

Musical Mobile



. . . information you can do business with

Musical Mobile

Introduction

The mobile channel is a compelling opportunity for the music industry and, in our view, one of the key areas of mobile entertainment services of the future. The advent of 2.5G and 3G and the broadband access they give, is an ideal channel for the delivery of music tracks to mobile phones. Similarly, the music industry, having been stung by illegal distribution of its product via the internet, has awoken to the idea that using new distribution channels (other than selling 'vinyl' through retail outlets) is actually a good idea . . . and mobile is on the hit list.

Now, music on mobile phones falls in to a number of distinct categories. Firstly there are ringtones. These are currently very popular, in a limited monophonic way, and an early indication that the worlds of mobile communications, and that of music, have a future together. Then there is the concept of 'proper' tunes, or snippets of tunes that are embedded within the phone, much as games have been for some time. These have enabled the user to become more accustomed to using the mobile phone as a way of listening to music. There is also the idea of sending music along with pictures or messages via MMS as an improved contact method.

Finally, there is the idea that the mobile channel can be used to distribute master recordings of songs, much as the internet continues to be one of the main ways of disseminating musical material. This last area is different to the other two, in that it ties together the internet, mobile, MP3 players and CD burners, and uses the mobile channel as a sales route for the original product rather than simply using existing music content in a new, "fun" way.

While all three music-to-mobile business areas will be addressed here, it is we believe the last option that really offers something exciting to both the music industry and the mobile operator. Distributing 'real' music in this way takes the mobile phone, and mobile entertainment sector, into a whole new dimension i.e. the mobile interface becomes an internet like shop and music player, replacing the walkman and the PC and eventually the CD player at home - as the way of acquiring and playing music.

Ringtones

Today's Ringtone Market

The size of the ringtone market is very difficult to measure as it is significantly fragmented. In Europe and the US, many of the companies that moved into the ringtone market had previously been mobile service providers. Interestingly, many also originated from the fixed market, being former resellers who found that this sector was quickly commoditising. The Japanese market saw an influx of ringtone providers from companies who had previously been involved in the karaoke industry.

This hugely broken up market makes a 'bottom up' assessment of market size almost impossible. A 'top down' approach can be roughly estimated from royalty payments, although this makes the major assumption that all royalty payments are actually paid, and accounted for in the same way. This approach suggests a global market of around \$1 billion.

Overall, the ringtone market today is lucrative, but analysts and ringtone vendors alike agree that the market is unlikely to grow any further in its present form. Also talking to our sample of mobile users, most viewed current ringtones as being “naff” and “annoying”.

The Next Wave of Ringtones

The ringtone market will broaden over the next few years offering more than just tunes. Very short ringtones will encompass sound effects and even the voices of celebrities. Another recent move is to allow users to not only download ringtones, but also to rudimentarily mix them, by changing the tempo, volume and adding other effects. Japanese provider Composite, is already selling these in its national market.

The next step for the ringtone market is the use of polyphonic ringtones, which allow all of the above to be rendered in a much more realistic way.

Adding Images

This is an extreme, and, I suspect, particularly Asian, example of mixing ringtones and images, but serves as a neat example of how the ringtone/tunes/images idea is set for explosive growth. Personalisation will be the key.

Music Messaging

One of the other areas where mobile music is making in-roads is in the messaging market. As already touched upon in the Ringtones section, mixing pictures with music and using them as multimedia messages is a compelling idea for the mobile world. It is also up and running today and provides some interesting views of what is happening in the mobile music environment.

The Value of the Ringtone Market

Whilst ringtones have served as an ideal exemplar of how mobile entertainment services may grow and develop, by 2008 they will, we believe, start to dwindle as revenue generators. This is despite the addition of the features discussed.

Many industry watchers have labelled the ringtone market as being a billion dollar market, but we maintain that this not an accurate reflection of the user profile of ringtones. As we have stated earlier, most people who do download ringtones, do it once only and never return. For this reason, Juniper believes that the revenues that ringtones will generate are within the hundreds of million of dollars region, rather than billions. This is based on the market continuing in its present form, but of course there is nothing to say that a new crazy may emerge between now and 2008 that breathes new life into the sector.

Master Recording Distribution

Juniper believes that master recording distribution is the most compelling proposition for both the mobile and the music industry. Music, as well as adult content has driven the uptake of broadband across Europe by 136 per cent in the year to May 2003, and we believe music will also be very important for the mobile platform. We believe that changes in the way users connect to the mobile world through always-on broadband connections, plus the familiarisation with the internet and a blurring between the mobile world and the fixed internet world — will drive use of the mobile for all manner of new services. Purchasing and receiving original music tracks will be the big money spinner.

A detailed analysis of music delivery is available in Juniper's 'Mobile Music & Ringtones' report.

How Much is Mobile Master Recording Distribution Worth?

Despite our up-beat analysis for this area, we believe that the total revenue generated by mobile master recording distribution will be just over half a billion dollars by 2008. Admittedly this is low by most estimations, but we believe it to be representative estimate.

Compared with the traditional ways of distributing music, the mobile channel will not generate significant revenues until after 2008. This assessment has been made based on the music industry's current activity levels and plans. We believe that targeting the 12-19 year old market, will present limitations on revenue growth, and the music and mobile industries will have open up this form of mobile music to a much wider audience. Offering complete music lists to the middle market will be the key to generating significant revenues. This will mean opening up much larger amounts of music content to download, which will cost money and be difficult to police and operate. However, there is every possibility that this kind of mobile music download, given the right marketing could well be a replacement for walkman like devices and maybe even link with iPods and other portable MP3 players.

Hurdles and Challenges

Copyright, the Music Industry and Licensing

The music industry is currently very excited about the mobile opportunity, but there is acknowledgement within the sector that there are some steep hurdles yet to be overcome. In particular, the established operational frameworks require review, as do the flexibility of the existing contracts with the artists, and the general 'mindset' of how the industry does business in the future.

The music industry has for its entire existence been involved in producing recorded music, pressing it on to vinyl (and latterly CDs), and then shipping it to its retail outlets, where it is purchased by the public. This process however was turned on its head by the mass adoption of the internet. Learning from this experience, the music business knows that it must embrace these new channels to market, if it is not to be 'ripped-off' by illegal distributors. Achieving this however will be a Herculean task, involving a root and branch transformation of the entire industry. Agreement on how old recordings are dealt with will be a challenge, as the new rules will have to be applied respectively. New works will require artists to sign contracts that allow for new modes of distribution and marketing.

Security and Rights Management

The music industry has, perhaps more than any other business, suffered at the hands of the internet, with music being pirated and distributed outside of its control. This has had a direct impact on the 'bottom-line', and has reduced revenues in a much more fundamental way than other kinds of content. Whilst the mobile channel is inherently more secure, the industry must be confident of being able to protect its content via encryption and digital rights management.

Pricing

The amount to charge for various music content services over mobile is still very much in discussion . . . and so it should be, since the price of the material being distributed is the key factor in its success or failure. The music industry has to treat the mobile channel as a competitor to its existing channels and to the internet. The proposition must be of high quality, at a low price. The final price, however, should account for the immediacy of the service, but it is still uncertain at this stage whether users will pay a premium. A simple 'pay-and-keep' pricing policy, per track, may well prove to be the best way of doing this.

Cost of Equipment

Related to the price of services, is the cost of the necessary equipment for receiving and playing downloaded music. This could also prove to be a barrier to the uptake of mobile music services. Handsets that incorporate MP3 players are not yet widespread, and it is likely that when they are introduced, they will be available at the higher end of the market. The problem is that, at the moment, mobile entertainment services require expensive equipment that is not yet standard in phones. This is at odds with the main market that it has been designed to attract. The youth market generally, has a very limited budget and there is a strong mis-match between the disposable income

of the target market, and the cost of the equipment and services available. This could ultimately prove to be the biggest barrier to the uptake of all entertainment services in the early years.

Device Limitations

Poor sound chips currently render most music as tinny and unlistenable on a mobile phone. Compounding this problem is the limitation of the built-in handset speakers. These are usually optimised for low volume analogue output, rather than complex, high quality music, where the speaker response range has to be high. In addition to these fundamentals, the processing power and storage capacity on most phones are too low to cope with more than three or four whole tunes or games. Comparing this with the current leading MP3 player, Apple's iPod, which can hold 7500 tunes, this is paltry and will be a severe limitation to the acceptance of the mobile phone as a music device.

Acceptance

The final hurdle is the somewhat esoteric one of whether or not the general public will accept this form of music distribution. Whilst there has been a huge interest in the downloading of tracks on the internet (at no charge), many people still enjoy the activity of browsing around a music store and choosing albums. These purchases are often spontaneous and can be influenced by the product name, having heard it before, or even on what it looks like.

About the Author

Paul Skeldon is a Senior Analyst with Juniper Research, whilst holding a number of magazine Editorships, including 'World TeleMedia' Magazine - the On-line & Wireless Entertainment/Commerce publication, 'Contact Centre Management' & 'Contactcentrelink.com'. He has a vast experience in the mobile Entertainment field and regularly contributes to the GSM Association's annual Yearbook, 3G Mobile Strategies Magazine, and he has also written for The Times and The Financial Times.

For more information, please contact:
Michele Ince, Marketing Manager
Email: micheleince@juniperresearch.com
Website: www.juniperresearch.com