

MOBILE MUSIC

## Sounding it out

Mobile operators are trying out a variety of business models for music download services, including 'free' offerings and bundled packages. But a winning strategy is proving elusive. By PETER SIMMONDS

Ever since Apple burst onto the scene with its iPod device and iTunes store, mobile operators have been plotting business models to try to emulate its success.

Then at the tail end of last year, handset maker Nokia crashed the party with its Ovi content services strategy, including music accessed through the Nokia Music Store portal. Nokia has been rolling out Music Store across Europe, starting with the UK last November, enabling subscribers to buy individual tracks and albums via computers or directly from certain Nokia devices.

The handset company's hotly anticipated Comes With Music will take things a step further. Expected to be available later this year, Comes With Music will offer a year of unlimited music downloads bundled in with the price of the handset, launching initially with Universal Music Group's catalogue. Crucially, consumers will be able to "sideload" tracks onto PCs and keep them after the year is up.

"Operators have offered music services for a long time, but all of their combined profit will be less than Apple makes through iTunes. We want to go after new customers and bring in new people," says Tom Erskine, Nokia's head of go to market.

Now operators are hitting back, and in much the same way as broadband services they are betting on the power of a "free" label and flat-rate bundles.

In April, Denmark's TDC launched Play, which it calls the first "free" mobile music service in Europe. Residential broadband and cable customers can access the service via a TDC music Web site, and mobile postpaid customers with a music-enabled handset can access Play via the TDC mobile portal, Fly. Significantly, users can download unlimited music without additional cost to their subscription—mobile data downloading costs are also waived. All four major music labels plus Danish independent labels are on board.

"Play neatly anticipates a new breed of fully subsidised and 'free' music services this year, from Nokia, Apple, Omnipone and other service providers adopting the same model," said Current Analysis principal analyst Emma Mohr-McClune in a report following launch.

Play is one of the latest services to provide mobile music consumers with an alternative to the "a la carte" music download model inspired by iTunes.

"The iPhone really started to show people what convergence is. It drove up awareness," says Erskine at Nokia. "It has galvanised people to come up with propositions to compete."

In June, Orange France launched an unlimited music download service for PCs and mobiles, Musique Max, at €12 per month, signing deals with six music labels.

But operators are developing models

as much to keep subscribers as to bolster their profits. TDC's official line, for example, is that Play is a strategic initiative and that it will profit by "reduced churn and new customers" rather than significant revenues through music downloads.

Indeed, the chart below indicates a current lack of willingness by UK users to take out a separate music subscription.

Play's potential for increasing customer loyalty is clear, says TDC spokesman Konrad Jensen. "We estimate that about 30% of our mobile subscribers have a music-enabled mobile and that figure will increase dramatically in the future," he says. "Some 60 out of 63 current models by Sony Ericsson are music-enabled."

### 360 degree contracts

Mohr-McClune also points to customer retention in the Current Analysis report: "Play also promises to be the blueprint for a new breed of 'free mobile music' services, in which the service provider subsidises content costs to lengthen customer lifecycles and create additional stickiness to its core subscription services."

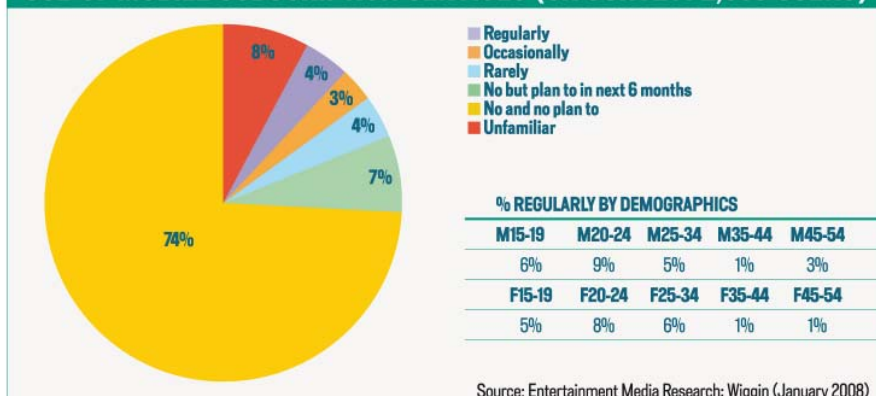
In an interview with *Total Telecom* she adds: "Record labels now have 360 [degree] contracts; music sales aren't their main source of income. Touring revenue, ticketing, T-shirts—these are more important. Mobile companies will have to recognise shifts in the wider music industry and shift their own models accordingly."

Mohr-McClune cites O2's new deal with UK band the Sugarbabes, which includes docu-soap-style video updates about the band's activities. "It's these kind of initiatives that will benefit the mobile music market," she says.

Recent analyst figures paint a rosy picture for mobile music on handsets. According to MultiMedia Intelligence, worldwide unit shipments of music phones exceeded 12 billion in 2007, outnumbering shipments of personal media players such as the iPod by almost 300 million units. The analyst company predicts that by 2011 over half of all mobile phones will be music-enabled.

According to M:Metrics, in the 12

USE OF MOBILE SUBSCRIPTION SERVICES (UK SURVEY: 1,608 USERS)



months to November 2007 music phone penetration grew at an aggregated rate of 50.7% in the US and Western Europe. Of mobile subscribers in the UK, 18.9% were listening to music on their phones, in Spain 20% and in Denmark 15%.

"Over 50% of phones sold worldwide this year will have a music Player," says Andrew Fisher, CEO of music audio recognition portal Shazam. "That dwarfs the penetration of iPod and Mp3 players. Our belief is that mobile will win through. Mobile phones are moving faster, it is a much bigger global phenomenon."

Bundled music models started to take off in earnest with the launch of Omnipone's MusicStation, initially on Telenor's network in Sweden in June 2007, then on Vodafone's UK network last November. Omnipone says Vodafone's MusicStation service is now the UK's largest digital music subscription service, overtaking PC-centric services in terms of subscriber numbers, although both companies declined to give figures.

MusicStation offers unlimited access to selected tracks from all four major record labels, at a cost of £1.99 per week (€2.99) inclusive of data charges. Omnipone estimates that MusicStation is compatible with 75% of handsets.

With no WAP portal to negotiate, MusicStation client software can be pre-installed on handsets, with operators driving revenues through flat-rate data charges. Unlike Nokia's Comes With Music proposition, subscribers to the basic MusicStation service cannot keep the tracks if they cancel their subscription, nor sideload the music to a PC.

### Complementary models

But in February, Omnipone announced MusicStation Max in a partnership with LG Electronics, due to be launched later this year. LG devices will include a voice, data and text tariff, with unlimited music downloads, and users will be able to keep tracks at the end of the service contract.

The flat-rate rental model is not the death knell for the single-track download model yet. Jakub Hrabovsky, Vodafone Group's media relations manager, believes that the rental and a la carte models can complement one another.

"With Vodafone MusicStation you can experiment and download new bands and see what's out there, then go to Vodafone Live and buy it and keep it for life," he says. "Quite a few people experiment with one then download with another."

And in March, Napster signed a deal with O2 to provide music on over 30 of its handsets from a catalogue of over 5

million tracks that users can download and keep at an initial rate of 99p per track.

But if it comes down to a straight shoot-out between flat-rate and a la carte models, the former looks best placed to win out.

In 2006 Pyramid Research investigated two contrasting mobile music businesses in the more mature Asian market. It concluded that SK Telecom's MelOn subscription-based service—which allows the transfer of tracks between mobile phone and PC, and over-the-air downloads—was more likely to succeed than Japanese operator KDDI's Chaku-uta Full, a mobile-only system.

Pyramid earlier this year reinforced its view that the subscription model will be more profitable, predicting that the global market for subscription-based mobile music models will be worth US\$4 billion in 2011, with a la carte services lagging behind at US\$2.5 billion.

But revenue-sharing models are still being worked out in many instances.

Nokia will share revenues from Comes

EMI, Sony BMG and Warner Music International. It offers ringtones, ring-back tones, full-track music and video downloads through an integrated storefront. "We as a company are interested in consolidating the user experience across all these different silos," he says. "Mobile operators have a long-term role in music and entertainment. We spend a lot of time talking to music labels. They want to sell as much as they can through mobile channels; they don't care how."

Orlando believes that not everyone who accesses music over the air wants to keep it. "We do offer PC sideloading but very few people participate," he says, adding that if people want to download and keep music there are better ways to do it than through their mobile. He uses the iPhone as an example.

"Mobile music is not just about listening to and buying music over the phone," says Matt Ward, head of music at O2. "On-portal promotions for concerts and TV appearances will play a huge part in the

## 'Music labels want to sell as much as they can through mobile channels; they don't care how'

With Music with operator partners, but will not disclose further details. "Comes With Music will get people to sign up to fixed data plans which build good margins. Operators will make money on revenue share from downloads and mobile advertising. They can make a lot of money," says Erskine. Universal has already signed up for Comes With Music, and Nokia is wooing the other major labels.

There are rumours that Apple has plans for a rival subscription service to Comes With Music and that it is in talks with record labels, and TDC has announced that sideload functions will be added to Play later this year.

Erskine says Comes With Music will work as a complementary offer to services like Vodafone Live's a la carte offerings. "In a couple of years there will be a range of services in music and video that will appeal to different niches. The way to profit is to offer a carousel of services so people can choose a package that suits them. That was the rationale behind Ovi, to have an umbrella brand, a one-stop-shop with access to music, games, social networking and other services."

John Orlando, vice president of marketing at LiveWire Mobile, believes that differentiation is the key to success. LiveWire's current partners include

future. Also, ad-funded content presents everyone in the industry with an interesting opportunity. Mobile music lends itself to ad-funded content, but as yet nobody has found the winning formula for making an ad-funded music proposition pay off."

At the end of March, 3UK launched an ad-funded music video service with Sony, providing customers with music videos funded by advertising footage.

"Mobile technology has the potential to add previously unimagined dimensions to the world of music," claims O2's Ward. "Customers are much more likely to buy music via a trusted, branded music service that can be used across all platforms of music delivery. Mobile operators hold exceedingly strong relationships with their customer base." ■

*Additional reporting by Ian Kemp*

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