

# The Relation of Digital Natives' Fandom and their Willingness to Pay for Music Records

## A Post-Free-Riding Perspective

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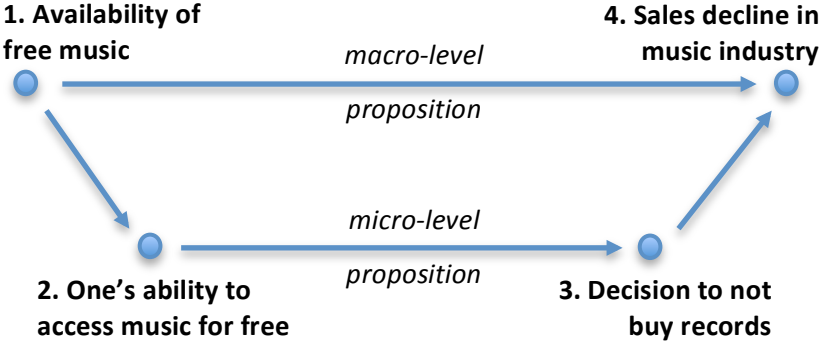
Today's music business has seen a massive decline in record sales for almost one decade and is constantly floundering. Liebowitz (2010) for example states that the revenue of the German record industry has declined by 48 percent (inflation-adjusted) since 1999. In other markets like Italy or Spain the situation is even worse with a decline of up to 75 percent.

For most industry officials the reason for this worldwide significant decline is clear: With the emergence of the MP3-format, broadband internet connections and file sharing platforms, the consumer behaviour has radically changed. Copyrighted material is shared with friends or in anonymous platforms. According to the data collected by the German Federal Cooperation of Music Industry (Bundesverband Musikindustrie, 2009) for the German market in 2009, 258 million illegal music downloads versus 46 million legal downloads have been registered. In the internet music seems to be available everywhere: Today one can listen to music for free via streaming services like YouTube, Grooveshark, Spotify etc.; to some extent by accepting advertising. Considering vast possibilities of easy access to music content, the diagnose seems to be clear: Consumers won't pay for anything that they can also get for free. As a conclusion, the reason for the decline of record sales can be seen in the rise of free music usage. However, this widely held view in the music industry is scientifically not easy to approve.

The coincidence of two progressions in society is not an evidence for their relation (the *cum hoc ergo propter hoc* fallacy). In fact, the researchers' opinions are divided: While for example Liebowitz (2010) examines strong correlations between worldwide file sharing activities and record sales, the authors Oberholzer-Gee and Strumpf (2007) are rather sceptical. The heated debate among the two parties at the first Vienna Music Business Research Days in 2010 illustrated a major problem of macroeconomic investigations: While it can be argued whether the correlation being found is a statistical artefact or not, it will not be possible to find out, how the people on which the aggregated data is based are deciding and acting.

To explore this microeconomic desideratum we are following the dominant paradigm of methodological individualism in economics (Furubotn & Richter, 2000, p. 3) – which is in our opinion an appropriate approach to investigate the question of individuals’ economic choice. However, our approach also includes a critique of the transformation of economic premises into a sociological theory of rational choice<sup>1</sup>. One of the most sophisticated approaches in this field has been developed by Coleman (1994). On the basis of the so called bathtub model (p. 8) it becomes clear that one cannot conclude from one phenomenon on the macro level to another.

**Structure of analysis according to Coleman**



*Illustration based on Coleman, 1994, p. 8*

According to our illustration – a bathtub model of the supposed music industry crisis – the micro-level proposition has to be tested: the individual’s decision not to pay if it has the ability to access the music for free. Actually there is a tradition in microeconomic theory that reflects this micro-level proposition: The lack of an individual’s willingness to pay, due to his ability to access the good for free, is typically characterized as “free riding” (Cornes & Sandler, 1996, p. 30). The theoretic figure of the free rider can be traced back to the “Logic of Collective Action” by Olson (1971) and “is used rather loosely in the literature” (Cornes & Sandler, 1996, p. 30). The basic assumption of the model is that most individuals in fact see the need of everybody’s contribution, but view their own contribution as marginal. Hence, their decision has no effect in the short run. This leads the individual to a rather hypothetic consideration about the action of the other market participants. This question of uncertainty, which can be formalized in

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<sup>1</sup> For an extensive critique see Green & Shapiro, 199x

game theory as a prisoners' dilemma (Suchanek, 1997, p. 40; Hardin, 2003), is in short: "Why should I pay when the others won't?" It needs to be stressed that is important to interpret the free riding phenomenon as an ongoing process, as it is linked back to the macro level: With every new song release the potential customer has to make the decision again. Since the first copied CDs were shared in the peer group and since the media has reported on Napster and its successors this question has become much more difficult to answer. The more the market participants assume the "defection" of others the more they will become free riders themselves. This could be interpreted as free riding of higher order (Jansen & Priddat, 2007, p. 32) – it is like many of the "crisis bathtubs" stand in a row. Thus, following the logic of free riding, the process on the macro level is even counterintuitive, as the public problematization of file sharing and sales decline makes the situation even worse.

We come to the conclusion that, if this behavioural model should actually apply, only a small amount of users – probably the ones that strictly obey or fear the law – would still pay for music records due to the various possibilities of free access. But is it actually possible to assume that anybody who has the ability, the skills as well as the quiet conscience to use free alternatives has drastically lowered or even cut the expenses for record purchases? In fact recent studies come to contradictory findings, as they show that users of file sharing networks spend more on legal record purchases than other respondents (Shields, 2009; Cheng, 2009; Briegleb, 2009). Considering this, the exploration of consumer action rather seems to be a multidimensional challenge. Our idea is to question the understanding of the term "rationality" in the description of economic behaviour. Following the theory of free riding it would be irrational for an individual to buy a record when others get the same for free. According to Coleman (1994) "the theoretical aim of social science must be to conceive of that action in a way that makes it rational from the point of view of the actor. Or put another way, much of what is ordinarily described as nonrational or irrational is merely so because the observers have not discovered the point of view of the actor, from which the action *is* rational." (p. 18)

To examine this question of rationality, our research focuses on a group that is supposed to be a very problematic one: the generation commonly referred to as "digital natives". Today's teenagers have grown up with the ability to use networked media as well as with the possibility to access file sharing networks, file hosters, etc. They listen to music

via YouTube Playlists or Grooveshark. They expect that they can access and share music free of charge and with no limitations (Hugger, 2009, p. 13). Digital music is omnipresent for them: Almost every teenager has access to free music. If one lacks the technical skills, one can access music through other people in the peer group – nowadays complete hard disks are copied on the schoolyard today.

Nevertheless, teenagers still buy music: According to the German Youngcom! Youth Study 23 percent of the Germans aged 13 to 20 spend at least 11 Euro on record purchases per month („Dafür geben Jugendliche ihr Geld aus“, 2009). This strengthens our assumption that the decision to buy music is not solely bound to the availability of a free alternative. What are the possible explanations for this phenomenon?

Teenagers are very often fans of specific artists or bands (vgl. Wegener, 2008; Roose, Schäfer & Schmidt-Lux, 2010; Farin, 2010). In Germany, more than 80 percent of the teenagers between 12 and 19 years attach high importance to their ongoing information about music-related news (MFPS, 2009, p. 22). Their fandom is characterized by

- (1) an intensive listening to music,
- (2) a strong felt relationship to the musicians (e.g. parasocial interaction, Rubin & McHugh, 1987) and
- (3) collectivisation in fan cultures, in the internet often linked with the creation of creative content with reference to their favourite music and musicians (e.g. Baym, 2007).

Considering the vast variety of fandom definitions in social sciences fans are commonly characterized as persons that invest time and/or money into this emotional relationship to the admired person, group or item (Roose et al., 2010, p. 11; Booth, 2010). According to this it seems very likely that a fan's willingness to pay is not only based on a consideration of opportunity costs.

In fact our assumptions are empirically supported by findings of a recent but still unpublished study at the University of Music, Drama and Media Hanover, based on a standardized survey of German school children aged 14 till 16 that concentrated on their reception and (creative) use of music<sup>2</sup>. In this study we could show that with knowledge of the childrens' free riding attitudes as well as their fandom it was possible

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<sup>2</sup> We like to thank Professor Helmut Scherer and Daniel Reinke (University of Music, Drama and Media Hanover) for the opportunity of taking part in this research project.

to predict if they purchased records. Fascinating was the case that only both factors together could form a coherent prediction model.

The findings of the study also demonstrate how digital natives act creatively with media and create content with reference to their favourite music and musicians. In our presentation these forms of creative work are posed and discussed with regard to practical implementation in the Music industry business.

We argue that the specific role of fans – although they are already seen as important stakeholders and market mavens – is not taken enough into account in music business research: first, with regard to the amount of sales in music industry, and second, with regard to the impact of their creative work.

Given this empirical evidence we assert that major labels can learn a lot today from independent labels and artists when it comes to embracing the fan. We refer to a qualitative study focused on the development of production and distribution of music in the thriving music economy of Berlin<sup>3</sup> where especially the artists – and to some extent also the labels – are aware of the old and new relevance of fans. Our research in Berlin shows that artists are using their network of fans for real value-creation. For instance, we conducted a qualitative in-depth interview with an artist from the electronic music scene, who reported about his interactions with fans on Social Network Sites (Facebook, MySpace) and their contribution to the organization of “on demand”-gigs outside his catchment area.

Besides the direct opportunity for the music industry to monetize the interaction with fans we will also discuss the future prospects for the music business from a broader perspective on economy and society in our presentation. As Wiesenthal (1999) states, a pure social coordination over markets carries the inherent danger of an “anomy” (p. 9) – the old Durkheimian term of the breakdown of social norms and values because of individuals’ feelings. Wiesenthal explains this with the market logic of egoistic preferences that can either lead to collective welfare or – as in case of free riding behavior – to “moral hazards” (p. 9). This is the reason why every market has to be secured by formal as well as informal institutions – e.g. social norms – and why one cannot find nearly any ‘pure’ market in empiric research (p. 13). For Wiesenthal most empiric markets are hybrid forms with parts of the other “mechanisms” (p. 1) of social

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<sup>3</sup> We like to thank Professor Carsten Winter and Catherina Dürrenberg (University of Music, Drama and Media Hanover) for their kind permission to use these findings in this presentation.

coordination: communities and hierarchies. In regard to the coordination via communities we have figured out a new perspective for approaching new models of institutional arrangements to foster the bonds between musicians and recipients and secure the allocation of music as a nearly impure public good in the future.

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