Building the New Business Case for Bundled Music Services

EXECUTIVE SUMMARY

A MIDiA Consulting report commissioned by Universal Music

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Insights & Decisions in Action

Introduction

Telco bundled music services seemed like a marriage made in heaven but many telcos* struggled to build truly compelling offers with robust business models. Now streaming services represent a new wave of opportunity for telcos.

This report provides a definitive and frank assessment of what has worked so far, what has not, and why. Using consumer data, market trends, case studies and interviews with key telco stakeholders we establish an evidence-based case for music service bundling and its potentially *transformative* impact on telco customer satisfaction.

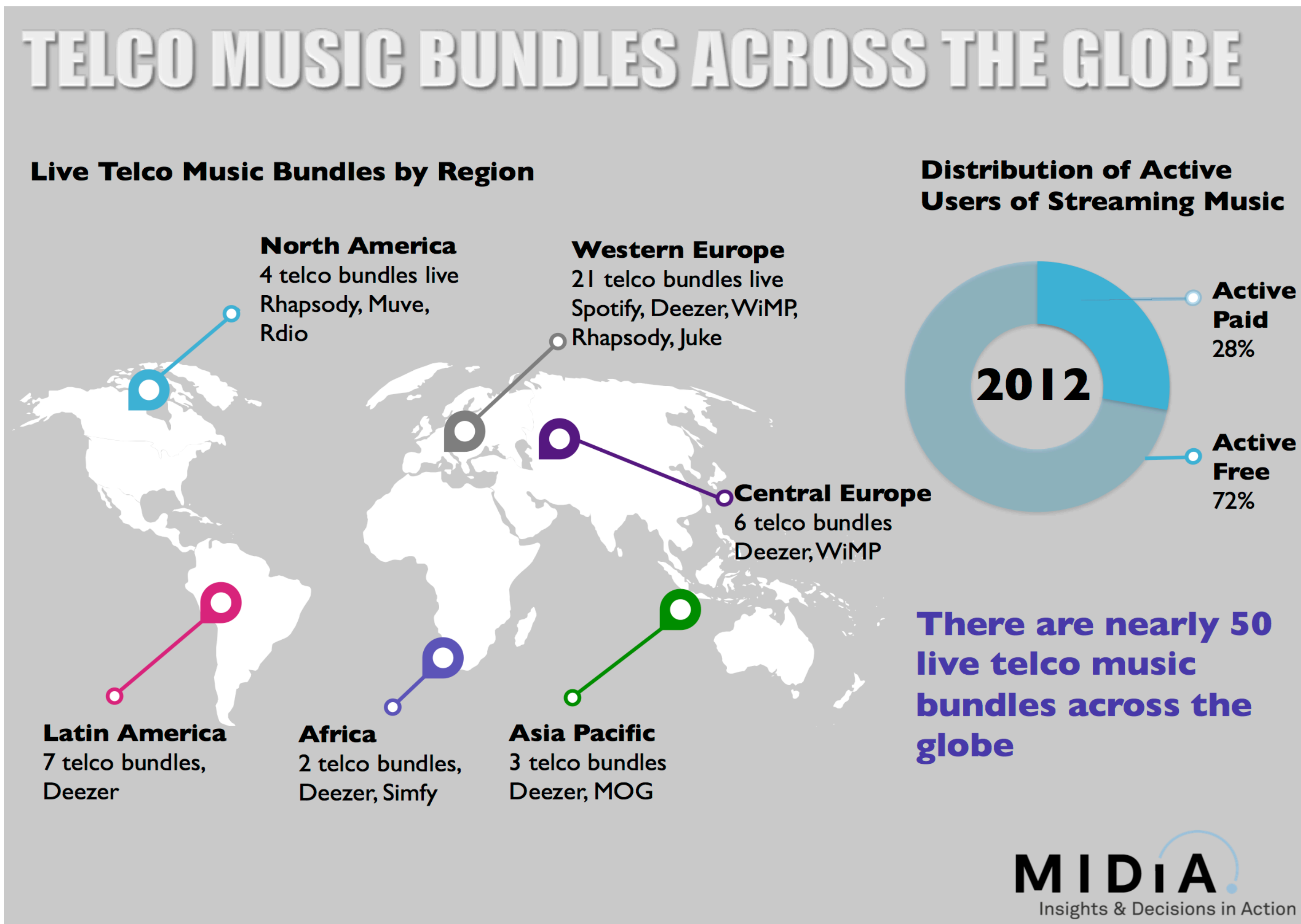
Key Findings

- Music subscriptions accounted for $1.2 billion in 2012
- On demand streaming penetration is now 35% rising to 65% in Sweden
- 55% of promotional offer trial users convert to paid after 1 month
- There are nearly 50 telco music partnerships live across 6 different regions across the globe
- Streaming is ready for primetime, with 38% penetration among 16 to 24 year olds and 28% even among 35 to 44 year olds
- A new wave of telco bundled music success stories is emerging that use a sophisticated blend of success metrics and place the music service brand at the heart of their marketing strategy
- Net Promoter Score (NPS) is emerging as an effective 'common currency' for benchmarking the impact of music services.
- Music services are passion products that create a customer satisfaction uplift that stretched right across a telco's business. This is the *customer satisfaction halo effect* of music

***Definitional note:** for the purposes of this report the term 'telco' refers broadly to mobile carriers, ISPs and mobile handset manufacturers.*

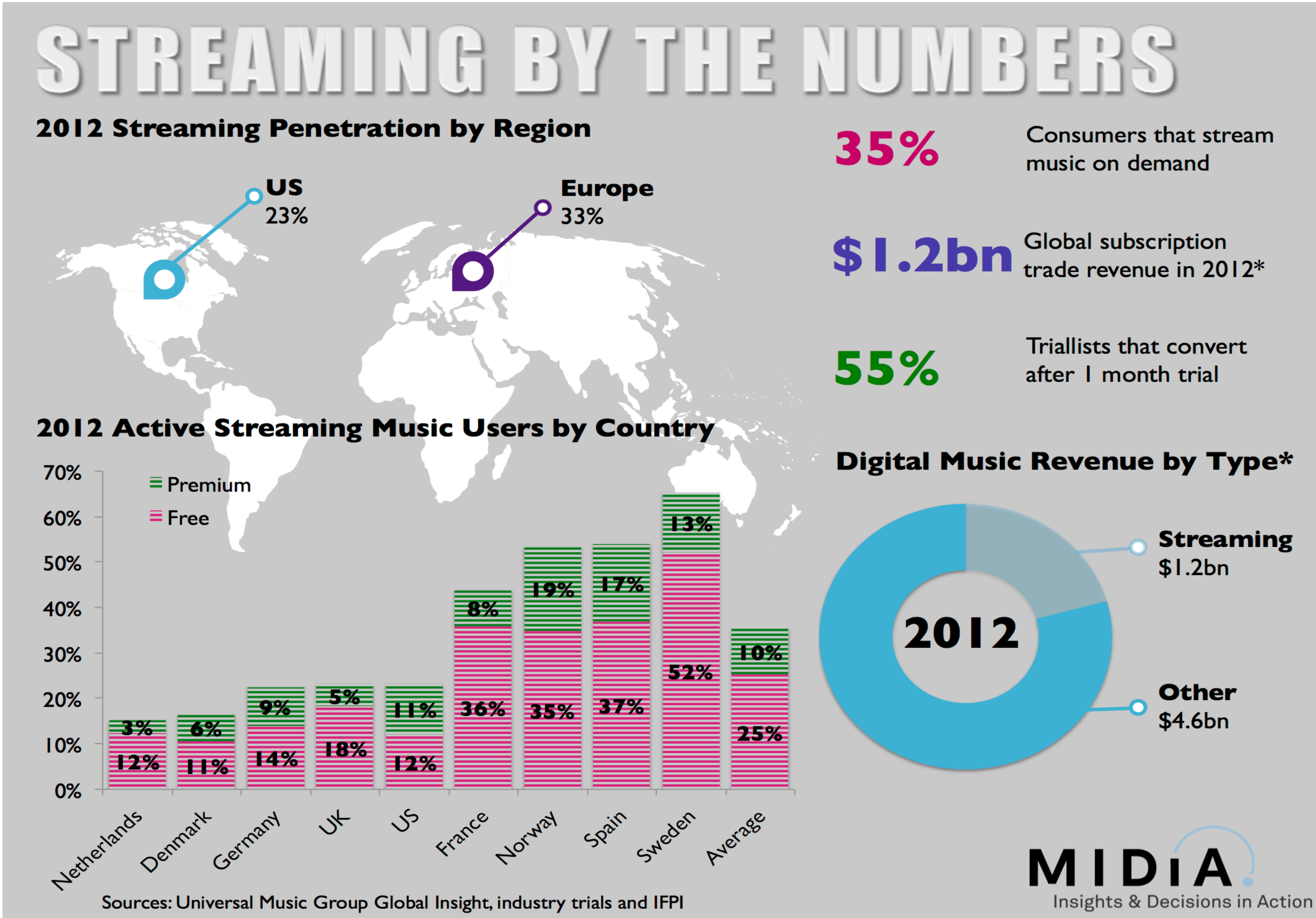
The Time is Now For Telcos and Digital Music

You must put the music offering at the centre, so that consumers understand its core value. If you simply add it as one extra service in a wide portfolio, consumers will not recognize its true value." **Lars Roth, Telia Sonera**



The consumer shift from downloads to streaming is the most important digital music market trend since the advent of the iTunes Music Store. Telco music services struggled to find a place in their customers to digital music journeys and couldn't compete in a marketplace dominated by Apple's iTunes.

Streaming has changed things, and dramatically so. 28% of streaming consumers now pay to stream, generating $1.2 billion in trade revenue in 2012. There are now nearly 50 telco music service partnerships live in six regions across the globe (see figure). But this only scratches the surface of the telco music opportunity.



A number of technology and music market factors have combined to ensure that the time is now for telcos and digital music:

- **Streaming is the future of digital music**: digital music is now ready for prime time, thanks in large part to the right consumer technology being in place. High speed broadband, mobile data and with smartphone penetration in Europe's 'big 5' markets and the US approaching 60%.[1] Global smartphone users numbered 1.1 billion at the end of 2012.[2] These technology foundations have underpinned the success of streaming, with 35% of consumers now streaming music and 10% paying to do so (*see figure*).
- **Apple is no longer untouchable**: in the download era telcos only had the option of competing with the market leader (i.e. Apple). Now they can partner with market leaders such as Spotify and Deezer. In fact streaming services need telcos for reach and marketing muscle.
- **Streaming is a better business model:** while a la carte downloads are a tight margin business, streaming subscriptions are a higher margin opportunity with recurring high value revenue, rather than fragmented low value purchases. Telcos can also improve free-to-paid conversion because of their unique ability to subsidize cost.
- **Streaming has a wide marketing funnel:** streaming has strong appeal across all consumers and the share of consumers paying to stream follows almost exactly the same age curve as overall streaming. This means telcos have a wide marketing funnel with an equal opportunity to convert free-to-paid across all streaming customers.

Streaming subscription services are an opportunity for telcos to become top tier players in digital music with highly viable business models.

Case Study: Telia Sonera and Spotify operate a highly successful subsidized music service bundle in Sweden

Key Success Metrics

Since 2010, during the period of the service partnership:

- Blended churn reduced from 17% to 15%
- Total mobile subscribers grew by 12% from 5.9 million to 6.6 million
- A 'minority' of mobile subscribers had a data plan in 2010, now the 'majority'

> *We partnered with Spotify to strengthen our brand and to differentiate our offers. Improved coverage is no longer a differentiator…we needed something more."* ***Lars Roth, Telia Sonera***

In summary: Swedish incumbent Telia Sonera hard bundled between 3 and 12 months of Spotify's premium service with all mobile data plan tariffs.

Objectives: Telia Sonera wanted to strengthen its brand, increase youth appeal and to differentiate while retaining premium positioning. As Telia Sonera's Lars Roth explains "We are a premium position operator, like most incumbents, and we need to defend that position."

Implementation: Telia Sonera replaced its existing music service Telia Music Player because as Roth pointed out "Telia Sonera spent the majority of its marketing spend explaining the service to customers." The Spotify partnership brought reciprocal benefits: "From a target group perspective 'we were meeting in the doorway'. We get younger cool customers, and Spotify gets older customers that it couldn't attract by itself."
Crucial to the success of the partnership was that Telia Sonera invested heavily in marketing, placing the Spotify's brand at the heart of mobile product and service marketing.

Measuring Success: The Spotify partnership was a strategic brand initiative measured across diverse KPIs. Telia Sonera saw improved brand recognition, customer acquisition and maintenance of low churn. Telia Sonera research also showed that customer perceptions of value closely matched actual price point – illustrating the benefit of subsidizing a well-known product. Positioning Telia Sonera's new mobile data plan around Spotify acted as a major growth catalyst for data plan adoption. Spotify became the use-case vehicle for data plans, a highly tangible reason for getting a data plan.

Our Take: Telia Sonera's Spotify partnership proved so successful because the strategy was supported and driven by senior management. The business case was built around a broad set of business benefits and so was rigorously measured across multiple variables and parts of the consumer journey. It was set up for success by getting buy-in from across the business and robustly positioning the offering. As Telia Sonera's Roth stated "You must put the music offering at the center, so that consumers understand its core value. If you simply add it as one extra service in a wide portfolio, consumers will not recognize its true value."

“*Business, technology and service all have to be right. Get any one of those wrong and it will fail. You really have to be highly successful across all three of them.”* ***Jeff Toig, Muve Music***

Building a New Business Case for Music

The mainstreaming of streaming also raises the bar for telco music services. There are four key business hurdles that telco services must address to be successful:

1. **Music is too often not a strategic priority for telcos:** music is often not a top priority for telcos, too often resulting sub par services. ***Recommendation****: Music needs setting up for success with high-level strategic support and a business plan that is broad and inclusive to be successful.*

2. **Internal business casing gets in the way of innovation:** the ‘business-model-first, user-experience-second’ approach common to telco music distracts from innovating the user experience and product. ***Recommendation:*** *either prioritize user experience innovation or partner. For consumers, experience is the product.*

3. **The right success metrics are often missed:** music services suffer from being measured against too narrow a set of success metrics.[3] ***Recommendations****: success metrics must be tightly aligned with core business drivers such as ARPU and retention but must also capture wider impacts such as branding and customer satisfaction.*

4. **Strategy decision flow is often wrong:** telco music services should be solutions to problems not ends in themselves. ***Recommendation:*** *internal consensus of the business objectives must be established first, then strategy. The choice of service and technology is the last part of the puzzle.*

Telco Music Strategy Case Studies

	OBJECTIVES	STRATEGY	IMPLEMENTATION
Telia Sonera / Spotify	Drive uptake of data plans and reposition the brand	Spotify brand placed at the core of Telia Sonera's marketing	Tight brand partnership and co-marketing
Cricket Wireless / Muve	Drive core business goals (acquisition, retention, ARPU)	Hard bundled into data plans to drive differentiation & adoption	Fully integrated into Cricket data tariffs
Nokia Mix Radio	Won senior support for retaining music as a core company focus	Intuitive mobile-fist service to drive differentiation for mass market	Native installed as key feature in handsets
Orange / Deezer	Music established as a strategic value add and driving retention and ARPU	Hard bundled with data plans and offered as standalone service	Identified challenger brand to differentiate positioning

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The success stories of telco music services are those that make music a strategic priority (see figure). This is not some sop to the record labels, but a reflection of what it takes to make music strategy a success. Telcos that have simply added music to their list of Value Added Services (VAS) have seen underwhelming success while those that have positioned around it have enjoyed success.

As TeliaSonera's Lars Roth intimated: "I believe Telcos need to make the transition from being telecommunications operators towards becoming Internet operators since most future revenues lies within this. And to do this requires being true to the Internet religion, the need to be open and to partner. This contrasts with the traditional telco approach of 'we do it all.'"

Case Study: Muve converts a fifth of Cricket Wireless' subscribers to a mobile-first music service

Key Success Metrics

Since 2010, during the period of the service launch:

- ARPU increased $38.14 to $42.73
- Total average weighted number of mobile subscribers grew 10% from 5.2 million to 5.8 million
- 1.4 million Muve subscribers, representing a quarter of all Cricket Wireless subscribers
- 70% Muve sbscribers are active users of the service

"*Metrics such as the number of songs don't really matter unless you connect them with carrier business metrics such as reducing churn. You have to convince the carrier to believe that the music service will move all their key metrics, when you can show them they do you have success."* ***– Jeff Toig, Muve Music***

In summary: Muve Music is an unlimited mobile music download service developed by US regional mobile carrier Cricket Wireless, hard bundled into Cricket's $50, $60 and $70 tariffs.

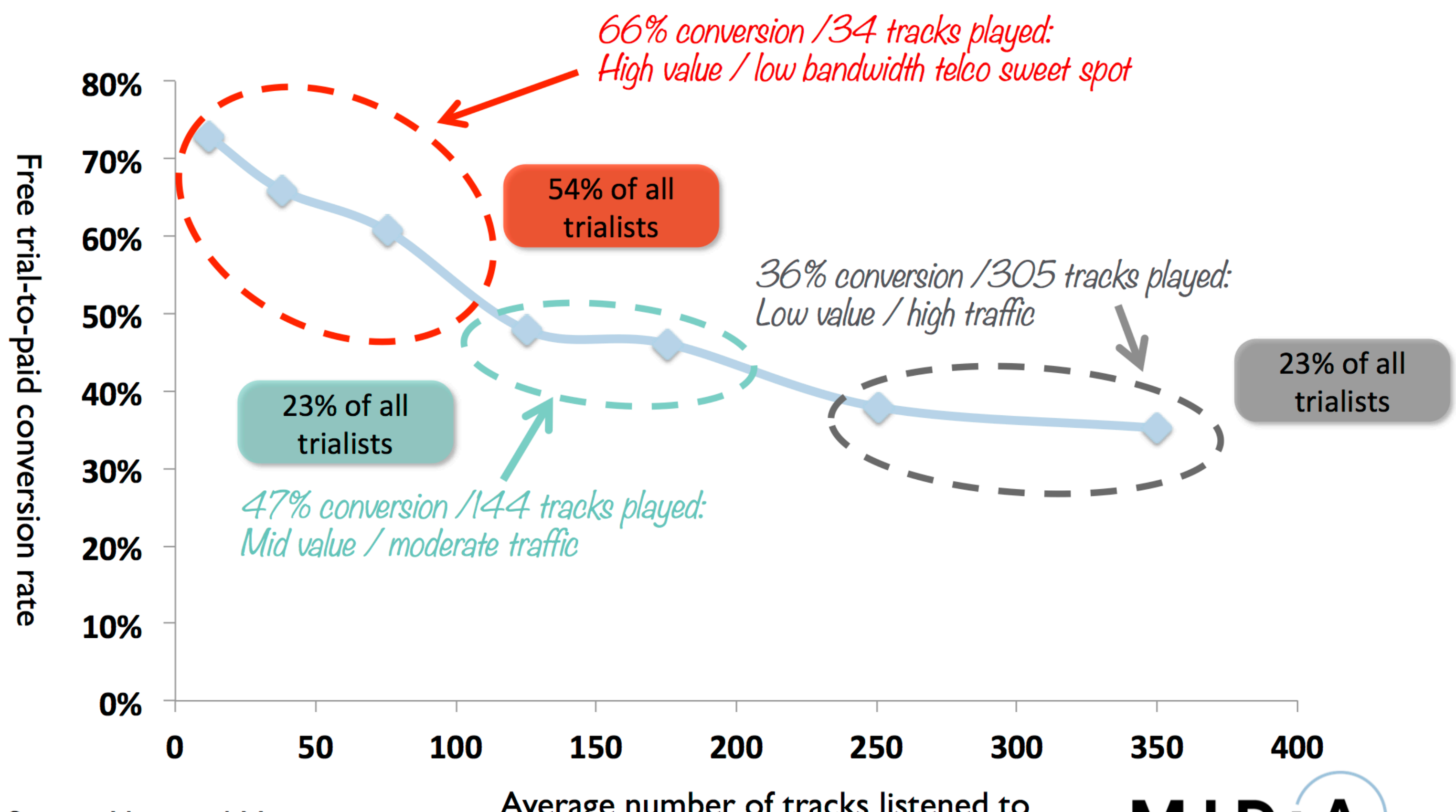
Objectives: Cricket Wireless' core business metrics were suppressed and the carrier wanted a value added service to drive improved performance across acquisition, retention and ARPU. Music was the right fit for Cricket's younger, lower income subscribers.

Implementation: Muve Music was set up to drive Cricket's core business imperatives.[4] While most other music subscription services provide mobile access as a premium tier and rely upon the PC as the usage hub, Muve is a *mobile-first* service with mobile the core usage point for all tiers.

Measuring Success: Muve tracks detailed user analytics across the user journey and communicates with them at every point. For example Muve tracks downloads done within store when a customer activates the service at point of sale. Users also get a 'welcome to Muve' message with artist messages dropped into their voicemails to encourage immediate usage and familiarity. Muve now numbers 1.4 million customers, more than 20% of Cricket's entire mobile subscriber base. 50% of all new Cricket Customer sign ups get the Muve Music bundle and 70% of Muve's current subscribers defined as active.

Our Take: Muve Music's success is unprecedented, though its circumstances are also unique. It is a rare example of a successful in-house telco music service thanks to standalone branding and intimate alignment with Cricket's business objectives. Muve's *mobile*-first approach also ensures the user experience is always tied to Cricket's service. Most interestingly of all, Muve has built an engaged premium music subscriber base from mass market, lower income consumers.

Trialists Quickly Convert to Paid Even After Only Scratching the Surface of What Subscriptions Have to Offer



Source: Universal Music

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Promotional Offers

Promotional offer trials are an invaluable means of establishing behaviour among telco consumer bases and then converting this interest to paid. This is illustrated by the anonymized data results of a telco one month free promotional trial of a music subscription service. Of all consumers that took up the trial, more than half converted. Most of those who converted to paid were relatively modest users (see figure). This illustrates streaming's pulling power: these consumers have only scratched the service of what music subscriptions have to offer yet were impressed enough by what they saw to sign up.

Customer Satisfaction, the New Music Service Opportunity

"*A core capability for any potential partner is how well they integrate with social networks and tools. It needs to cut through, to register on the radar and to punch above its weight for it to be really interesting for us…something that touches upon consumer desire and instils a desire to share.*" ***Sean Risebrow, Virgin Media***

A satisfied bundled music service user is a satisfied telco customer, indeed 93% of UK music subscription service users say they are satisfied with the product.[5] Yet customer satisfaction is an underutilized music service success metric that combines hard measurability with the emotional impact of a music service.

Net Promoter Score (NPS) is emerging as the common quantitative currency for customer satisfaction and among the telcos that we interviewed there was a consensus that it brings value as a standard metric that can be used across diverse business units, a metric that the business can 'get behind'. NPS has huge potential as a quantitative half-way point between hard and soft measures to assess music's business impact against other telco products. Its success though depends on:

- **How deeply embedded NPS is**: early on, NPS may not be readily recognized or understood across the organization.
- **Scale of the service:** effective NPS analysis requires robust sample sizes so a weekly adopted service is unlikely to generate enough data points to enable analysis.[6]
- **Conflated drivers:** it is not always easy to determine how much NPS scores are driven by the service experience itself or the bias of the customer base.
- **Profile, positioning and quality of the service:** a poorly featured service will have poor NPS scores whatever the business benefits may be.

Amplifying the Voice

Even the most edgy, cleverly positioned challenger telco is ultimately a provider of important products but not usually a consumer passion point. Music though has that brand passion secret sauce and partnering with the right music service can enhance the telco's own brand and customer sentiment.

The opportunity increases when music can be integrated within social networks. A bundled music customer sharing songs on Facebook transforms the service into an amplifier of the telco's brand, inserting the telco into consumer conversations that would otherwise be elusive.

Conclusions

Telcos now have the opportunity to transform their roles in digital music from also-rans to market leaders. Their unparalleled subscription model expertise – particularly churn management - and their ability to drive subscriber growth with price subsidization make them crucially important partners for the next era of digital music. Digital music is ready for prime time, the potential benefits to telco businesses are unprecedented, just at the time they need them:

- **The customer satisfaction halo effect** with telco markets saturating and commoditizing, customer satisfaction has become a crucial point of differentiation. Music triggers strong positive customer sentiment in a way core telco products rarely do. Music converts satisfied customers into highly vocal net promoters with satisfaction benefits felt across the full range of a telco's products. Music services allow telcos to 'double dip' in this amplified voice benefit through their integration with social networks.
- **Brand impact:** in the past music often weakened telco brands because of poorly featured services that lacked differentiation. Now improved technology capabilities and strong streaming brands change the equation. When a telco puts music at the core of its marketing strategy, the brand uplift is transformative, dramatically shifting consumer brand perceptions.

But to capitalize on this opportunity telcos should:

- **Establish business objectives first:** choosing the right partner will not always mean choosing the hottest game in town, but instead the one that will best help a telco meet its strategic objectives.
- **Put the music brand heart and centre:** if a music service is hidden away as another VAS in a broad portfolio offering it will dwindle into insignificance. Go big or go home.
- **Set the right measures for success:** a successful telco music service is one that builds support and budget from across the business and that is measured holistically against a mix of measures.
- **Seek out savvy partnerships:** telcos and rights holders should pursue partnerships that are sustainable and commercially viable, that offer the opportunity for long term relationships rather than just short term winnings.
- **Harness NPS:** NPS represents the standard success currency with which a music service can be measured in direct relation to the rest of the business.[7]

Bundled music services did not get off to the best of starts, but now their time has come, giving telcos the opportunity to assume centre stage in the digital music marketplace. To achieve this though, it is pivotal that NPS measurement happens within the music service itself and not just at adjacent points of the customer journey.

Notes

1. ComScore
2. eMarketer
3. Just tracking churn or ARPU impact misses the full picture and issues are complicated by the challenge of attributing the exact amount of influence of music on any single metric when multiple factors play a role.
4. The alignment with Cricket's business metrics is illustrated by the fact that Muve's uses a download model rather than streaming because of its superior network efficiency for Cricket.
5. EMI Insight, UK 2012
6. In such circumstances it is crucial to avoid the temptation to use NPS scores from analogous services as a proxy.
7. To achieve this though, it is pivotal that NPS measurement happens within the music service itself and not just at adjacent points of the customer journey.

About the authors

Mark Mulligan

Mark is a media and technology business analyst, and a leading authority on the digital music market with 15 years of experience.   Mark is a co-founder of MIDiA Consulting.

Mark works with companies right across digital content technology value chains, from global leaders to early stage innovators, from media companies through to telcos, right up to the c- suite. Mark spent 11 years as a Vice President and Research Director at Jupiter Research and then at Forrester Research.

Mark regularly keynotes leading industry conferences and is routinely quoted by top tier media including the BBC, CNN, the Wall Street Journal, the Financial Times and Business Week.

Mark's core areas of expertise are:
Digital content and digital business strategy, innovation strategy, pricing analysis, partnership and channel strategy, consumer insight and targeting, business transformation, competitive marketplace assessment.

Keith Jopling

Keith is a 'career consultant', although he did run a marketing analytics team in a global pharmaceuticals company in the late 90s. Keith is a co-founder of MIDiA Consulting.

Keith is a music and media consultant. He has undertaken digital development and strategy projects for EMI, Live Nation, Nokia, Sony-AIM, Daily Mail Group and others. He has also advised on music service development for high-end audio brands like Bowers & Wilkins and Bang & Olufsen and has advised numerous start-ups.

He led a variety of strategy projects for the BPI (UK labels) and ERA (UK retailers) on consumer format shift, customer loyalty, impact of piracy and insights for new product development. Keith Chairs the BPI Innovation Panel for UK Digital Music. He was Research Director for IFPI 2000-2006 responsible for business intelligence and market understanding for the global recorded music industry across more than 70 countries.

About MIDiA Consulting

MIDiA stands for Media Insights & Decisions in Action. Our mission is to help media and technology companies develop purposeful strategies quickly through market understanding, clarity of vision, and workable innovation.

We help media and technology companies make sense of the changes that digital market forces are bringing about. And we help them make profits from digital content.

We are a boutique, media industry focused consultancy that delivers practical, results-driven outcomes.

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