

**Study Day | Department of Marketing | WU Vienna**

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***"Entertainment Marketing in a "Free" World –  
Competing Against Piracy and Free On-demand Streaming"***

**Abstract:** *Firms that offer entertainment products (e.g., movies, music) online typically provide samples of their product for free to familiarize potential customers with their content. It is unclear, however, how effective these on-demand sampling tools (e.g., YouTube) are at stimulating demand. On the one hand, entertainment goods are experience goods whose true utility is only revealed to the consumer after it has been consumed. Therefore, consumers may use on-demand sampling to reduce uncertainty before actually buying the products. On top of that, theories such as the information integration theory predict that providing more non-price information to consumers can dampen their price elasticity. Hence, there are reasons to expect a positive effect of on-demand sampling on demand and price elasticity. On the other hand, firms compete against free piracy channels (e.g., BitTorrent) and consumers effectively have the choice between purchasing the content, or obtaining it for free. Hence, the more consumers become familiar with content via free on-demand sampling, the higher the respective level of piracy may be. Again, this effect is likely to interact with price, i.e., the higher the price, the easier the conversion to pirates will be.*

*As of yet, it is unclear which of these effects dominate, and what the net effect of free on-demand sampling on sales is. To shed light on this question, we use a large panel data set from the German market comprising information on sales, pricing, free on-demand sampling, piracy, and various control variables of more than 100 music albums over a period of more than two years. Our results show that the availability of free on-demand sampling does not positively affect sales, and that it has adverse effects on the price elasticity. This suggests that free on-demand sampling does not serve as a non-price cue, but rather as a substitute for purchases. Further, we find that increases in free on-demand sampling are associated with increases in piracy. This suggests, that the free "markets" of on-demand sampling and piracy are complements, whereas the purchase channel is substituted by both.*

