

'Lean-back listeners' key to solid growth in digital music

Opportunities, challenges and recommendations

SUMMARY

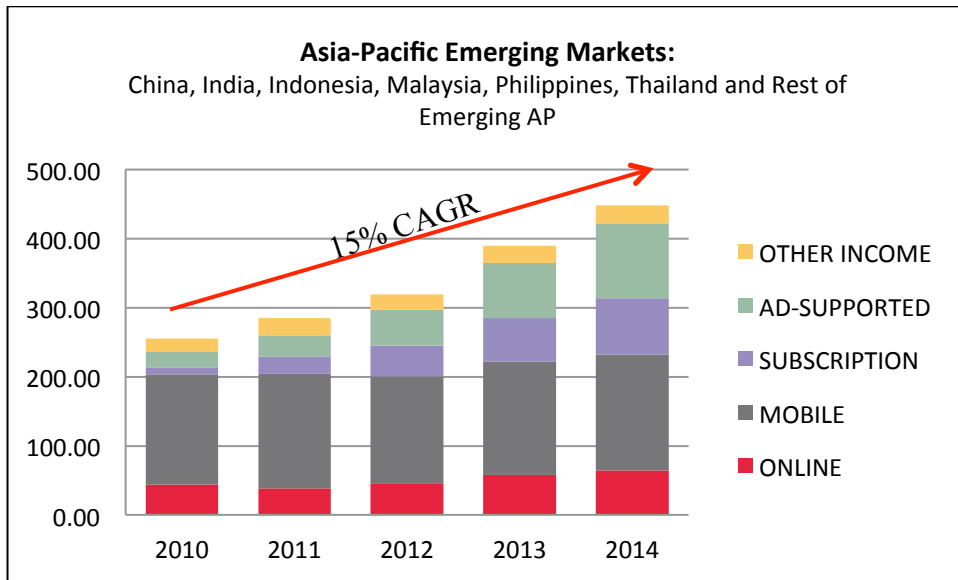
Introduction

Digital music is demonstrating solid growth in emerging markets in particular driven by steep growth in smartphone penetration, the expansion of both local and international digital music services, and the choice of free, 'freemium' and paid services. But having broken into the mainstream, digital music providers will need to review the way it is productized and targeted if it is to maintain the rate of service adoption. 'Lean-back listeners' with mainstream musical tastes and passive listening habits will need to be spoon-fed with compelling easy-to-eat digital music packages or 'magazines' free or at affordable price points to continue digital music's growth trajectory. The mobile operator is in a prime position to drive and benefit from this growth, having a music audience largely made up of lean-back listeners and having access to a rich and flexible choice of business models with which to monetize them. This paper provides the background, key messages and recommendations of how mobile operators can and should leverage and align their unique mobile assets with their plentiful base of lean-back listeners.

Digital music showing solid growth

The digital music market in 2012 has grown around 9% on the previous year and is expected to top \$9 billion worldwide at retail by 2014. Strong growth is driven by the expansion of international and regional music brands as well as active smartphone growth in South East Asia, India and Africa, all topping 20% CAGR. Even though digital music growth has been somewhat tempered by declines in the developed Asia-Pacific markets of Japan and South Korea, the emerging markets of both the Asia-Pacific and Latin America are growing solidly with 15% and 25% CAGR respectively, as shown in Figure 1.

Figure 1: Digital music sales in emerging markets- trade value \$m



Source: Ovum

Asia-Pacific emerging markets are expected to approach \$450 million and Latin America top \$200 million in trade value by 2014. In emerging Asia -Pacific markets growth is being driven by ad-supported and subscription revenues showing around 50%-plus growth from a small base. In Latin America growth is driven by ad-supported revenues showing 50%-plus growth also from a small base as well as by online revenues growing at 27% supported by internet penetration that approaches 45%, 15 percentage points higher than in Asia-Pacific. Digital sales in Middle East and Africa are also growing at nearly 20% CAGR with impressive figures for smartphone and mobile payments in Africa in particular, growing at over 40% and 70% respectively, laying solid foundations for the future growth of digital music. Strong growth across three regions of emerging

markets is enough to project digital music into the early majority of music service adoption, putting mobile music in these markets firmly in the mainstream.

MOBILE MUSIC MARKET DYNAMICS

Mobile music entering the mainstream

The digital music market started in earnest in 2003, with the launch of the iTunes Music Store. At this time digital music targeted the only user that showed any interest, the early adopter, the core music enthusiast, that measured the new digital music services by the size of their catalogue. In close to a decade, though, the choice of digital music services has been multiplying and in 2012, there were over 500 licensed music services in over 130 countries worldwide. Growth in digital music sales for emerging markets, higher service adoption rates, and better penetration of new local and international music brands in 2013 are evidence that digital music is breaking into the mainstream. Ovum's Consumer Insights survey 2013 illustrates the service adoption for mobile music in the emerging markets surveyed shown in Figure 2:

Figure 2: Mobile music adoption- emerging markets



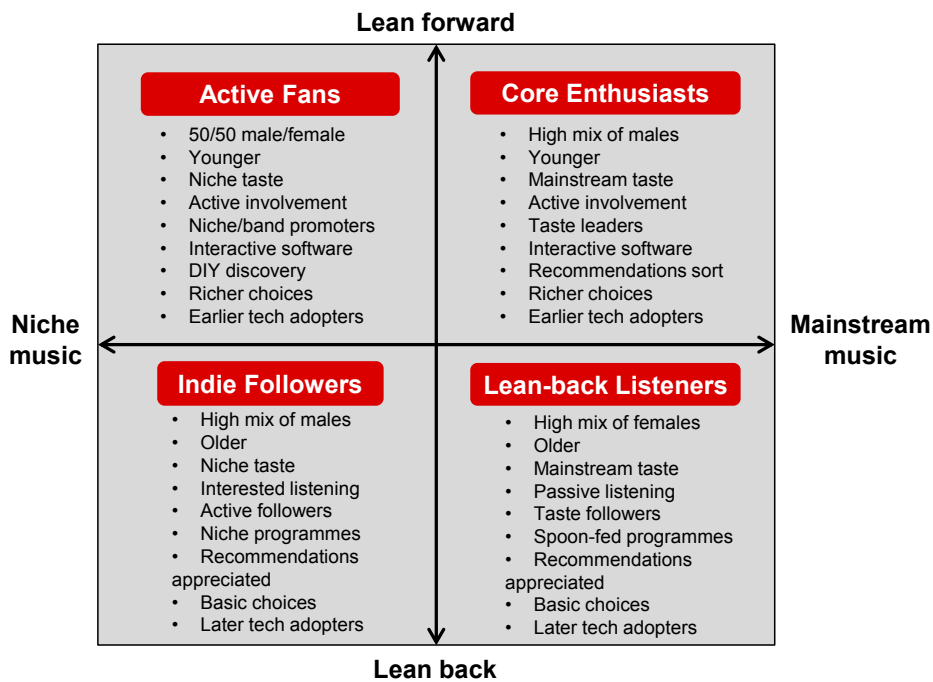
Source: Ovum Consumer Insights, 2013

On average mobile music service adoption, in the emerging markets surveyed, has broken into the early majority of music listeners, showing a 49% adoption rate. These numbers show the mobile music sector reaching the early stages of mainstream listening. However, if the adoption rate of mobile music is to be maintained a key segment of the digital music audience, the casual listening lean-backs, will need to be targeted with appropriate digital music services that effectively start to monetize this large underserved segment.

Segmenting digital music

As digital music's share of total recorded music sales tops 35% globally in 2012 (up 2.5% points on 2011), it becomes increasingly important to understand the segmentation of the digital market because new targeting will be needed to continue growth further into mainstream audiences. Ovum's segmentation of digital music users splits digital music listeners into four categories; Lean-back listeners, Core Enthusiasts, Active Fans, and Indie Followers as shown in Figure 3:

Figure 3: Digital music segmentation



Source: Ovum

The segmentation splits digital music listeners between niche and mainstream musical tastes and between the more active lean-forward listeners and more passive lean-back listeners. Whilst the lean-forward attributes of the core enthusiasts and active fans have been well catered for by the branded music subscription and download services, lean-back listeners are following as the next most commercially viable segment to target. Lean-back listeners are casual music listeners with mainstream musical tastes but with a passive listening habit that needs to be spoon-fed with tightly curated and packaged music programs to be engaged successfully. Until recently lean-backs have been underserved in the digital music sector with many services requiring the user to make an effort, or have music knowledge or money to set up a music listening session. This paper defines the lean-back listener as a new digital opportunity and explains how telcos are in a prime position to monetize this segment.

Lean-back listeners key to continuing growth

Ovum believe the casual or lean-back listener is underserved as many digital music services currently focus on lean-forward audiences using catalogues of tens of millions of songs to appeal

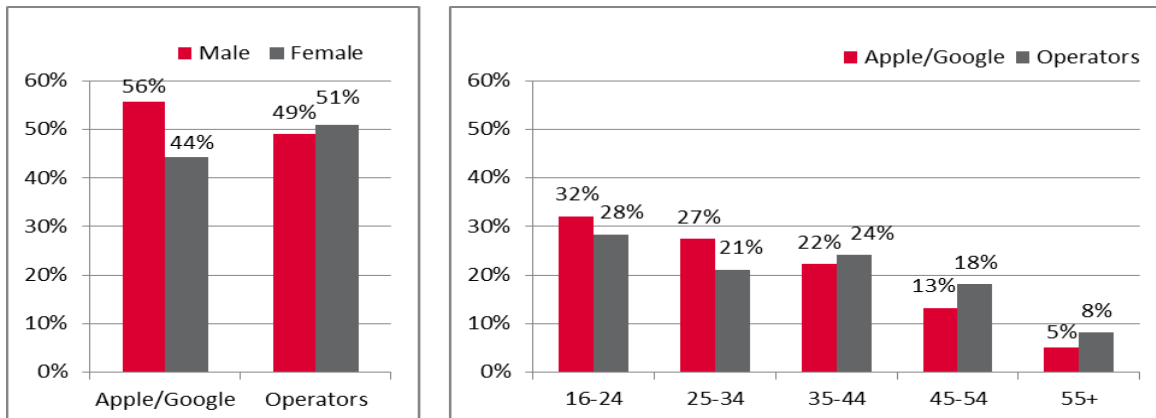
to the core enthusiast in particular. Sophisticated interactive features for experiencing music including 'scan and match', 'smart radio tools' and 'social integration' re-emphasize the industry's focus on the lean-forward core enthusiast who is engaged by interactive features, a highly active experience that is not always intuitive to the passive nature of the lean-back listener. More importantly, the chosen business models of leading music streaming services confine companies to monetizing their services by converting free listeners to paying subscribers, a type of listener that is more likely to be a core enthusiast or active fan than a lean-back listener. A 'successful' music streamers conversion rate of around 25% leaves behind 75% of their subscribers. These are the lean-backs, who listen to a free service that cannot be made overly attractive at the risk of reducing the paid subscriber conversion rate. Such a model puts tens of millions of free music streamers at risk of churning to a more refined and targeted casual-listening package. Without an appropriate model with refined focus, programming, 'packaging' and marketing to attract and keep the lean-back listener, the music industries expansion beyond the core listener to the mainstream majority could be weak.

The problem for the music industry is to ensure its services and features appeal to the lean-back listener, an easy-to-eat rather than all-you-can-eat approach. Lean-backs are looking for help to discover their musical taste, and are big listeners of hit radio stations, looking to have digital music recommended, curated, themed and packaged for them. Lean-backs do not want to work to set up their basic music session but do want compelling and easy to access choices. Successfully monetizing digital music 'on-a-plate' requires a sizeable audience of lean-back listeners, close management, refined programming and packaging of music and a strong connection with local culture. Fulfilling the needs of lean-backs defines the opportunity for mobile operators to continue monetizing their music listeners on top of and beyond the highly successful ring-back tone (RBT) product.

Lean-back listeners prime target for mobile operators

Whilst many operators (with some exceptions) have struggled to compete with international brands on catalogue size, brand credibility, and features, they are in a good position to deliver highly packaged content to their music listeners of which 65-75% are likely to be lean-back listeners. In fact, characteristics of the lean-back listener can be identified in the profile of music listeners using operator app stores as shown in Figure 4 below:

Figure 4: Mobile listener profiles and their use of popular app stores



Source: Ovum Consumer Insights, 2012

The distinctive young male profile of early tech adopters and music enthusiasts is seen in the gender graph of the Apple and Google app stores, whereas the gender bias of the operator app store leans much further towards females, which is the expected profile of casual listeners. It is also clear in the age graph that mobile music listeners who use the Apple/Google app stores are nearly 60% under 35 years old compared to only 49% for operator app stores. From this we can see that operator app stores also attract older listeners, another characteristic of the more casual or lean-back listener.

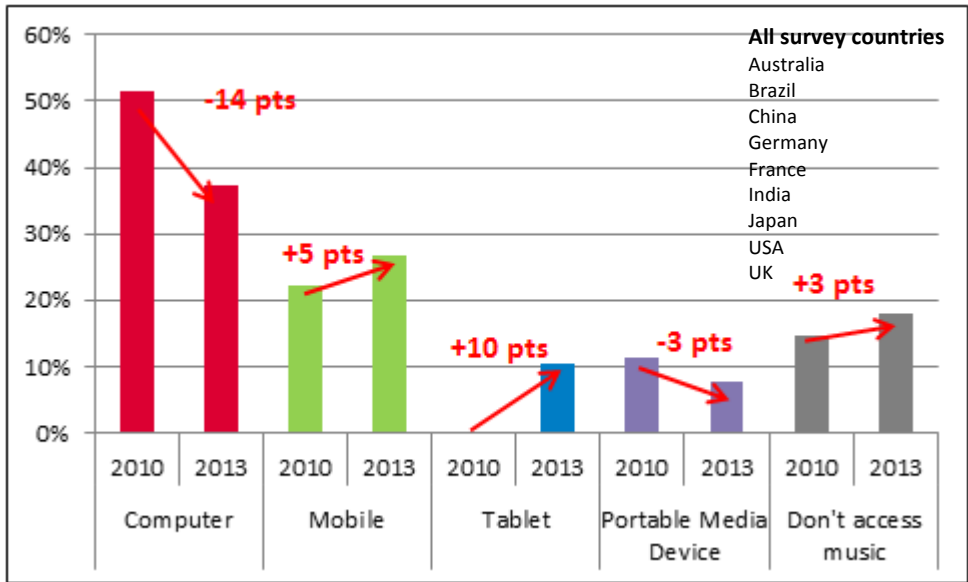
Lean-back listeners should be mobile operators' prime target for optimizing the commercial benefits from their music services. Operators have a range of business model options that can capture value from music by driving paid data traffic, reducing churn, attracting new subscribers, building advertising and sponsorship revenues, cross-selling other music formats and content, and selling premium bundles or app store content. Mobile operators have a richer set of business model options to choose from than OTT music streamers, allowing more accurate targeting of the local lean-back segment.

Diversification is fragmenting the listening experience

Multi-device listening habit

As the digital music market expands, it is diversifying across connected devices, service types and a multitude of new music brands. Two years ago, international music brands such as iTunes, Spotify, Deezer, Napster and Sony Music Unlimited were in just over 20 countries, now they are in over 130 countries between them. Many services are diversifying across multiple screens offering music on computer, mobile phone, tablet, iPod, connected TV, home hi-fi systems and now games consoles. Ovum's Consumer Insights survey adds some numbers to show how music access has diversified across multiple devices since 2010 (Figure 5).

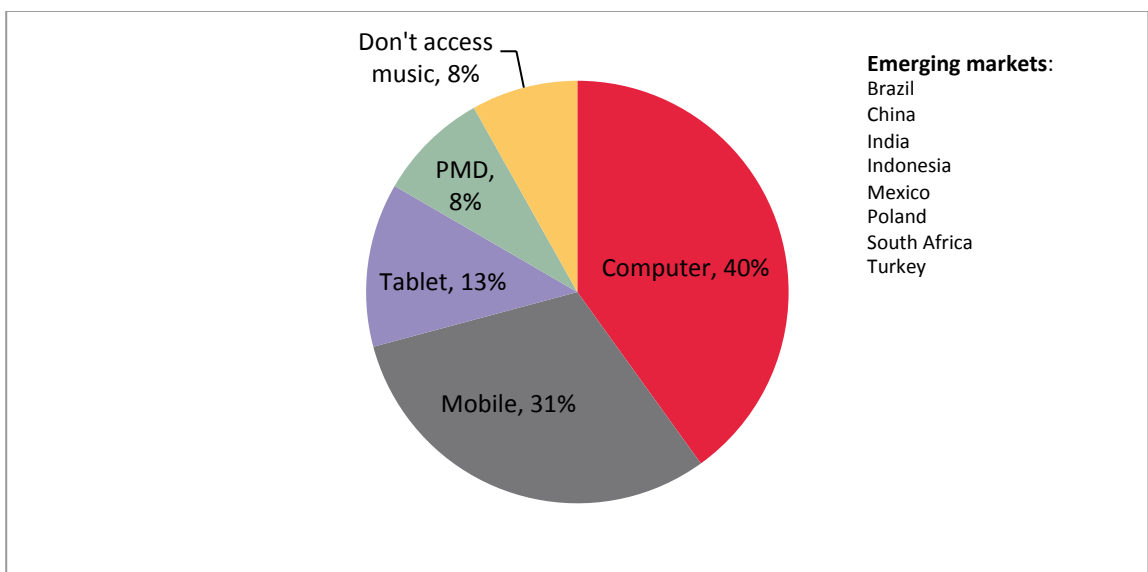
Figure 5: Device share used to listen, purchase or download music



Source: Ovum Consumer Insights, 2013

Across the nine markets surveyed (both emerging and developed), the share of devices used for listening, purchasing or downloading music has changed dramatically as shown in Figure 5. Computer share has dropped significantly by 14% points with mobile and tablets together up 15% points emphasizing the importance of mobile for reaching lean-back listeners. If we look at the device share for music listening in a selection of emerging markets alone (see Figure 6) we can see that mobile and tablet listening together reaches 44%, 4% higher than listening on the computer.

Figure 6: Emerging markets device share 2013



Source: Ovum Consumer Insights, 2013

These figures demonstrate again the diversification of music across devices with unique users listening to multiple devices throughout the day.

Diversified multi-format listening habits

In an average day, consumers migrate around a circuit of listening experiences ranging from traditional FM radio in the car through their uploaded iTunes CD collection on PC, to playlists from their music streaming service on their mobile. So the listening experience is fragmented requiring effort to open and set up the music session, a job that the core enthusiasts engage with but lean-back listeners do not find as intuitive being less interactive and later adopters of technology. In developed markets listeners switch devices within a music service as well as switching devices and services. In mobile-first emerging markets, though, the diversification of music services is focused much more on switching services on a mobile device rather than switching devices. This focus on the mobile device provides an opportunity for mobile network operators to develop more unified music experiences that offer multiple formats in a single portal to reduce the need for switching services, and potentially losing listeners to a rival service.

Key messages

- Digital music has broken into the mainstream but the casual listening passive mode of mainstream lean-back listeners is still underserved by existing music services.
- The continued growth of digital music rests on the targeting and monetizing of the mainstream lean-back listener who responds to being spoon-fed 'easy to listen' music packages with contextual appeal.
- Ovum estimate a significant majority of mobile operator's music listeners, between 65-75% consist of lean-back listeners.
- International music brands are often behind the curve in the local music and cultural scene of emerging markets relying on scaling up international catalogues of the big four labels. This offers the national and regional mobile operators to leverage their local knowledge and content relationships.
- Many established music services are geared towards the core enthusiast or still have not developed and properly marketed the highly packaged, curated, themed and refined propositions capable of targeting and engaging with the mainstream lean-back listener.
- About 75% of registered music subscribers listen for free and cannot be offered music experiences that are too attractive for fear of reducing the numbers converting to paid subscriptions. This is the 'Achilles heel' of 'freemium' music subscription services; a large group of free listeners at high risk of churning to more attractive, refined and focused mobile-centric casual listening services who meet their needs more effectively.
- Easy to use payment options that include micro-payments must be available to enable significant growth in digital music services.

- The digital music market is diversifying across connected devices and service formats leading to the user's daily listening habit stretching across a selection of preferred music services depending on the user's situation.

Recommendations for leveraging mobile music

Target the lean-back listener

The lean-back listener is underserved. Like the early pre-Wii video games market that catered for the hardcore gamer (and seemingly alienated the rest of the family), music service providers (even with their new internet radio options) are still under estimating the lean-back listeners potential indifference and, therefore, the need for packaged, curated, hosted, refined and simple music services. The lean-back listener is the new digital target, and looking after them could be the latest opportunity for telecoms operators that have a plethora of them on their networks. With access to a significant grouping of lean-backs, telcos have the opportunity to offer highly packaged and targeted music services that help to reduce churn, drive subscription and increase revenues.

A personalization capability increases engagement with lean-backs

The ability to utilize subscriber profiles, preferences and usage patterns helps to spoon-feed lean-back listeners with the style of music packages that will most appeal to them. There are four key elements to packaging digital music services for the lean-back listener:

- *Personalized music reduces the burden of choice:* A catalogue of 20 million songs is all very well but most listeners wouldn't know where to start. Personalized music recommendations provide a manageable selection based on relevant and even personalized theme that the lean-back listener engages with more readily. This is music discovery in an effortless format.
- *Unified music experience reduces switching:* providing packaged music to lean-backs in a unified and easy payment environment opens opportunities for cross-selling, whether full-track downloads, video streams, ring-back tones (RBTs), or other content and services.
- *Non-music entertainment has lean-back appeal:* this is the packaging that glues the music package together whether it is celebrity interviews included in the playlist, a DJ host, 'editorial' narrative, entertainment news or simply promotional vouchers that gives the musical theme its cohesion, the concept of music as a package works for lean-backs.
- *Offer exciting musical contexts:* changing musical contexts that are relevant, topical, seasonal, based around local culture or themes of taste or other entertainment categories are simple but strong propositions for the lean-back listener. Choices of creative contexts for music packages that are topically relevant and align with the users' personal preferences combine the best of personalization and music programming.

Access to sizeable lean-back audiences has advertising potential

Regular access to the predominantly lean-back music audience of a telecoms operator through personalized and contextual musical content and associated media opens significant opportunities for advertising and sponsorship. The obvious ability to match context with brand image in a concise music package and target it to specific audience segments identified by the operator offers a rich opportunity for advertisers and provides a valuable platform for operators to monetize. Brands can work with operators to develop music packages or magazines that they have strong control over, in terms of delivering their message. With the combination of strong contextual packages and personalized music, brands get to spoon-feed their messages to willing consumers within an environment or package that they have significant control over.

Media portals support business model flexibility

The ability to capture value from music in different ways increases its penetration. Operators have a range of options for benefiting from music that give them greater business model flexibility than their OTT rivals. Some or all of the following music business models, shown in Table 1, can be used by operators to monetize music packages:

Table 1: Business model options for digital music packages

Business model	Mechanic	Commentary
<i>Drive paid data traffic</i>	Free music service but increases data usage to drive data revenues.	In paid data environments and with the right banding.
<i>Advertising and sponsorship supported service</i>	Free service but listeners are targeted with advertising and service has branded sponsor.	The combination of contextual theme and personalized content creates a rich environment for ad targeting and brand relevance.
<i>Drive subscriptions and reduce churn</i>	'Free' music service used to create compelling paid bundles to recruit receptive segments and reduce their churn.	The size, richness and value of a music package scales up or down easily to incentivize bundle adoption and maintain loyalty
<i>Cross sell other music formats, content & services</i>	Within a portal environment encourage cross selling of full track, RBTs, video, concert tickets.	Benefits from a media portal environment to unify music experience, leverage personal data and enable cross-sell.
<i>Premium music package/magazine download</i>	Paid download (time limited) containing music and multimedia content, editorial, promotions and coupons for offline redemption.	Where data charges are a barrier, network coverage an issue or download better solution.
<i>Music streaming subscription</i>	Paid music stream containing music and multimedia content, promotions and coupons for offline redemption.	Where data charges are not a barrier and monthly contracts lend themselves to premium subscriptions.

Source: Ovum

A unified or portal based music experience opens up the flexibility for music listeners to easily buy additional content off the back of the digital music package, whether that's buying an RBT format of a favourite song, streaming a music video, or buying a concert ticket. This kind of impulse purchase in a consolidated music environment is similar to that found with in-game purchasing where the free-to-play model has been so successful. The combination of a digital music package with a media portal has the following advantages that support business model flexibility and performance:

- Recording of usage patterns to feed personalization.
- The 'in-music' environment, which encourages, enables and simplifies cross sell.

- Promotes loyalty and stickiness within the portal, potentially increasing competitiveness against OTT rivals that may not be able to provide the same services.

The flexible free and paid business model options open to mobile operators combined with a significant audience of lean-back listeners and well-practiced bundling techniques places mobile operators in a strong position to benefit from music on mobiles.

APPENDIX

This white paper was researched, authored and produced by Ovum in association with Mahindra Comviva, as part of a series of papers assessing the current state and future market direction of value-added services for mobile operators.

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