10 pm and midnight, indicating the important benefit of the portable device: it can be brought to bed the same way as one might read a book in bed (CNET UK, 2009). Of course this is only one example of situations where the portable device provides better
reach than television, almost all locations other than the living room are available for mobile media consumption.

### 3.2. Payments debate

The debate whether or not it is feasible to charge for online content has been going on since the beginning of the 21st century. Some say that paid content as a business model is doomed to fail, but there have been a few services that have successfully implemented payment-supported business models, like for example iTunes and the iPhone App Store, indicating that perhaps, if the transaction is easy enough to perform, people will be willing to pay small amounts for digital content. As advertising supported business models prove less and less profitable, many voices are raised to start charging for content in different forms.

#### 3.2.1. Charging for content?

As I’ve been working on this thesis, between May and October of 2009, there has been an ongoing debate among media industry experts and decision makers on the question of whether or not it is possible to charge for content, and most urgently: how to charge for news. As more and more types of content become easily redistributable, and easily creatable, the almost oligopolistic position of media industry giants has weakened. This crisis has been most urgent among newspapers as their content (text and images) is both easy to copy and easy to recreate - rewrites of articles are a rule among competing newspapers. Thus, as advertising incomes drop, and subscription figures drop, newspapers find their business model ever less sustainable and look to paid content as a potential source of revenue.

The advertising crisis and competition from free content is not something new, and not only a result of the current economic recession. Instead it is a known feature of the web that it reduces distribution costs to zero, that advertising becomes much less of a scarcity, and that users are less willing to pay online. The early years of the 21st century saw a number of different e-currency and micropayment providers spring up, coinciding in time with P2P technologies and file sharing, bringing with them the first round of the debate on whether micropayments would be a successful business model for content industries. A process that even led to the World Wide Web consortium (W3C) publishing a working draft on implementing micropayments as part of HTML13. As the e-

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currency providers failed, and no successful micropayment business models came up, it seemed to give credibility to the critics of micropayment systems, such as Nick Szabo (1996), Clay Shirky (2000, 2003), and Andrew Odlyzko (2003). They put forward a number of reasons why micropayments were not a sustainable business model, most of them relating to newspapers, but also touching on other types of content. The arguments were (in very brief summary):

- Micropayments have a mental transaction cost, meaning that the decision the user has to make before paying will cause the user to overestimate the cost and thus refuse to pay. (Odlyzko, 2003)
- Users prefer to pay for a fixed-price subscription plan to escape mental transaction costs of small payments. (Odlyzko, 2003)
- Micropayments are difficult to implement and usually very obtrusive - they disturb users, and need credit card data, signups, logins, etc. (Shirky, 2000)
- More and more content will become free, making it more difficult to motivate why some content should be paid. Also, free content has the benefit of being shareable, unlike paid content. (Shirky, 2000)
- Users never paid for content, they paid for distribution (which explains for example that different movies cost the same in the cinema even though some are obviously better than others). Once distribution costs fall to zero, users are unwilling to pay. (Szabo, 1996)

As no-one really succeeded in implementing a working micropayment scheme, this debate settled down, only to reignite in the late 00’s, when many newspapers realized that because of the falling advertising prices they need to rethink their business models, which quickly leads into thinking that charging for content is the way to go.

Technology thinker, and founder of Wired magazine, Kevin Kelly wrote a famous editorial in 2008 saying that while you probably can’t charge for the content itself, there are many qualities for which people would be willing to pay, including immediacy, personalization, accessibility, findability and patronage (Kelly, 2008), which are all opportunities where a content owner could compete against offerings that are free. Continuing on the same track, he has been backed by Andrew Savikas of O’Reilly ‘Tools of Change’ that states that content is a service business, and that users pay not for the content directly, but rather for the service of having it delivered, similarly to how restaurants don’t charge for the ingredients of the food they serve, they charge for having the food prepared and served beautifully and conveniently (Savikas, 2009). Another supporter of this notion has been Chris Anderson, writer and editor of Wired
magazine, who proposed a number of business models for content providers, with different forms of the “Freemium” model of charging for premium service, while giving away access to the same content for free (Anderson, 2009). We will return to the Freemium model in a later chapter.

In 2009, Rupert Murdoch announced that within a year all of the news sites of his News Corp would charge readers for content (Clark, 2009). News Corp being the owner of the Wall Street Journal, one of the few newspapers that successfully charges its users for content, this sparked a new wind in the old payments debate. He quickly gained the support of Financial Times’ editor Lionel Barber (Plunkett, 2009) who shared the prediction. The question was raised however on whether the success of financial papers could easily be translated into success for general purpose news. After all, information found in financial papers is rare and usually provides analysis and exclusive investment advice which is perhaps not prone to sharing the same way news would be (people usually want to keep hot stock tips to themselves). Other leaders of internationally renowned magazines, such as for example Emily Bell, head of digital content at The Guardian argued against locking content in and instead repeated the message of Kevin Kelly - that usefulness, convenience and functionality are values that can be charged for, especially in a mobile environment (Dunér, 2009).

Sweden, traditionally a country with fast adoption of digital media saw a similar debate that exploded during the summer/autumn seasons of 2009. In Sweden too, it was the newspaper crisis that lead to the debate, making it mostly revolve around newspapers and finding ways for them to survive, culminating in a series of blog posts by prominent industry figures in September of 2009 (Karén, 2009). Debates touched on users’ willingness to pay for different types of content or services, and alternative business models for traditional media houses.

Sara Öhrvall, head of the R&D department at Bonnier, one of Sweden’s largest media houses, said that consumers might be willing to pay for in-depth reporting and the quality compilation of the wide stream of content available to consumers. Tomas Brunegård, CEO of Stampen, owner of many local newspapers said that the local angle might be interesting enough to warrant a charge, and that they are going to test different models. Kalle Jungkvist, former CEO of Aftonbladet New Media said that exclusive content, and especially exclusive moving image content were options of content to be charged for, something that was seconded by Fredrik Karén, CEO of New Media at Svenska
Dagbladet, and by Thomas Mattson, editor-in-chief of tabloid Expressen who noted mobile as a particularly interesting channel for paid content.

The debate listed many problems around payments: if content is locked-in behind a paywall it loses a majority of its audience, its linkability and faces competition from alternatives that could easily rewrite the content and release it for free. On the other hand, if no content is locked in, what could be charged for? Mikael Zackrisson (2009b), Head of Web Services at Veckans Affärer mentioned these and other problems with charging for the journalism itself, but reminded that entertainment and packaging could be charged for. Paula Marttila (2009), who was once in charge of launching premium services at Aftonbladet seconded Emily Bells words that what is charged for should not be the content itself, but rather qualities that help users save time/money or money, or for pure entertainment. Bosse Svensson (2009), CEO at Mktmedia, an R&D company working for amongst others Stampen, said that simplicity is a key factor to be able to charge, and that the mobile phone might be the key to that simplicity. Joakim Jardenberg (2009b), head of Mindpark, another newspaper R&D company, reminded that as content is an experience good it is important for the users to know what they’re getting when they are signing up for premium service, and that it should rather be premium service than premium content that is charged for.

3.2.2. Content as an experience good

One common problem with charging for content is the question of how much to charge. Content, both news and entertainment is often considered to be an experience good, meaning that the perceived value of the good is dependant on the experience of the consumer. For example an experience like a roller-coaster ride can be experienced completely differently by two customers - one who enjoys it very much and one who doesn’t. As their experiences differ, so does the perceived value of the experiences in their minds, and so differs the amount of money they would be willing to spend on it. And how will they know in advance whether they will enjoy it or not? Thus, it is difficult for a user to judge how “good” the ride will be compared to others, and which one provides the best value for the money spent (Nelson, 1970). When it comes to content in different forms, it is similarly unclear beforehand what value will be perceived. A movie watcher that likes the movie will feel that his ticket was money well spent, while another that didn’t appreciate the movie will feel robbed of his money. Regardless, as this value is difficult or even impossible to predict, cinemas today use uniform pricing, both for different movies and different seats in the theater.
The same problem applies to digital content, with the added factor that the variable cost of distribution of the content is close to zero (Anderson, 2009), it is difficult to motivate a certain price. All of this causes users to hesitate before buying, which in many cases leads them to the less convenient and illegal option of piracy, which costs nothing. After the content has been consumed, it often has no value for the user, creating no need to purchase a legal version afterwards (Khouja & Wang 2008). The point of this is that it is very important for the success of the sales of digital content that the user knows in advance what it is that he is buying. Television as a medium has an advantage here, as part of this advance-knowledge can be achieved through the fact that much of television content comes in the form of series’ where a user can expect what the next episode will contain (it will be of the same length as the previous, touch similar themes, and be approximately just as “good”). This puts television in a somewhat better position than movies or music when it comes to charging for its content in digital form.

3.2.3. Advertising avoidance

Multiple sources report that as consumer choice increases and consumer patience decreases, most of all when it comes to waiting and advertising in particular. Swedish research institute SIFO (Callius, 2009) reports that consumers increasingly try to avoid advertising, and use whatever means possible to do so. According to the survey, advertising avoidance was found to be particularly high in the TV and “Internet” media. According to market research firm Vizu (2008), 73% of respondents find advertising annoying or extremely annoying, and more annoying on the internet where 43% of users use ad-blocking software, than on their TV sets where over 80% regularly use their remote to change channels during commercial breaks. In fact, the study found that 42% of the respondents said they would be willing to pay $20/month to avoid ads on the television. This correlates well with statistics from Swedish research firm Mediavision, according to which paid television is reaching ever new heights, both when it comes to having paid tv-channels, but also pay-per-view on demand content (Mediavision, 2009).

However, not everything is gloom in the world of advertising-supported content. It seems people do in fact value the high quality content provided by professional media houses. Youtube claims they have evidence that people are more inclined to accept pre-roll ads when viewing professional content (Waters,
Perhaps this willingness to bare with advertising is translateable to willingness to pay for the content?

Little is known about Spotify and its “Freemium” business model, which we will discuss further, but one thing that is known is that the free advertising-supported version of the Spotify client is seen by the company themselves as a loss-leader, meaning that the advertising revenues themselves barely even cover the costs of content and distribution. However, Spotify hopes that the free version will work to advertise the service, and the advertising will annoy the users info paying for the “premium” version, which is considerably more profitable.

3.2.4. Willingness to pay on the mobile

What has long circulated as an urban legend, or a rumor - that people are more willing to pay for services on their mobiles than on the web is slowly being confirmed by research. For example, Kim and Sugai (2008) found that there were in deed a much higher willingness to pay for improved quality of service, and a higher customer loyalty. American service MobiTV which claims to 7 million users paying $10 each for access to mobile viewing of popular American TV channels, shows that there is a viable potential for paid TV offerings (MobiTV, 2009).

A phenomenon that appeared with the success of the iPhone is the popularity of 3rd party applications, centrally distributed through an organized application store, either for free or for a small fee. This is something that is quickly being adopted by competing mobile operating systems of Nokia and Google. Apple has in just over a year sold more than two billion such applications for fees of anything between $1 and $100. Gravitytank (2009) found that 60% of iPhone users have used them to purchase apps, with 14% having spent over $10 per month, which seems to coincide well with Techcrunch’s number that the average iPhone user buys apps for $80 over the lifetime of their iPhone (Techcrunch, 2009). This is interesting for two reasons. First off, it even further shows that people want to use their mobile devices as mini computers performing different tasks that perhaps can be better performed on a mobile than on a PC. Secondly, it shows that people are in deed willing to pay for

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electronic property such as software - provided that the payments are easy and convenient, and of course that the software is in some way better than its competing free counterparts. It also shows that while many paid business models on the web have failed (Shirky, 2000, Jardenberg, 2009), they can work in other environments such as for example the mobile. Payments have in fact worked in quite a few media companies, most prominently games where people are in fact willing to pay for downloadable expansions, added features, etc. Payments have also worked in iTunes where people willingly pay around $1 to download one song\(^{15}\).

### 3.3. Freemium

_Touted as a great middle road between locking content in, and giving everything away for free, freemium has emerged as a popular business model for online services and games. Most recently, Spotify have launched a visible service offering music for free, while charging for the premium version which has added features and no advertising. Would this be a good business model for a mobile video service?_

Freemium is a term and a business model originally coined by venture capitalist Fred Wilson on his blog (Wilson, 2006), and works like this: The company gives a substantial part of its service away for free, and use that as marketing to offer an extended, “premium” service for which they charge. Thus, free use can be considered marketing for the paid version. Freemium has been touted as a good middle ground between giving away your service for free as marketing, and actually charging for something (Anderson, 2009). Some notable examples of the freemium business model in action:

- Skype, which offers VoIP calling for free between two Skype clients, but charges for making physical phone calls
- Online games, which offer free service, but time-saving or otherwise enhancing features for pay.
- Flickr, and other hosting services that offer some storage for free, but charge for added storage space
- Spotify, a Swedish startup that offers free advertising-supported access to streamed versions of a vast music library, and charges for getting rid of

\(^{15}\text{http://en.wikipedia.org/wiki/iTunes_Store}\)
advertising, and some other features like audio quality, and mobile accessibility.

- Voddler, a video streaming service that promises to offer online video in a way similar to how Spotify offers music.

As freemium has been touted as a potential replacement of the old ad-relying model of the content businesses, a relevant question is: how profitable is it? What is clear here is that the paid users represent the lion share of the revenues. Daniel Ek, founder of Spotify, said in an interview (Yiannopoulos, 2009) that while the percentage of paying subscribers has yet to reach 10%, they are already seeing a revenue split of subscribers 60% and unpaying users 40%. This means that if we approximate the percentage of paying subscribers to a generous 5%, then these 5% of users represent 60% of the revenue, while the other 95% represent 40% of the revenue. This means that a paying user is worth over 30 times the value of an unpaying user, and that the free version of the service is to be seen as mainly a loss leader and a promotion for the premium, paid service.

For Spotify, a paying customer is worth over 30 times that of a non-paying customer

There is no real market data available from Spotify, perhaps there will be whenever they have had time to establish and release an annual report or two. In the meantime, however, the only figures on the freemium model we have are from other industries such as online services and games. In an article by Chris Anderson (2008 [2]), reasoning circles around having at least a 5% conversion rate from free to paid as an ideal lower limit for profitability. Skype reports a constant 7-8% of their calls being paid-for (Wolff, 2008), while online game companies, whose games cost somewhere between $5 and $10 per month report conversion rates between 10% and 25% of users. The report that summarized game figures (Hyatt, 2008) noted that there is an inverse correlation between price asked and percentage of users paying, and that all of the games average an income-per-user of something in the area of $1/month. Of course, results from online multiplayer games are not necessarily translateable to TV content, but it’s interesting that they seem to converge around a similar price point regardless of them having different types of games with different forms of pricing. Also important to remember is that non-paying users shouldn’t be considered as not bringing in any revenues, since they are still viewing advertisements, and thus 'paying' in the same way as they always have in old ad-supported media.
4. Outcome scenarios

Unfortunately, at the time of writing, the experiment hasn’t yet been finished, because of technical and internal issues at TV4. Therefore I will suggest three possible scenarios, three possible outcomes of the study, and discuss their potential implications. As data of the study starts coming in, it will probably be somewhere between the three scenarios I’ve described, and the appropriate conclusions from that scenario can be taken.

4.1. Percentage of views

The most important figure from this study is from the empirical part, namely this: what percentage of views done on the TV4 Play Freemium version have been paid for, and what percentage have been advertising-supported. We can expect that users will initially try out both the advertising option and paying option, probably the pay-per-view option, since it doesn’t warrant any commitment from the user. This means that for the initial views of each user, we could expect varying results as they will be experimenting and trying out different things. For this reason, it is important to study the behavior of users after they’ve gotten used to the service and the different payment options. This can be done by excluding a number of views in the beginning of the viewing history of each user, so that the initial experimenting isn’t weighed in.

4.2. Scenario A: Pessimistic

In this scenario, the number of paid views are relatively few, let us consider “few” to mean somewhere around 1% or less. This means that out of every 100 views, less than one view was paid for, the rest chose to watch the advertisements. There could be many reasons for this, one important reason would be that many of the users believe that they shouldn’t have to pay for digital content, that the content can be seen for free on TV, or downloaded through piracy. It could also have the reasons that they feel the prices are set too high, that the entertainment value of the show they’ve seen is simply not worth the cost. It could also have something to do with that they simply don’t like the service, they don’t like how it works and feel offended by the proposition that they should pay for it.
4.2.1. Conclusions
There are two possible conclusions to make from this scenario. One is that perhaps Swedish people simply aren’t willing to pay for mobile video content. Perhaps they do differ from the results shown in the U.S. and that this entire effort is in vain, that Freemium isn’t the business model for mobile video.

The other conclusion is that people aren’t yet ready, that more effort needs to be put into both adjusting the service and the prices – the service needs to become better – easier to use and offer more content of value to the consumer, and the pricing model needs to be rethought and perhaps lowered.

4.3. Scenario B: Optimistic
In this, the optimistic scenario, we see that the number of paid views is high, “high” meaning that more than 20% of the views in the TV4 Play iPhone version have been paid for. This is more than the numbers most freemium services display, but with the strong brand associated with the TV channel, and that people know in advance what content they will be viewing, we can consider the optimistic best-case scenario. Also, remember that in the Vizu (2008) study, 42% of respondents stated that they would be willing to pay $20/month to get rid of TV advertising, perhaps many of them would like to view the same content on their mobile, but without the advertising. In this scenario, the questionnaire shows that the users like the service and enjoy using it, and that the qualities they value are the selection of content and the audio/video quality of the service.

4.3.1. Conclusions
Obviously freemium or paid services are the way to go. If 20% of views or even more are paid for, this means that the revenue generated from those payments far outweighs the revenue generated by the remaining, ad-viewing users. It’s very important to keep these paying 20% close and cater to their needs by ensuring they stay customers, by making sure the availability is high, quality is high, and whatever else they might need. Effort needs to be put into pricing models to figure out the price elasticity of this service, how much they are in fact willing to pay. Perhaps it would be possible to increase the fees while keeping many of the users, or perhaps the other way around – to increase revenues by lowering prices and adding more users.
4.4. Scenario C: Realistic

In this, the middle way scenario between the two extremes, we see that there are in fact some users that are paying for the service, and that the number of paid views is somewhere around the freemium ideal of 5% (Anderson, 2008). In this scenario, the majority don’t use the service enough, or simply don’t mind the advertising, and are perfectly satisfied with the unpaid version of the service. Still, a minority of users that are either impatient and lavish with their spending or who are heavy users of the service consider advertising to be a hassle and pay watch the content uninterrupted. The questionnaire shows that the factors deciding on whether or not people want a paid service are the simplicity of the transaction itself, the selection of the content, but also the price.

4.4.1. Conclusions

The freemium model is working as expected in this scenario, hovering around the 5% paid mark. A viable additional source of revenue has been added, and the model is ready to be tested with the broader public. Just as described in the crude calculation in section 1.1.3, a user paying 5 SEK is worth almost five times the worth of a non-paying user, even at the conditions most unfavorable to the freemium model (it was calculated on a sold-out advertising space at a high CPM of 120 and with 30% of the 5 SEK charged going into transaction costs).

Of course, here too we need more research into what the optimal price point is, and lots of effort must be put into making it as easy as humanly possible to switch from being an ad-viewing user into a paying user. By continuously improving the service by making it better and adding more content it should be possible to drive the paying percentage up, and by optimizing the price points and minimizing transaction costs, it’s not unlikely that very soon, just as the case is with Spotify, the minority of users that pay are worth more than the majority of users that don’t.
5. Discussion

5.1. Selection of participants / content

An important factor to weigh in when judging the results of this study is who the studies users are. In this case, for reasons of practical and corporate importance, this study was held among current employees of TV4, covered by non-disclosure agreements. At first, this might seem like a biased and limited selection, as it is in deed a somewhat homogenous group. On the other hand, this group can also be considered rather technology-sceptical. Another important factor is the selection of content available in the service. TV4 does not have any rights to transmit American TV series in the digital realm, neither on TV4 Play in the web browser, nor on the mobile. This means that for a large group of viewers, their favorite content might be missing, like for example myself who would mostly watch American drama/comedy shows. This is again somewhat compensated for by the fact that most of the viewers are TV4 employees, and loyal to the content, which means that the question we answer is “Assuming the viewers really like the content, would they be willing to pay to view it uninterrupted”. On the other hand yet again - perhaps TV4 employees are more tolerant to seeing advertisements from their employer and don't bother.

5.2. Competition with free option

An unfortunate event for the study is that during the development of the prototype, TV4 announced its’ TV4 Play for iPhone service, which is advertising-supported but does not have any interruptive ads, meaning no pre-rolls or mid-rolls, only banner advertising in the navigation screens. This means that users of our freemium prototype in practice face the option of neither watching ads nor paying, but rather to download the freely available second version of the app, or to watch it on a neighbor’s device. This is unfortunate, and study participants were strictly instructed not to use the other version. Still, it’s unclear whether its’ existence influences users making them less prone to pay. After all - if everyone else has it for free, why should I pay? Of course, as the main product matures a bit, it will need to be financed through a business model, which will probably be either interruptive advertising, payments, or both - like suggested in this study. Should the latter be the case, that would soon yield results much
more interesting and relevant than what has come out of this study, and could perhaps warrant a second revision of this paper.

5.3. Pay-per-view is a gateway to subscriptions

One thing that comes out of many different reports is that among paying users, subscriptions are preferred to pay-per-view (Odlyzko, 2003). This means that if the users are already paying for the service, they prefer a safe fixed-fee to paying per transaction. However, for all users (paying and unpaying), there is a preference to being able to try out the paid service. This means that it is likely that a user will go from free user to an occasionally paying user to a subscription user, a seamless process. In this way, pay-per-view is a comfortable gateway into getting people to pay, without them fearing that they are being tricked somehow.

5.4. Paid service means high expectations

One important question that has come out of talking to participants in this study is that they say that they are willing to pay only if the quality of service is top notch. They use words like “just works”, “works perfectly”, “has high quality”. This puts another level of demand on such a service, both on the ease of use of the interface, but also on the quality of the transmissions. As it is today, digital TV viewing is associated with not being as reliable as the old broadcast TV set. Streams are interrupted, sometimes images have artifacts, sometimes the sound lags behind the image, etc. As the technology is still somewhat young, users of web video services usually have a high tolerance for that, but when it comes to paid service most of them say the need it to work really well right from the start. Unfortunately for us, the choice of platform (iPhone) for the study meant that we had to adhere to Apple’s guidelines for approving applications, which in this case that we needed to limit the streaming rate to 500kbps, which is somewhat less than the 800kbps that we considered to be flawless picture quality. This, coupled with the inevitable fact that new software will have some kinks in it before it is thoroughly tested, means that perhaps the percentage of paid views shown in this study might be biased towards the lower part, and that a final service could show higher percentages of paid viewers.
5.5. What is a “good” paid percentage?

What is the optimal relationship between paid/unpaid use in a freemium service? On one hand, having too few paying users means too little income, but having too many means that not enough users are trying the free service out, that it’s not fulfilling its’ purpose as marketing for the paid service. Chris Anderson discussed this thoroughly both in his book “Free” (Anderson, 2009) and in a blog post (Anderson, 2008), where he uses examples from other industries. He proposes 5% as an ideal percentage of paying users, meaning that out of 20 users, 1 is paying, and 19 are using the free service. This is to ensure that the free service works properly as marketing for the paid service. One can speculate whether or not this applies in the same way to the largest commercial TV channel available, after all - it does a pretty good job of promoting its’ content, and there are quite a few people consuming TV4 content on the TV set, so perhaps the ideal percentage of paying viewers in this case should simply be stated as “as high as possible”.
Part 2. (2011)
6. Developments 2010-2011

As mentioned in the foreword, due to the long time this thesis has been in writing, I have divided two parts. The first part, written in 2009 has the main body of the thesis - the theoretical background, literature study and outline of the intended experiment. This part, written in 2011 gives an update to developments in the media industry during this year and half. It is meant to give perspective and even further draw conclusions based on actual experiences of different media companies with their paid content strategies. This part also includes more recent research on the subject, an outline of hardware developments (tablets and web-enabled set-top boxes) and an outline of service developments among other actors relevant to the TV industry (such as Apple, Netflix and Hulu). Together, these two parts will paint a complete picture of what is going on in the TV industry, and more clearly point in a direction based on actual recent developments.

6.1. Paywalls are up

2010 saw a number of interesting paywall erections, one of the most talked-about was that of News Corp’s U.K. newspaper The Times, which became a paid-only service in June. News Corp has released some statistics, but they are limited and grouped, so it’s hard to say how it’s actually going. They claimed to have 105,000 paying users (as of Nov 2010)\(^\text{16}\), which is including ~30,000 subscribers to the iPad app, and users that at some point tried the introductory offer. After introducing the paywall, the sites affected saw their traffic declining by 90-95% (Doctorow, 2010). According to some analysts adding up the numbers, it’s possible that The Times’ revenues would have been higher if they continued with the previous free/ad-supported version (Glanfield 2010, Richmond 2010). According to others, converting 5% of users to paying and losing the rest would increase revenues (Schonfeld, 2010). Time will tell.

In March 2011, U.K. research firm Kantar Media published results after interviews with readers of U.K. newspapers that erected paywalls in 2010 (Kantar Media 2011). Among the results is a reported figure of 5% of U.K. population saying they would be willing to pay for news content online. Even though this number may seem low, it is still an increase from the 2009 number

of 3%, showing that the pay walls have at least caused some new users to consider paying.

Figure 6. Percentage of GB population saying: "I would consider paying for newspaper content online" (Kantar Media, 2011).

6.2. Paid content debate

2010 saw even further discussions on the topic of paid content, undoubtedly fueled by paywall plans of News Corp and other industry giants.

6.2.1.1. Forrester research

Forrester Research released data from extensive surveys done in 2009 (McQuivey, 2010). One of the interesting conclusions that were drawn is that in fact people never paid for content at all, but rather paid for access to the content, a difference that wasn’t evident in a time when the packaging was the content. They found that even today, 77% of US household media spend is spent on different types of access to services, rather for content directly. (See Figure 7). James McQuivey, VP of Forrester said that based on this, if he were a media executive today, he would ask three questions:

1. What unique content can I provide and expand access to?

2. What connections and devices must I support or partner with to make sure my content is in the right access venues?

3. What experience can I wrap around my content to make access to it feel worth paying for?
Paying for content in 2010
A look at the average American in a typical month:

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
<th>Monthly Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribe to magazines</td>
<td>72%</td>
<td>$5.58</td>
</tr>
<tr>
<td>Subscribe to a newspaper</td>
<td>57%</td>
<td>$13.75</td>
</tr>
<tr>
<td>Buy CDs</td>
<td>23%</td>
<td>$11.04</td>
</tr>
<tr>
<td>Watch a movie in a theater</td>
<td>21%</td>
<td>$16.00</td>
</tr>
<tr>
<td>Rent DVDs</td>
<td>18%</td>
<td>$4.99</td>
</tr>
<tr>
<td>Buy DVDs</td>
<td>18%</td>
<td>$12.00</td>
</tr>
<tr>
<td>Pay for VOD</td>
<td>7%</td>
<td>$4.99</td>
</tr>
<tr>
<td>Pay for TV services</td>
<td>86%</td>
<td>$56.00</td>
</tr>
<tr>
<td>Have Internet access</td>
<td>76%</td>
<td>$20.00</td>
</tr>
<tr>
<td>Download music</td>
<td>19%</td>
<td>$3.37</td>
</tr>
<tr>
<td>Have a wireless data plan</td>
<td>19%</td>
<td>$3.00</td>
</tr>
<tr>
<td>Subscribe to Netflix</td>
<td>10%</td>
<td>$9.99</td>
</tr>
<tr>
<td>Subscribe to a gaming service</td>
<td>6%</td>
<td>$6.99</td>
</tr>
</tbody>
</table>

- For a total, weighted monthly content bill of $96.84
- Of which $75.04 (77%) is for access

Figure 7. Statistics about what American households spend on media consumption. 77% of money spent is spent on access to services, not the content itself. (McQuivey 2010)

6.2.1.2. John Einar Sandvand
John Einar Sandvand, Digital Media Strategist at Beta Tales summed up his experience in that users will pay for value that is unique, even though unique value is rare in a digital content world. (Sandvand, 2010)

"Users will pay if they are offered products they perceive to have Unique Value to themselves. But creating unique value is a tough task indeed, especially as content is abundant in the the new digital era" - John Einar Sandvand, 2010

He put it into a model consisting of five unique values that according to his research consumers would be willing to pay for (Figure 8)
Figure 8: The five unique values that consumers would be willing to according to (Sandvand, 2010)
6.2.1.3. Nielsen Research
The Nielsen Company released a report with data from over 27,000 consumers in 52 countries, on what types of content consumers had already paid for or would at least in theory be willing to pay for (Nielsen, 2010).

![Bar chart showing percent of consumers who have already paid or would consider paying for various types of content.](source: The Nielsen Company)

**Figure 9.** Nielsen statistics regarding worldwide consumers paying for paid content. (Nielsen 2010)

Some other relevant findings in the Nielsen report:

- ~52% of respondents prefer micropayments to subscriptions
- ~44% of respondents say that the ease of paying is important for them to pay
- ~47% of respondents are ok with more advertising to finance their media use
6.3. The iPad

As expected, January of 2010 saw the launch of the iPad, a media consumption device with built-in payment capabilities. The iPad was launched with an enormous campaign by many media companies, especially newspaper and magazine publishers that saw the iPad as a holy grail of paid content. Touted especially by News Corp, Condé Nast and Swedish-owned Bonnier, many publishers quickly developed iPad versions of their most popular publications. In Sweden the first iPad Magazines\(^{17}\) and newspapers\(^{18}\) were released even before the iPad itself\(^{19}\) was available for sale in Swedish stores. This can be seen as evidence of a belief among media companies that this type of devices with built-in payment capabilities will be the solution to the financial troubles of the media industry (Buskirk 2010). Critics, however touted that this is merely a dying industry grasping for straws while trying to save an outdated business model (Blodget 2010).

What’s interesting about the tablets is how they completely cross boundaries of traditional media platforms. They’re kind of mobile devices, but also kind of home PCs, and are used as replacements for books’ and magazines’ paper versions, and can also browse the web versions. When it comes to newspapers and magazines, they’ve had a hard time deciding whether or not the iPad version falls under their web editorial staff or their print editorial staff, with different decisions being made in different media houses.

News Corp launched iPad versions not only of their popular papers like The Wall Street Journal\(^{20}\) and The Times\(^{21}\), it is also widely announced that in January 2011 they will launch an entirely iPad-based newspaper called The Daily\(^{22}\). Even Playboy seems to be rushing for the iPad\(^{23}\). Even though little is known about usage statistics of the iPad magazines, News Corp reported in

\(^{17}\) http://www.dagensmedia.se/nyheter/dig/article2479308.ece
\(^{18}\) http://www.svd.se/naringsliv/nyheter/nu-slapps-svd-for-ipad_5726891.svd
\(^{19}\) http://www.aftonbladet.se/pryl/article8201224.ab
\(^{23}\) http://content.usatoday.com/communities/technologylive/post/2011/01/hefner-tweets-that-playboy-is-coming-to-the-ipad/1
March 2011 that they had 200,000 paying subscribers to their tablet magazines, across editions and different platforms (iPad, Kindle, Nook, etc)\textsuperscript{24}.

6.4. Blurring of lines between hardware classes

When the iPad launched it was considered a mobile device, being built with the same operating system as its sibling the iPhone. Research shows however that the iPads out there are being used primarily at home and rarely taken outside the house. This brings the question: is it a mobile device or a PC? The answer is neither. Other developments are the launches of internet-connected set top boxes like Apple TV, Google TV, hardware platforms running iOS and Android but clearly aimed at being connected to a large-screen device. These platforms have access to all of the benefits of their operating systems, such as payment capabilities, and will be easy to develop for by content providers that already have apps for iOS/Android. When outlining this thesis in the summer of 2009 this wasn't an expected development or something that could be tested, but obviously it'll be interesting to follow the paid content development on these devices as well. When a premium service such as the one offered by TV4 allows you to view content ad-free on all three screens (PC, TV and Mobile), the value offering is even more clear.

6.5. 'iPhone moment' nearing online TV

In Chapter 4.1.3, I described the new usage patterns brought about by online video services, that web based streamed services had a prime time around noon, and that mobile TV had a prime time around bedtime. It seems that as digital distribution forms of TV content have improved, online streaming is starting to cannibalize it's traditional broadcast counterpart. According to ScanScout report (ScanScout, 2010), video consumption has already shifted to the same prime time slots as traditional broadcast TV.

\textsuperscript{24} http://www.electronista.com/articles/11/03/10/company.said.to.be.surprised.by.performance/
These statistics are in line with those reported by internet video services such as Blip.tv, Revision3 and Break.com, who are also seeing prime time shifting from lunch time to evening time over the course of just two years. (Vascellaro, 2010)

According to TDG (The Diffusion Group, 2010) report, they expect the amount of online video viewed to surpass that of broadcast video viewed, by the year 2020.
Figure 11. Hours spent watching video per week, online vs broadcast (The Diffusion Group, 2010)

6.6. In the U.S: Hulu, Netflix, Apple

In the U.S. the streamed TV content market is dominated by two players: Hulu and Netflix. Hulu started off as a joint venture between the major TV networks in the U.S. with a clear aim of being the number one place to view all TV content across all networks. Netflix on the other hand started as a DVD-in-the-mail service that gradually has turned its business towards streaming, and as it has focused more on streaming, TV content has become a much bigger part of its traffic, not being split 50/50 between TV and movies.

6.6.1. Hulu & Hulu Plus

Hulu launched in 2008, as a free ad-supported service where users could watch the last couple of episodes of shows run on the major networks. To explain it to a Swedish reader (as Hulu is still geographically blocked outside the U.S.), Hulu is like a combination of all four major Play services.

In November of 2010, Hulu launched its Hulu Plus service, a paid premium service priced at $7.99/month. This can be seen as part of News Corp (a large stake-holder in Hulu) strategy of making sure people pay for content. Interestingly, this service is not ad-free but still shows advertising just like the free version. Instead, the value offered to premium-paying users is that of HD content, availability on devices other than PCs (like phones, iPads, TVs), and a larger selection of content (whole seasons rather than just the few latest episodes). When asked about the decision of whether or not to have ads in the premium version, Hulu CEO Jason Kilar said in an interview (Nuttall 2010) that they had polled 5,000 users asking them whether they would accept advertising in exchange for a lower price, saying that "a huge majority wanted the lower price subsidised by advertising".

According to estimates made by the CEO of Hulu, 2010 will show a revenue of $240 million, with a month-over-month number of 30 million active users. Assuming most of these are non-paying users (the premium service was only opened to the public in November 2010), that translates to $240M/30M = 8 dollars per user per year, or 67 cents per user per month. It is easy to see even

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here that converting an advertisement-viewing user to a paying user makes for a 12x increase in revenue per user.

### 6.6.2. Netflix

Netflix started out as a DVD-rental-by-mail service and has gradually turned its services to the streamed, digital realm. In November of 2010, just days after the announcement of the Hulu Plus service, Netflix launched it's unlimited streaming service priced at $7.99/month\(^{26}\), the same price as Hulu Plus. Netflix offers no free plan, and has no advertising in any of its offers. As to financial numbers, Netflix reported at the end of 2010 that it had 20 million paying subscribers, and a total quarterly (!) revenue of $596 million\(^{27}\), which translates into a yearly $2.384 million. The large part of this is of course still their old business model of sending out DVDs by mail, and includes watching movies as well as TV, unlike Hulu which only offers TV content. However dividing 2.384 million dollars in revenue by 20 million users and 12 months makes for an average revenue of $10 per user per month, which gives an indication on where a suitable premium price point will be.

### 6.6.3. Apple iTunes / Apple TV

Apple has been selling TV content by the episode since 2005 for a price of $1.99/episode for SD (non-HD) content, and $2.99/episode for HD content. With the launch of the new Apple TV it was announced that the prices would be dropped to $0.99/episode for a rental model, available through the iTunes store on the iPods, iPads and the newly announced Apple TVs. This came after what was reported in the press as a long debate with content owners about what the right price point was, with Apple arguing for the lower price (Li 2010), saying that sales figures at the $1.99 price point were 'frustratingly low'. There are no disclosed sales figures for Apple's sales of TV episodes to this day so it's hard to judge.

### 6.7. Google lagging behind

- Amazon and Paypal catching up

Expected as the main competitor to Apple's iPhone/iPad, Google's Android OS has been continuously gaining market share, at least in the smartphone

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segment. On the payment side however Google has been slow to implement payment options and still hasn't offered developers the ability for in-app payments, and in Sweden doesn't even allow paid apps.

On the other hand, Amazon, makers of the Kindle hardware/software e-book platform and other e-commerce has started to take steps in providing a reliable payment model with its' Amazon Payments originally intended as a payment solution on Amazon / Kindle stores. Paypal as well has started to focus more on mobile payments, partnering up with mobile platform makers such as Bump\(^{28}\) and Appcelerator\(^{29}\) to offer payments solutions for developers that would compete with Apple's.

### 6.8. Spotify financial data

In july of 2010 the annual report was released for Spotify AB, the Swedish subsidiary of Spotify, for the fiscal year 2009. With a turnover of 90.3 MSEK and a net profit of 14 MSEK it is clear that the freemium model is working for them. According to an interview with Spotify SVP Paul Brown (Andrews 2010) they had a conversion rate of 3.5%, meaning that 3.5% of users were paid, the rest using the free option. In May 2010 Spotify made some high-profile changes to its business model, limiting their new free version to 20hrs/month, and introducing a middle level of payment at 49 SEK/month for unlimited ad-free listening, but without access to mobile and other platforms reserved for customers paying the full premium of 99 SEK/month\(^{30}\), leading us to believe they are fighting hard to convert users into paying, and that perhaps just being ad-free is not enough.

In march of 2011, Spotify CEO Daniel Ek announced that the company had reached one million *paying* subscribers\(^{31}\). Obviously, changes in the business model and more intense methods of 'encouragement' to get users to subscribe to the paid service have been working. According to an interview (Music Ally 2010), Ek said that this amounts to 15% of their active users, which is far higher than the 3.5% that the company reported in 2009, and far higher than many of the conversion rates of other freemium based companies.


6.9. TV4/Expressen Mobilab shut down

In December 2010 it was announced that Mobilab as we knew it was being shut down by TV4 and Expressen, due to a shift in strategy on part of the owners, laying off almost all of its staff, including my mentor Morris Packer. Therefore it’s a safe bet to say that the experiment of this thesis will never be performed, at least not in its current form. However, there are similar tryouts being done, including one by TV4 that bares some similarities to ideas presented in this thesis.

6.10. The launch of TV4 Play Premium

In January 2011, soon after the shutdown of Mobilab, TV4 announced the launch\textsuperscript{32} of a new Premium service, which would offer ad-free viewing, some additional content not available in the free version, and "other added value features". The price point will be 99SEK/month, without the possibility for single purchases (the premium service is launching on the web platform first where there is no viable micropayment solution today). It seems safe to assume that this service is being developed to work on other platforms. Obviously it will be interesting to follow.

\textsuperscript{32} http://www.tv4.se/1.1975249/2011/01/12/tv4_play_premium_lanseras_i_dag_se_solsidan_fore_alla_andra
7. Conclusions

7.1. Paid service is win-win

One must remember the main reason why payments are considered as a business model: they’re much more profitable. The quick calculation in the beginning of this paper showed that compared to advertising, even if the advertising spaces are all sold out, a modest paid scheme pays four times more. In Spotify’s case, we’ve learned that each paying user is worth 30 times more than an advertisement-viewing user is worth. Since it is viable to offer these three different models (ads, pay-per-view, subscription) at the same time, one can easily cater to the needs of all users, something that previously wasn’t possible, and which created the distinctions between free TV channels, subscription based, and pay-per-view. In this case, the line between TV4 and its’ subsidiary Canal+ is being blurred, as the same content can be available both for free, with pay-per-view, or with a premium subscription model.

As long as this transaction is made seamlessly, and doesn’t interrupt the user more than needed, there is nothing to lose from offering all three options.

7.2. Premium needs to be more than ad-free

In question 2 of the introduction of this paper I asked:

2:  a) How much of a nuisance are the advertising breaks, especially in an on-demand world?  
    b) Would people prefer to pay to get rid of the advertising in a mobile video service?

The questions assumed that the main selling point of premium services were the fact that they were ad-free. Even though most of the premium services are in deed ad-free, most of them continuously work to develop more values than just the simple freedom from ads.

When following Spotify during these almost two years, one can see a clear progression of events. First of all, the company has gone from a 3,5% conversion rate to a 15% conversion rate, so they must have done something right. Although the premium service has been ad-free from the start, they have implemented quite a few other incentives along the way. The mobile access was introduced in the summer of 2009 and was the first of a series of added values that were
limited to the premium service. Since then, features such as offline mode, enhanced sound quality and more exclusive content have been added to the premium service without being added to the free versions. Even more, the free version received a cap of 20 listening hours per month, to even further encourage users to switch to the paid version.

In a similar trend, Hulu did a survey of 5,000 users before launching their premium Hulu Plus service, in which they claim that a wide majority said that they are willing to accept ads if it lowers their monthly cost.

It seems media consumers are used to viewing advertising and have learned to deal with it in their own ways. Even though obviously most of them say it's annoying, and they prefer to not have it, but when it comes to the question of paying to replace it the answer is no - not just for the removed advertising. But if the removed advertising is part of a premium service package including other services, then yes, it is in deed a factor.

### 7.3. Content is king (Learn from Spotify)

One thing that has come up from talking to users, and especially those subscribing or interested in subscribing to the service is that they say that an important factor is the availability of content - preferably all the content they wish to see. This is an important criticism of Spotify, that even though they make a big effort to have all content imaginable available in their offering, sometimes a users favorite song is missing. This is also an important criticism of the upcoming Voddler video-on-demand service, which has been criticized of not having nearly the same variety of video content as Spotify has music content.

This means that perhaps an ideal solution would be if the TV channels together offered some sort of service where a subscription could pay for all of the mobile video viewing the user ever consumes, a go-to-place that has everything, similarly to how Hulu has content from most of the major American TV networks. That on the other hand brings with it a lot of other problems which would probably warrant a thesis of its own.

### 7.4. Quality and ease-of-use first

One must remember what a fundamental shift it is to start charging viewers. In an advertising supported model, the viewer is the product and the advertiser is the customer. The content and the service only needs to be good enough to keep
users watching. When you charge the viewer, the viewer suddenly becomes the customer, and they must both want it enough to pay for it, and be satisfied that they got their money's worth afterwards.

This applies first of all to the content itself, but also to the service, and the quality of both the video itself, and the user interaction involved in viewing it. Time and time again, we’ve seen that users are willing to pay a premium over free or cheaper services, if the usage experience is good enough. Now what is needed is to make sure it is good enough.
8. Recommendations

8.1. Everything must be cross-platform

2010 saw launches of two new classes of hardware devices that completely cross all lines of what we consider mobile, PC, web, print and broadcast. I'm talking about the tablets (iPad et al) and internet-connected home media centers (Apple/Google TV, Boxee, etc).

The iPad and the other tablet PCs are confusing media companies by crossing the traditional boundaries between print, web and mobile. As such, it becomes evermore difficult for media companies to have different business units working on web, mobile and "traditional broadcast" channels. This has changed a lot of the conditions from what it looked like when I started this project in 2009. TV4 then had separate units for broadcast and "new media", and a separate unit for mobile. Obviously mobile and "new media" needed to be integrated, which has now happened, and it becomes ever more clear that device type shouldn't necessarily be the deciding factor when choosing business models for a digitally distributed media landscape.

This has been even more enhanced by the introduction of home media PCs, such as Apple TV, Google TV and Boxee, that enable users to watch web videos from the leanback viewing comfort of their living room couch. As such, we're beginning to see that the digitally distributed channels are not only complementary to the traditional broadcast TV viewing, like was previously thought, but is in fact cannibalising on the attention of viewers.

What's even more interesting in all of this is that both these new device types use operating systems that are the same (or very close to the same) as those most used in mobile phones. Apple's iOS that powers the iPhone is the same OS that powers both their iPad and Apple TV. In Google's case, Android is the OS used in both phones, tablets and Google TVs. This means that many of the mobile apps already developed for these OSs can be easily adapted to the new device types, including their payment methods and other features that have been missing from the web. In a way, this means that much of the strategy that used to be applied to "mobile devices" should now be applied to "everything other than analog and PC".
8.2. Don't lock out the freeriders

Not everybody will pay for your service. These words may seem difficult to hear if you're a media executive, but study after study, and now real-world tests show that a majority of the web users aren't willing to pay no matter what. When devices have access to the whole web of open information, competition is no longer between competing services of the same kind - everybody competes with everybody now. If you're TV4, for example, your competitors are no longer just the Big Five networks, your competitors include all of Youtube, newspapers, blogs/user-generated content, piracy-illegal streaming, privately shared content and foreign channels. And some of these options are guaranteed to be free. Thus it's no longer a matter of "will they buy our service or our competitor's", but rather "if they like our service, how can we get them to pay something?".

News Corp's experiments with locking up all of their content behind a paywall show a clear result: ~5% of users will pay, the rest will just find something else to read. And it's not like you can't get 5% of users to pay with a freemium service. Many services have shown numbers in those regions, most recently Spotify claimed to have 15% of their users paying for the service. So it seems wasteful to not use the remaining ~90% of users that just aren't willing to pay, with different types of ingenuity they can be used to market your service (like Anderson wrote), advertised to, or upsold to premium over longer periods of time. But it's no longer a safe assumption that having a free version will lower the number of paying users.

8.3. Make it easy to pay

One of the success factors of the App Store and other successful paid content services is that they have managed to make the payment process simple. This is something that media companies have figured out well in the physical world, but that needs more work in the digital realm. In the physical world, subscribing to a service is easy, and the transactional cost of "being work" to sign up for services is usually offset by different types of either discounts or bounties of different kinds. On the other way, unsubscribing is a hassle, and many media companies rely on the fact that people can't be bothered to go through the effort to unsubscribe. In the digital realm the effort required to sign up for services needs to be minimal, and preferably offset by different types of incentives. On the iPhone it's as simple as typing in your iTunes password. Same thing with PayPal. But the infrastructure isn't there yet on all platforms for all users, and it
needs to be. When users start accessing TV4 Play through the remote controls of their home media center, using their remote, how will the transaction happen? How much hassle will it be and how little can it be?

Make sure that the users you have that are willing to pay don’t get discouraged by the hassle of paying.

### 8.4. Give them something to pay for

The consensus among reports in this paper shows that the majority of users will not pay for content in any form. Yet, they also show that a minority will pay, and can in fact be quite lucrative. It’s important however when discussing paid content to realize something that has been said many times in different forms, from Kevin Kelly, to John McQuivey, to John Einar Sandvand and many others: *it’s not the content itself the users are paying for*. There are many values users will pay for. Be it access, uniqueness, convenience, physical forms, experiences, packaging, immediacy, personalization, accessibility, findability or patronage. There are many reasons why some users are willing to pay. But one thing is clear according to many studies such as Nielsen (2010): *They just will not pay for something that they can get for free somewhere else*. This means that the media industry will need to innovate around different types of concepts and models to find what people will pay for. It might not be for the news or the weather. But perhaps for high-quality unique services that give them some form of tangible value. Spotify have proven this. Netflix have proven this. Apple have proven this. And they and many others have turned a profit from that willingness, even though it’s not all of them that are paying. If there are premium values that the users know they are paying for, quite a few of them could be willing to pay something, different types of media companies need to figure out what that is, and how to package that.

### 8.5. In summary

The launches of internet-enabled set-top boxes and tablets blur the line between the realms of what has traditionally been "computing" and what has traditionally been "consuming/viewing". It is likely that as these technologies progress and become mainstream that problems such as piracy and competition with free options will arise. Even though TV4 has had three great years, with 2008 being their best year ever\(^3\), 2009 the second best, and sold-out all

\(^3\) [http://www.tv4.se/1.299598/2010/09/14/tv4_gruppen_i_siffror](http://www.tv4.se/1.299598/2010/09/14/tv4_gruppen_i_siffror)
advertising space in large parts of 2010, it's a safe bet that when the TV industry has the same tipping point moment as the mobile industry saw with the release of the iPhone, problems will arise, and it becomes crucial that they are prepared and have infrastructures in place to handle that, not only technologically, but business-wise. As the viewing platforms converge, so must business practices, and the business models in place for 'mobile' should be the same as those in place for 'web', 'tablet' or even 'web-enabled home set-top box'.

Getting users to pay is a great opportunity, but easier said than done. There are lessons to be learned here from Spotify, that keeps making their free version worse and worse to make their paid version look more attractive. A majority of users will just not pay no matter what - that's something we need to accept. Figuring out how to use those users to your advantage, and how to earn revenue from those that prefer the premium service will be a key success factor for the new media landscape. Clearly quite a few users don't mind paying, as long as paying is easy and they feel they are getting qualities that are worth paying for.

Interesting times are ahead of us. In some years when the technology has evolved to allow proper and comfortable content payment methods for all media types across all platforms we will see a definitive answer to the question of the value of content - whether it should be free or not, and if not - which prices and models are right. Interesting times in deed.

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