New business models for online music services

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Study on music licensing and transaction costs
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Aim of presentation:

→ show development of online music market and focus on difficulties in licensing processes for innovative services

Based on study on transaction costs in music licensing processes:

Overall aim of the study: show the different factors making licensing processes for online use of music burdensome

• Identification & quantification of ex ante transaction costs related to the acquisition by online music services of intellectual property rights
THE ONLINE MUSIC MARKET

- Around 500 licensed online music services in the world (IFPI, 2011)

- 29% of record companies’ revenues come from digital channels in Europe (IFPI, 2011)
  - More than half in the US or the UK

- 13 million tracks available at the global level in 2010 (IFPI, 2011)
The online music market (2)

• 14 pan-European services

• important changes in business models and modes of distribution of music

• market dominated by iTunes, but increasingly new market entrants (ISPs, hardware manufacturers, retailers….)

• power and control adjustments between traditional players and new market entrants
New business models: innovative features

- Move from "online record store" to more innovative business models (Streaming, subscription, radio-like services, hybrid....)

- Accessibility anytime, from any device (computers, mobile phone, tablet)

- Offer of playlists according to previous choices, mood, preferences....

- Partnerships with social networks or telecoms operators (eg Spotify and Facebook, Deezer and Orange)
<table>
<thead>
<tr>
<th>Download-to-own songs or albums on a pay-as-you-go basis</th>
<th>buy and download songs or albums</th>
<th>iTunes, Amazon, Nokia Music, Beatport</th>
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<tbody>
<tr>
<td>Subscription services</td>
<td>subscription for a fixed period to a limited or unlimited number of downloads/streams</td>
<td>emusic (download), Rhapsody (streaming)</td>
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<tr>
<td>Freemium</td>
<td>Free, but limited access to music content, coupled with unlimited premium access to paying subscribers</td>
<td>Spotify, Deezer</td>
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<tr>
<td>Video sharing platforms</td>
<td>Allows free (advertising –based) access to music videos</td>
<td>Youtube, Dailymotion</td>
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<tr>
<td>Cloud services</td>
<td>Allows users to download music and store it in personal online boxes, accessible from any device at any time</td>
<td>iCloud, 7digital, Rhapsody</td>
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The UK market

• In 2011: 65 online music service providers (14 in 2006)

• Revenue of £117.8 million in 2011

• Most players are pure players

• Most business models are download to own

• a variety of innovative, hybrid models: Spotify, WE7, Karoo, Deezer, Rara, Musicstation, Music Anywhere, Oozit, Jamster, Nokia Music, Orange Monkey….
Success?

Market is still in development phase:

- New services mostly not profitable (yet)
- High fluctuation: number of services, types of models used
- Debate about streaming
- Freemium: a promising business model

Development seems also to be linked to licensing practices
Difficulties in licensing for online music services

- Need to deal with a large number of entities (Collecting societies for authors, publishers, record producers, aggregators, collective licensing entities)

- Negotiations are lengthy and cost intensive, especially for innovative, pan-European services and start-ups
  - Use of standard agreements
  - Minimum guarantees
  - the more countries are targeted the more entities to negotiate with
  - Traditional players vs. new market entrants
Conclusion

• A competitive market

• Competition from unlicensed services

• Difficult licensing processes make set-up and running complex and cost-intensive

• But also major players and models start to emerge that adapt better to fast technological changes
Thank you!

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