Effective Monetization of Music on Mobile

Every year, the music industry suffers huge losses from piracy and illegal downloads. To minimize these losses and achieve strong growth, the industry needs to look for alternative channels such as mobile, invest in new business models, and come up with attractive services that consumers are willing to pay for.

This report highlights the various mobile music business models being used today and the revenues they are creating for the music industry. In particular, the report focuses on successful business models that have resulted in strong user adoption and usage of mobile music services. In addition, the report also presents facts, figures and projections on the growth of mobile music sales over the next five years.

The Mobile Music Industry at a glance

Informa Telecoms & Media believes that the global mobile music industry generated around US$11.4 billion in revenues in 2009. This includes revenues from ringtones, ringback tones, full-track downloads and music streaming services (excluding music videos).

The majority of mobile music revenues still come from ringtones but ringback tones and full track downloads are showing stronger growth and contributing to increasing proportion of mobile music revenues. Music streaming services currently account for the smallest share of mobile music revenues but this segment is also expected to show strong growth over the next five years.

Mobile Music Revenue Breakdown,
Global Market worth US$11.4 billion in 2009

- Ringtones
- Ringback tones
- Full track downloads
- Music Streaming
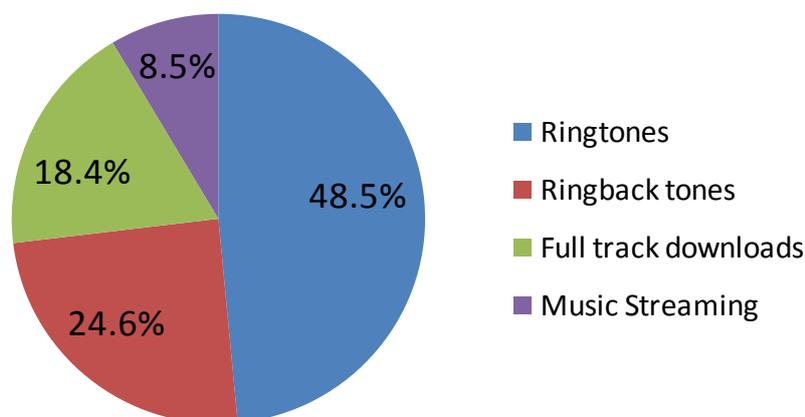
Source: Informa Telecoms & Media

Key Market Trends

- The global value of music sales has fallen each year almost without exception since 2000
- Digital sales are still failing to compensate for the fall in physical sales.
- Operators are finding it difficult to compete purely with pay-per-track services, given the spread and success of iTunes and the recent entrance of Amazon and other major retail brands into the market.
- The emergence of online digital-music stores selling DRM-free tracks, such as iTunes and Amazon have forced operators to also introduce DRM-free services in various guises.
- Despite making substantial investments in promoting their music stores, many operators have felt that their brands are not strong enough to persuade subscribers to buy music.

Mobile Music Business Models

The type of business model employed is critical to the revenues that can be expected from selling mobile music content. At present, most mobile music services are offered using the pay-per-track and subscription based pricing models but mobile operators and service providers have also started to offer services bundled with their mobile subscriptions as well as advertising-funded services. These are the main pricing models being used but there are also many mobile music services that use subtle variations of these models.

Service Pricing Model	Description
Pay-per-track	Subscribers pay the operator a one time fee to download individual tracks or an album.
Subscription	Subscribers pay the operator a regular fee (usually monthly) for a limited or unlimited number of downloads or streaming service.
Bundled	Subscribers receive a limited or unlimited allowance of downloads or streamed tracks as part of the mobile subscription.
Advertising Funded	Subscribers receive a limited or unlimited allowance of downloads or streamed tracks at subsidised rates, or for free, if they opt to have advertising displayed on their mobile screen, or audio advertisements while they are listening to tracks.

Source: Informa Telecoms & Media

Pay per track (one-off payment) model

The simplest pricing model is to sell the track for one set price, as Apple does for singles through iTunes. The obvious advantage of such an approach is its simplicity. CRM issues are minimized and a low level of complexity appeals to certain customers. However, the drawback is that such a simplistic approach does nothing to create a sticky service that users feel compelled to revisit. It makes brand building more costly and serves to drive prices and associated margins down.

For service providers using this model, there are mainly two ways to differentiate their service from that of the competitors. These are the price of the track and its usability and accessibility. The accessibility of music tracks and the subsequent usability is what really makes or breaks a service. Further, the number of clicks it takes to purchase a track is also hugely important. Japan has seen an impressive market growth for full tracks bought over mobile devices, driven in no small part by the

simple purchasing mechanism and it takes 4-5 clicks to find and purchase a track in contrast to many music services in other markets where it can take up to 15 clicks.

Although the one-off payment model is rather basic, there are numerous ways that it can be made more attractive to the consumer. Favourites, recommendations, push updates, exclusives and pre-release content can all serve to draw customers back to the store, as well as offering dual download (to PC and mobile) functionality.

Subscription model

Subscription services vary in scope, but essentially offer a defined level of usage for a set price per month. For most service providers, getting users onto a subscription package and keeping them there is most attractive. CRM costs for companies are higher for subscription services but a significant amount of revenue coming from long term subscribers every month results in higher returns and profit. Also, the subscription model helps in maintaining lower churn levels and companies benefit from the fact that it is much more costly to acquire new subscribers than to maintain the existing ones.

Many subscription-based mobile music services have been launched, although only time will tell exactly how successful they will be and if they can challenge the dominance of online offerings such as iTunes. A problem associated with subscription services is deciding what will happen when the user stops paying the subscription fees. Some services, such as Nokia's Comes With Music, allow users to keep downloaded tracks after their year of free music runs out. Others, including Omnifone, allow users to save their favourite tracks after their contract expires.

Bundled model

A number of operators are now offering mobile music services to their subscribers bundled as part of their monthly voice and messaging subscription. By bundling music as part of their core subscription tariffs, operators hope to reduce churn rates, attract prepaid subscribers to monthly contracts, and get more of their low ARPU contract subscribers to migrate to higher value price plans.

Bundled model for mobile music services also include services such as Nokia's Comes With Music and the SingTel AMPed service where access to music is bundled with the purchase of selected mobile devices.

Advertising-funded model

Advertising-funded content is one of the most hotly debated topics right now. SDC (Secure Digital Container) is providing an ad-funded mobile music service that displays ads on the handset screen while users are listening to tracks. The company offers a monthly subscription at a discounted price if users opt to have advertising playing on their mobile screen while they listen to tracks, and it also enables labels to let users listen to promotional tracks free for a limited period of time. In both cases, the revenue from advertising is shared with the label. The first major carrier to start offering SDC's ad-funded music service is Australian operator Telstra.

One of the biggest complications with ad-funded music is determining the royalties owed to artists. When people purchase digital music, the rights owners get a cut of the money paid per download.

But if mobile music revenues come wholly or partly from advertising, it becomes more complicated to determine who should be paid how much in royalties.

Successful Mobile Music Services and Applications

It is difficult to say if certain features and aspects in a service will guarantee success but Informa Telecoms & Media have found that most successful mobile music services and applications have one or more of the following characteristics:

- Have adopted a fixed monthly subscription or flat-fee pricing model.
- Incorporate community features and are integrated to popular social networking sites.
- Are integrated to other value added services such as mobile videos, and SMS.
- Have unique features that allow them to differentiate i.e. music identification.
- Require fewer clicks (4-5 maximum) to download tracks.
- Require a maximum of 15-20 seconds to download a music track.

The table below highlights some successful mobile music services and applications launched in the last two years. In addition to these, there are also other examples of mobile music services that are doing well including Spotify, Pandora and Omnifone's MusicStation service.

| Company	Mobile Music Service	Launch Date	Subscribers	Pricing	Innovative features and USP
Shazam Entertainment Limited	Shazam Encore	Jul-08	the application has been downloaded by over 10 million iPhone users worldwide	the application is available to download for US$2.99/3.99/4.99 depending on location	available to download from the Apple app Store, the application allows users to identify music tracks simply by tapping on the specially designed tagging Shazam logo and holding their iPhone or iPod touch towards the music. Shazam Encore also integrates with other services such as YouTube, Facebook, Twitter, Google Maps and iTunes to enhance the users' mobile music experience
Odyssey Music Group	Deezer	Nov-08	200,000 active users using the service atleast once a week	premium subscription costs Euro 9.99 per month on mobile	Deezer member's community being quite huge with more than 6 million active users (mainly in France). From Deezer website, users can share playlists, make new friends, send messages and tracks and access playlist of their friends on the mobile.
QuickPlay Media	SIRIUS XM Radio	Jun-09	Over a million iPhone users have downloaded the application	existing satellite radio subscribers can add both iPhone and Internet access US$2.99 per month	offers engaging discoverability and search features and while listening to tracks, users can view the song title, artist and album info and also see what's currently playing on other channels. Users can also listen to songs on demand and can add them to their list of favourite songs and can also instantly buy tracks using on-demand options like 'Buy Now from iTunes' or 'Bookmark & Buy Later'.
Gracenote	Music ID	Jan-09	26,000	US$2.99 (Music ID application)	MusicID uses audio fingerprinting algorithm to identify music from Gracenote's Global Media Database, the largest music metadata collection and lyrics database in the world which features more than 90 million tracks and is accessed by 200 million users annually. It then displays to the listener song lyrics, artist biographies, and related YouTube videos.
SingTel	SingTel AMPed	Jun-09	36,000 unique visitors in the first three months after launch	bundled free of charge with selected devices and selected mobile broadband tariffs	Subscribers get exclusive music content like pre-album releases which they cannot get in the stores. The service is also integrated with popular social networking sites including Facebook and Twitter and users are downloading on average 150 songs per month.

Source: Informa Telecoms & Media

Informa Telecoms & Media's Predictions for Market Growth

Informa Telecoms & Media believes that mobile music revenues will grow from an estimated US$11.4 billion in 2009 to US$18.4 billion in 2013. Music full-track downloads are expected to see the strongest growth over the next four years. During the same period, revenues from ringtones will

midem net
MUSIC BUSINESS IN THE DIGITAL AGE

informa
telecoms & media

remain relatively flat but revenues from ringback tones will achieve steady growth, as the market for ringback tones is not threatened by piracy. Personalization will remain an important motivation for purchasing mobile music content.

Global Mobile Music Revenues
(US$ billion)
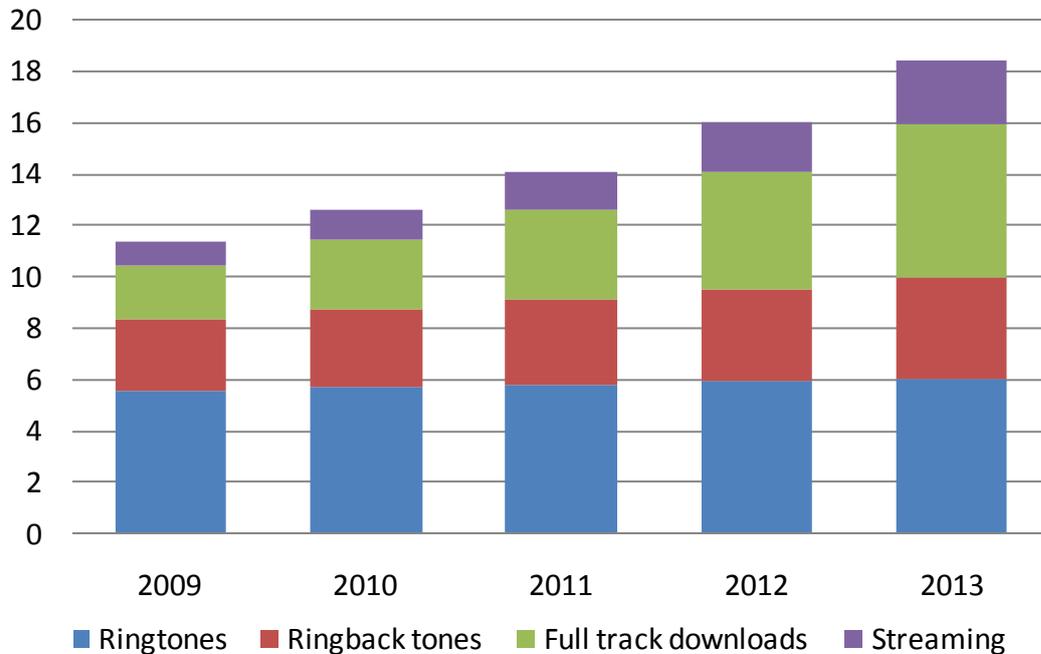
Source: Informa Telecoms & Media

In terms of strategies for monetisation of music on mobile, Informa Telecoms & Media predicts the following trends over the next four years.

- As the gloom caused by the global financial crisis continues to lift, a good number of mobile music business launches can be expected in 2010.
- More and more operators will turn to subscription models for mobile music, as it becomes clearer that pay per-track success stories will be rare.
- The widespread adoption of subscription model for unlimited access to music means that service providers will need content metering capabilities in their service to be able to determine the popularity of tracks and reimburse the relevant parties accordingly.
- More D2C models for mobile music will emerge and this in particular will be driven by the app store phenomenon.
- Despite the move towards DRM-free services, mobile operators will have to ensure some level of DRM protection in order to maintain a sustainable business model.
- More convergence business models will emerge i.e. music services that can be accessed on mobile, online, in the car, and on the home stereo system.

This special report for MidemNet 2010 is based on forecasts and findings from Informa Telecoms & Media's published research in the Mobile Content & Applications Intelligence Centre. Further details can be found at www.informatm.com and www.intelligencecentre.net

Shailendra Pandey
Senior Analyst, Mobile Content & Applications
shailendra.pandey@informa.com