



## WHY YOUTUBE'S ATTEMPT AT A NEW MUSIC SERVICE WILL FALL FLAT

THE MARKET FOR MUSIC SUBSCRIPTION SERVICES IS BECOMING CROWDED

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Last week, YouTube announced a new music streaming service—a revamped version of the existing YouTube Music. Launching Tuesday, the free, ad-supported version will remain in place, and there will be a Premium version with no ads for \$9.99 per month. Google's Play Music service will be phased out and its customers transferred over to YouTube Music.

We predict it will struggle.

It will not struggle because the service is bad—Google ([GOOG, +1.25%](#)) will do whatever is necessary to make it great. No doubt, it will have a tough time against well-entrenched competitors like Spotify ([SPOT, -0.40%](#)), Apple ([AAPL, +0.70%](#)) Music, Amazon ([AMZN, +0.68%](#)) Music, and Tidal, but we don't believe they will be the main cause of YouTube Music's difficulties. After all, over a billion people already come to YouTube for their music needs every month, including a wealth of music videos and live performances beyond the officially released versions.

The source of YouTube's struggles will quite simply come from the fact that it is trying to transition users from a free model to a paid model, and free is a trap that is very hard to escape from. YouTube has already struggled in this regard. Just look at its video-streaming subscription service YouTube Red. It tried to convince people who were already using YouTube for free to pay for it under the YouTube Red service banner. Despite massive investment in content and marketing since 2015, YouTube Red only accounts for around 7% of YouTube's revenue.

Free and paid models only work if they address different segments with different needs and offer them different value propositions. You can access the same content on YouTube without paying. YouTube Music just gives you this content without the ads. The only other 'benefit' of paying for the Premium version is that you get to watch/listen offline as well as online.

Moving from free to fee is not a rational question of "value for money." Mental accounting suggests that we put things we get for free in a different mental category from things we pay for. Moving from one category to the other, as YouTube Music is likely to find out, is extremely difficult.

When people are used to receiving something for free, the psychology of loss aversion is very hard to overcome. But the wide gap between the price of "free" and "not free" is not just an economic question. When a service changes from "free" to "not free," it demands cognitive resources whereby any purchase is a deliberate decision that comes with search costs (evaluating all of the alternatives, doing the research, and finding the right service); risk and fairness assessment (how much is it worth to me? What should I pay when others can get almost the same thing for free? Will I look stupid in front of my friends when they hear that I am paying for something that they are getting for free?); paying effort (finding a credit card to use, tracking the expense, completing all of the login information, and justifying the expense); buyer's remorse, and other psychological costs. Even worse in YouTube's case: Most customers pay for only one music service, which means they would have to drop their current choice to subscribe to YouTube Music.

YouTube is not alone in this regard. Attempts to transition from free to paid models have consistently floundered across a variety of services, like Napster, Skype, and a long list of media content sites, like the *San Francisco Chronicle*, *The Toronto Star*, and U.K.'s *The Sun*.

By contrast, services that start with paid models have encountered less difficulty increasing prices. Netflix ([NFLX, +2.30%](#)) and Apple Music have had paid subscriptions from the outset. While Spotify has a free option, it has always made sure that key features like offline listening and the ability to skip songs were only available with paid subscriptions, in addition to a lack of advertising. LinkedIn has always maintained paid models for both job fillers and job seekers.

Amazon Prime, within which Amazon Music is bundled, is another example of a successful paid service. Amazon recently announced a price increase from \$99 per year to \$119, a jump of almost 20%. This comes on top of another \$20 increase in 2014. These increases have done nothing to dent the service's popularity. Going from paying something to paying a little more is less of an adjustment than going from paying nothing to paying something.

For this reason, Google Search, Facebook (FB, +0.96%), Snapchat (SNAP, +1.23%), Instagram, WhatsApp, and other wholly ad-supported services would find it very difficult to start charging for their core products and services. Ironically, if YouTube really wanted to make its paid music service succeed, it would probably have to make its free service less user-friendly, and "annoy" people into paying. This strategy, of course, may well backfire and send users instead to competing services.

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