Building the New Business Case for Bundled Music Services

A MIDiA Consulting report commissioned by Universal Music

Mark Mulligan
Keith Jopling
July 2013

Insights & Decisions in Action

Building the New Business Case for Bundled Music Services

Table of Contents

Case Studies

Cricket Wireless – Muve Music
TeliaSonera - Spotify
Canal Digital - WiMP
Orange - Deezer
Nokia - Mix Radio

Companies Interviewed

Canal Digital
Deezer
Muve Music
Nokia
Samsung
TeliaSonera
Virgin Media
Vodafone

MIDiA
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.

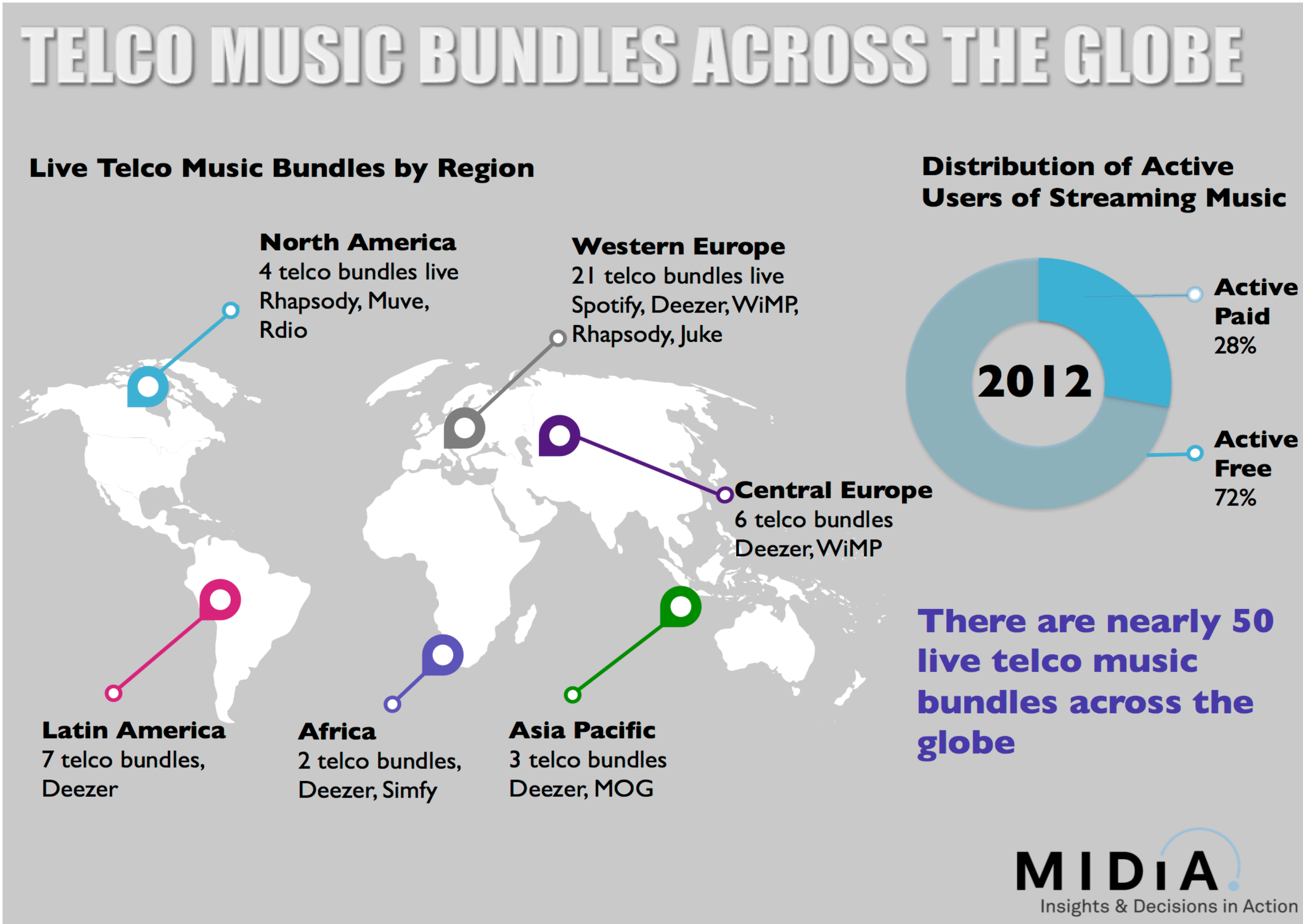
Key Findings

- Music subscriptions accounted for $1.2 billion in global trade revenues in in 2012
- On demand streaming penetration is now 35% rising to 65% in Sweden
- 55% of promotional offer music 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, in which telcos 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 stretches right across a telco's business. This is the *customer satisfaction halo effect* of music
- To be successful, telco music services need to follow a specific decision flow of setting objectives, formulating supporting strategy and finally deciding upon the right technology and partner. Too often the last step happens first

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

Section 1: Capitalizing Upon the Streaming Market

"*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***



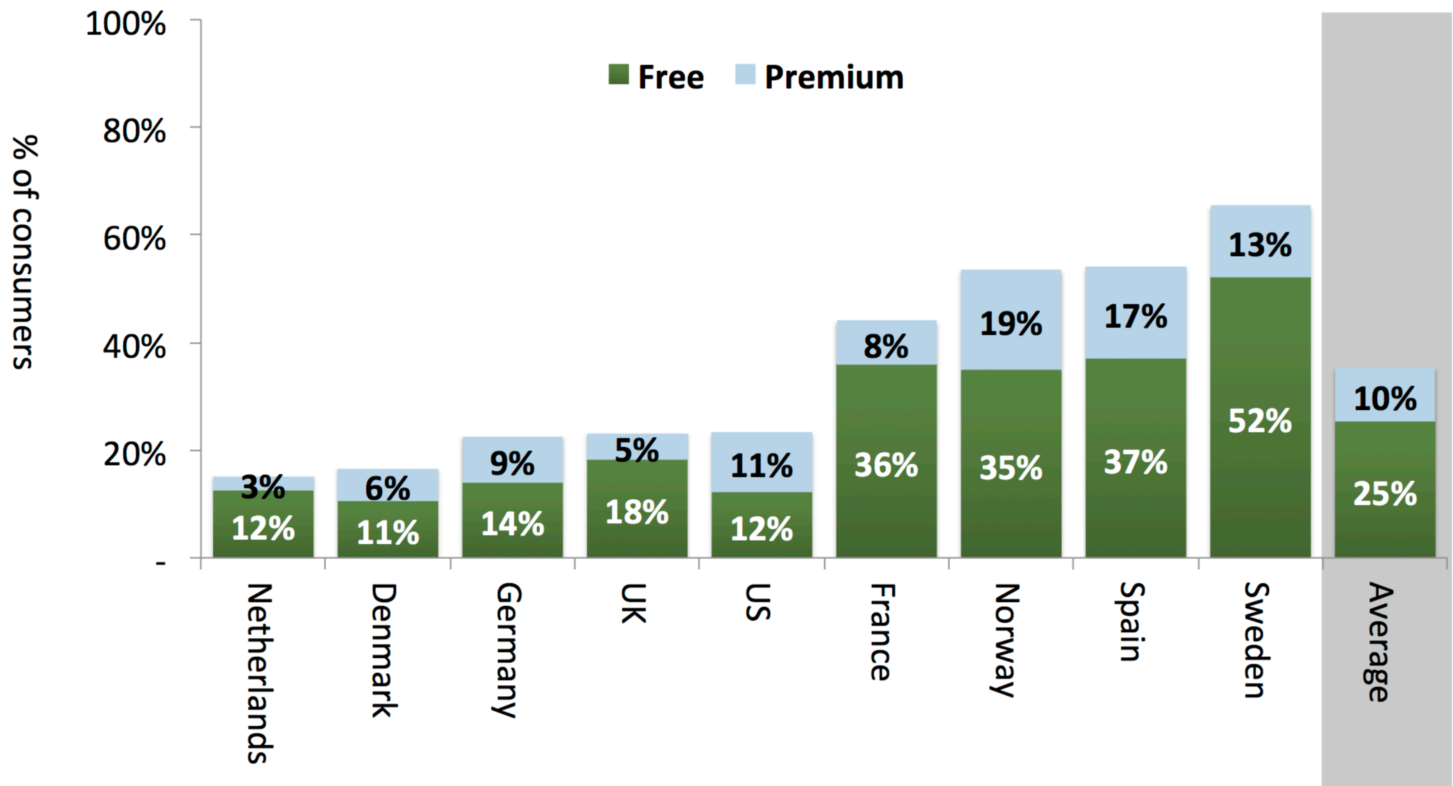
Section 1: Capitalizing Upon the Streaming Market

Telcos* have long played a crucial role in digital music but usually as the data highway provider rather than driving the digital journey itself, with their services too often struggling to compete in a marketplace dominated by Apple's iTunes. But things are changing, and dramatically so. The consumer shift from downloads to streaming is the most important digital music market trend since the advent of the iTunes Music Store and is creating a new wave of telco opportunity. 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:

- **Technology is ready:** high quality music experiences require high quality consumer devices and high-speed connectivity. These were not prevalent until 2009-10. Now though, high speed broadband, mobile data and smartphones are widespread meaning that even the mass market is 'tech-ready'. 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]
- **Streaming is the future of digital music:** 35% of consumers now stream music, with 10% paying to do so (*see figure*). Streaming is changing how consumers interact

Streaming Music is Becoming Quickly Established Across a Diverse Variety of Markets



Source: Universal Music Group Global Insight

MIDIA
Insights & Decisions in Action

www.midiaconsulting.com – July 2013

with music and markets such as Sweden and Norway hint at what the streaming future may look like. Streaming is now more than 90% of Swedish digital revenue. Streaming also pushed both Sweden and Norway's total music markets into growth in 2012 (for the first time since 2004 in Norway's case).

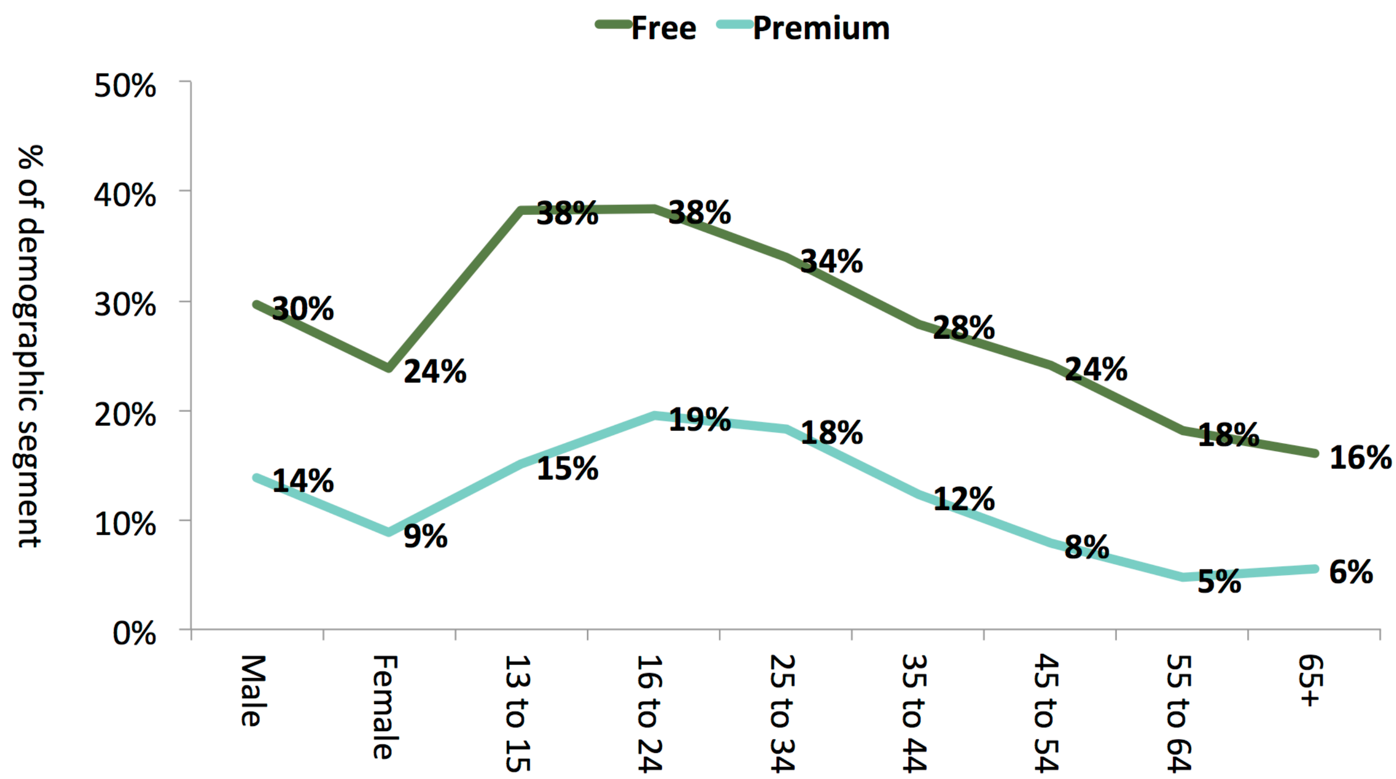
- **Streaming services and telcos are strong complements:** streaming services benefit from telcos' reach and marketing muscle to help them establish their brands. Similarly telcos benefit from the quality of user experience of streaming services and also from their aspirational brands.

- **Telcos can subsidize price:** the majority of streaming users do not currently pay. Telcos have the unique ability to hide some or all of the end-user cost to turn more of this demand into revenue when the services alone cannot

- **Streaming enables telcos to become top tier players:** in the download era telcos only had the option of competing with the market leader (i.e. Apple), but with streaming they have the option of partnering with market leaders. Apple is no longer untouchable.

- **Streaming is a better financial 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, one-off purchases

Consumer Adoption of Paid and Free is Broadly Similar Demographically



Source: Universal Music Group Global Insight

www.midiaconsulting.com – July 2013

Streaming is Attracting Young, Engaged Consumers

Streaming is already showing positive signs that it is quickly moving to the mainstream:

- **Wide appeal:** streaming has strong appeal across all consumers. Penetration is 28% even among the typically less digitally engaged 35 to 44 year olds. Adoption is strongest among teens and those in their early twenties *(see figure)*. For incumbent telcos with audiences that skew more towards older consumers, streaming services are a key way to reach younger consumers.

- **All ages are willing to pay:** 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. The only exception is 13-15 year olds who typically do not have credit cards but who are a great pre-pay bundle opportunity.

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."

Section 2: Building a New Business Case for Music

"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***

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

- **Music is too often not a strategic priority for telcos:** tight profit margins, lengthy deal processes and heavy marketing costs mean that music is often not a top priority for telcos, often resulting sub par services. Music is too sizeable an investment to not be properly supported. A telco music service needs setting up for success.[3]

  Recommendations: *Music needs high-level strategic support to be successful, so the 'pitch' needs elevating within telco organizations, based upon a better understanding of music as a consumer 'passion point' that can drive customer satisfaction, as well as strategic marketing and branding objectives. A telco music strategy needs widespread senior-executive buy-in and a business case that is broad and inclusive.*

- **Music is not prominent in the 'consideration cycle':** broadband and mobile point-of-sales do not naturally sync with music, with consumers typically shopping for the cheapest deal or for phone features. As Virgin Media's Sean Risebrow explains *"The reality is that value added services such as music are not point of sale product decision points."*

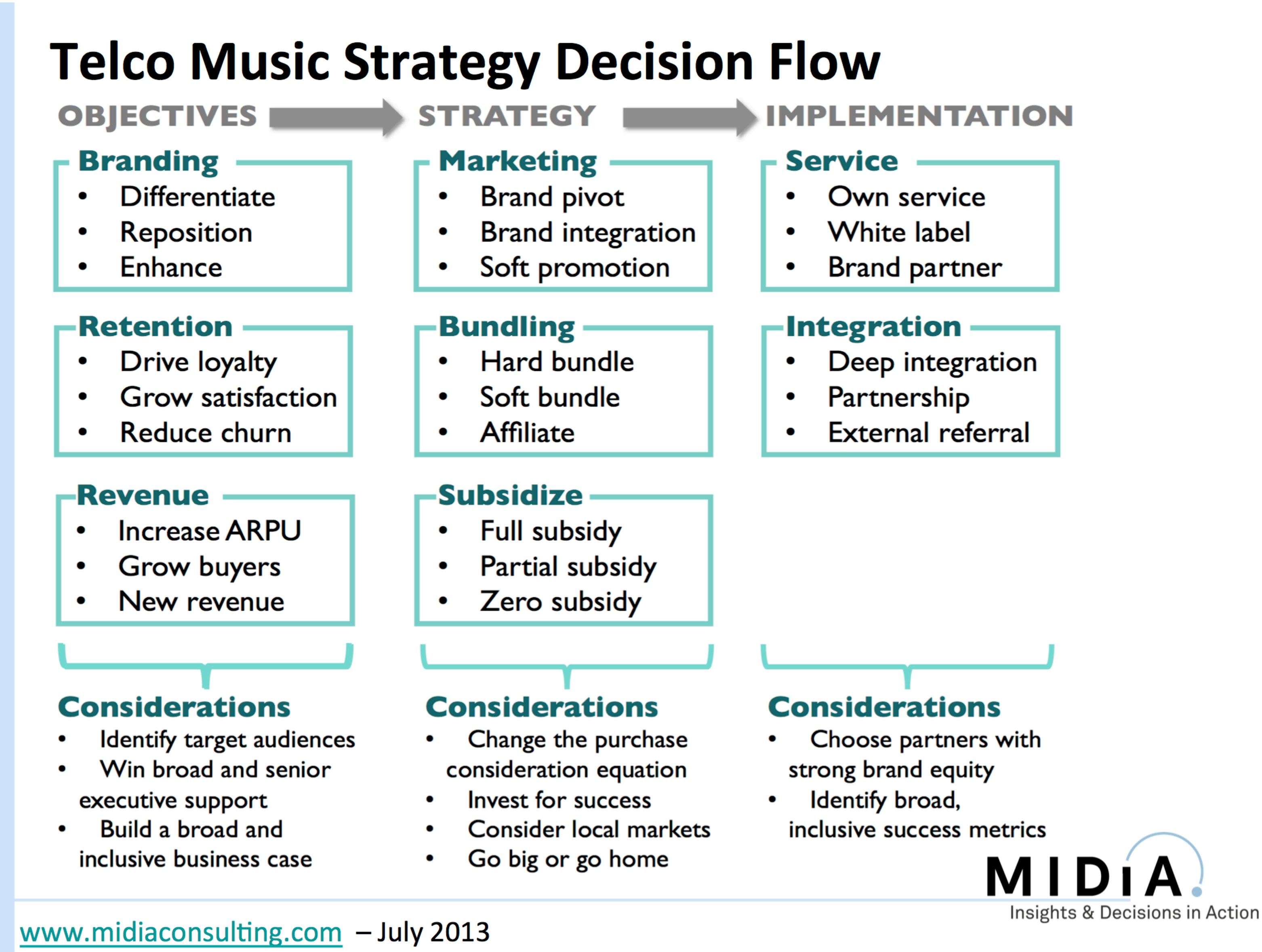
  Recommendations: *The value of music needs seamlessly embedding in the core telco product, as was the case with TeliaSonera (Spotify) and Cricket Wireless (Muve) – see case studies for more detail. This protects music from becoming an isolated add-on.*

- **Establishing the right success metrics:** music services deliver many benefits to telcos but they are not a complete answer to any single question. Also many services suffer from being measured against too narrow a set of success metrics.[4]

  Recommendations: *though success metrics must be tightly aligned with core business drivers such as ARPU and retention they must also capture the wider impact, including branding and customer satisfaction (using NPS).*

- **Internal business casing gets in the way of innovation:** telco music teams have to navigate complex internal business case journeys, pooling multiple budgets, teams and revenue models. These complex processes have been a distraction from innovating the user experience and product. Streaming services have set a new user experience high-watermark meaning that offering a 'me too' music service will fall short, however robust the business model.

  Recommendations: *the focus on 'business-model-first, user-experience-second' has often put telco music services at a disadvantage with pure play competitors. Partnerships opportunities and enhanced white label provider offerings give telcos more opportunity to shortcut to high quality user experiences. For consumers,* ***experience is the product.***



Aligning Objectives, Strategy and Implementation

A telco music service should be the solution to a problem not an end in itself. Those telcos that decide 'we need a music service' and reverse engineer a business case most often fail. As Muve's Jeff Toig observed "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. Telco music strategy works best when the following happen (see figure):

- **Set business objectives first:** a telco must first establish internal consensus of the business objectives and only then embark on devising strategy. The choice of service and technology is the last part of the puzzle, not the first.

- **Set realistic expectations about value of music and the commercial terms:** there is a natural tendency for labels to overvalue music - and for telcos to undervalue it. The truth lies somewhere in the middle.

- **Understand the brand and customer satisfaction impact:** done well, music is a passion product that can dramatically improve a telco's brand, positioning and deliver a customer satisfaction halo effect right across a telco's business. This shift of association of a telco's brand from 'dull utility' to 'cool service' represents core value that telcos should capture with NPS measurement of music service users.

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.[5]

Implementation: Muve Music was set up to drive Cricket's core business imperatives.[6] 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.

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

www.midiaconsulting.com – July 2013

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: Canal Digital hard bundle WiMP for 700,000 TV subscriber households

Key Success Metrics

Since 2010, during the period of the service partnership:
- Total TV households rose by 7%

In summary: In 2011 Norwegian Pay TV provider Canal Digital hard bundled the PC-only tier of Norwegian streaming music service WiMP into the subscriptions of its 700,000 digital Pay TV subscriber households.[7]

Objectives: Canal Digital aimed to drive customer loyalty, increase ARPU and build its brand as a digital content and services provider.

Implementation: Canal Digital's key marketing challenge was to drive awareness and usage of the hard bundled service. This started with high reach TV spots but evolved to more focused targeting of inactive hard bundled WiMP accounts.

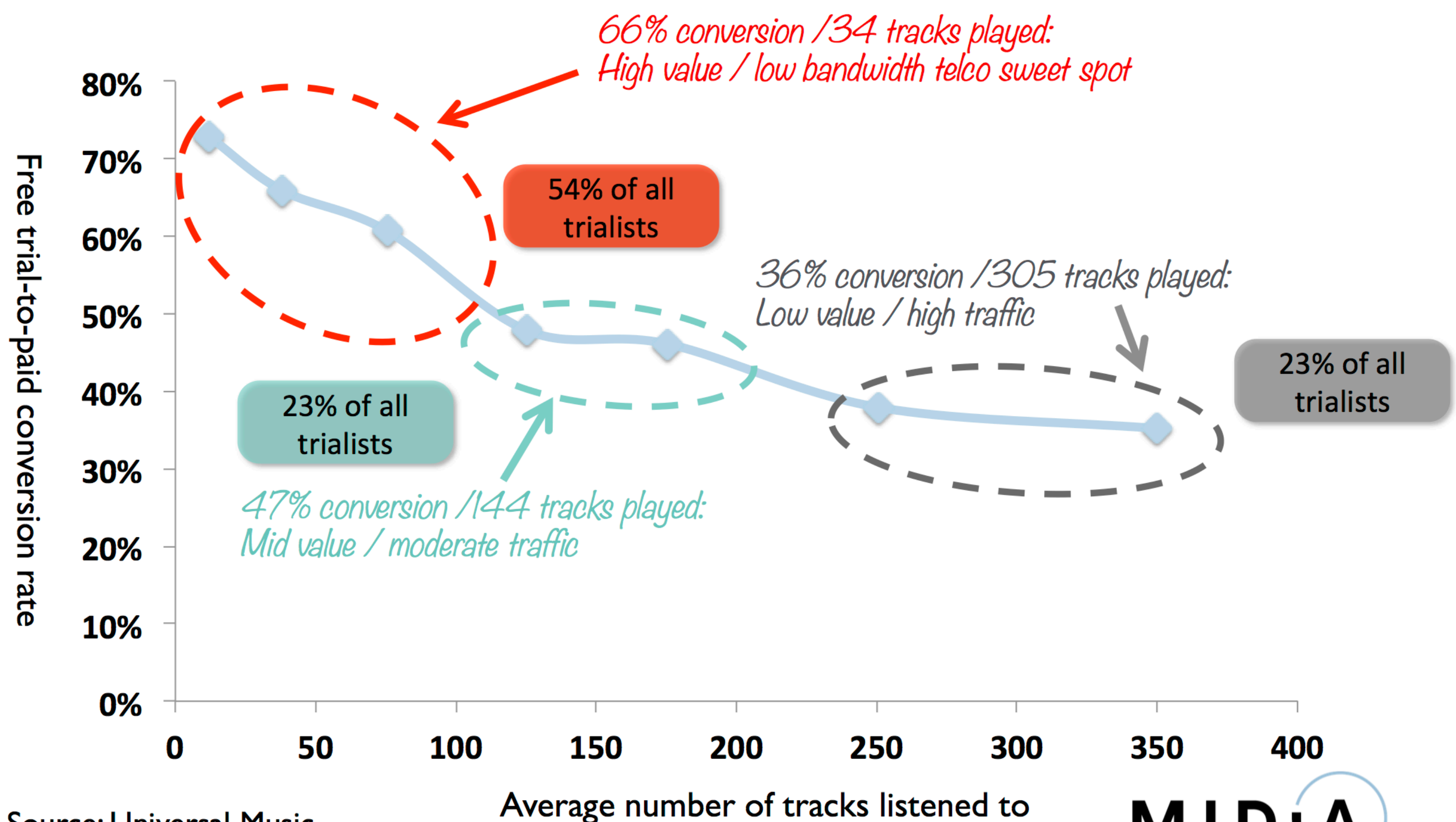
Measuring Success: WiMP proved popular with Canal Digital's customers and the telco reported seeing 'much higher' activations of the service than they had expected. The resonance of two Norwegian brands coming together helped the initiative as a branding and positioning tool but it is yet to deliver definitive improvement on churn reduction and ARPU.

Our Take: The remit of Canal Digital's WiMP partnership is to extend Canal Digital's platform reach, evolve brand perception and enable it to develop an Internet relationship with its TV customers.

Though the partnership has not yet delivered meaningful impact on Canal Digital's KPI's it has nonetheless delivered results as a strategic marketing play, emphasising the importance of building the business case for a music service bundle against a broader set of business objectives.

Section 3: Implementation

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



Source: Universal Music

www.midiaconsulting.com – July 2013

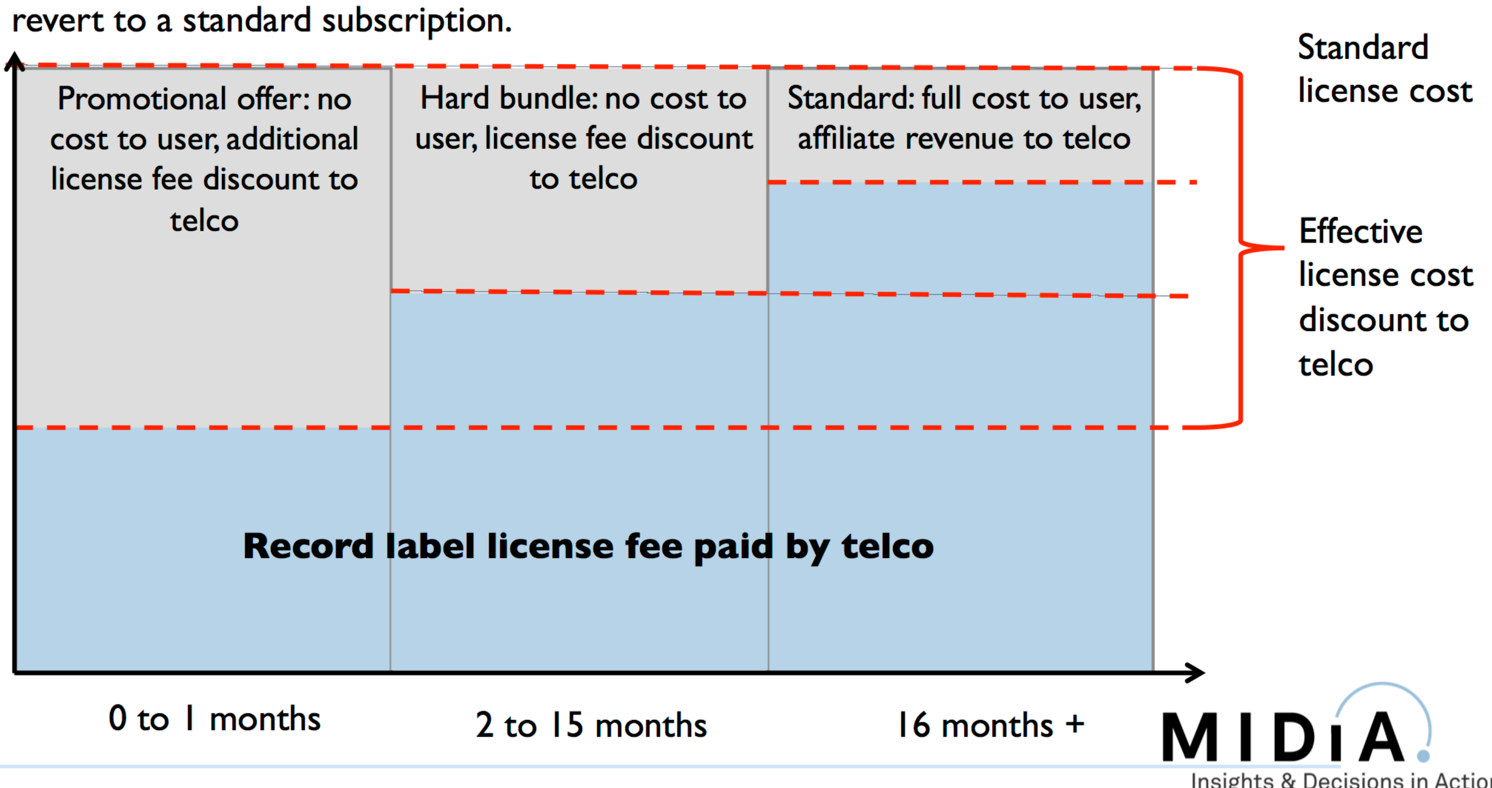
Promotional Offers

Promotional offers are an invaluable means of establishing behaviour among telco consumer bases and then converting this interest to paid. This is illustrated by the anonymized results of a telco one month promotional offer, free 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 only scratched the service of what music subscriptions have to offer yet were impressed enough by what they saw to sign up.

To further drive conversion among trialists, telcos need to drive engagement during the trial period, encouraging the user to build playlists, deep dive into the catalogue, rediscover old favourites, connect with friends etc. Thus creating a very tangible set of benefits that the user will lose if he does not renew. In short, the telco needs to ensure that the trial period is used to create velvet handcuffs for trialists.

Telco Music Bundle Business Model Illustration: Phased Promotional Offer to Hard Bundle

In this model the telco negotiates a strong discount fee rate from record labels for a three month free promotional offer. A 12 month hard bundle follows during which the label pays a higher but discounted license fee. After the hard bundle period is finished, the consumer price and license fee revert to full price but the telco receives an affiliate fee for all customers that revert to a standard subscription.



www.midiaconsulting.com – July 2013

Business Models

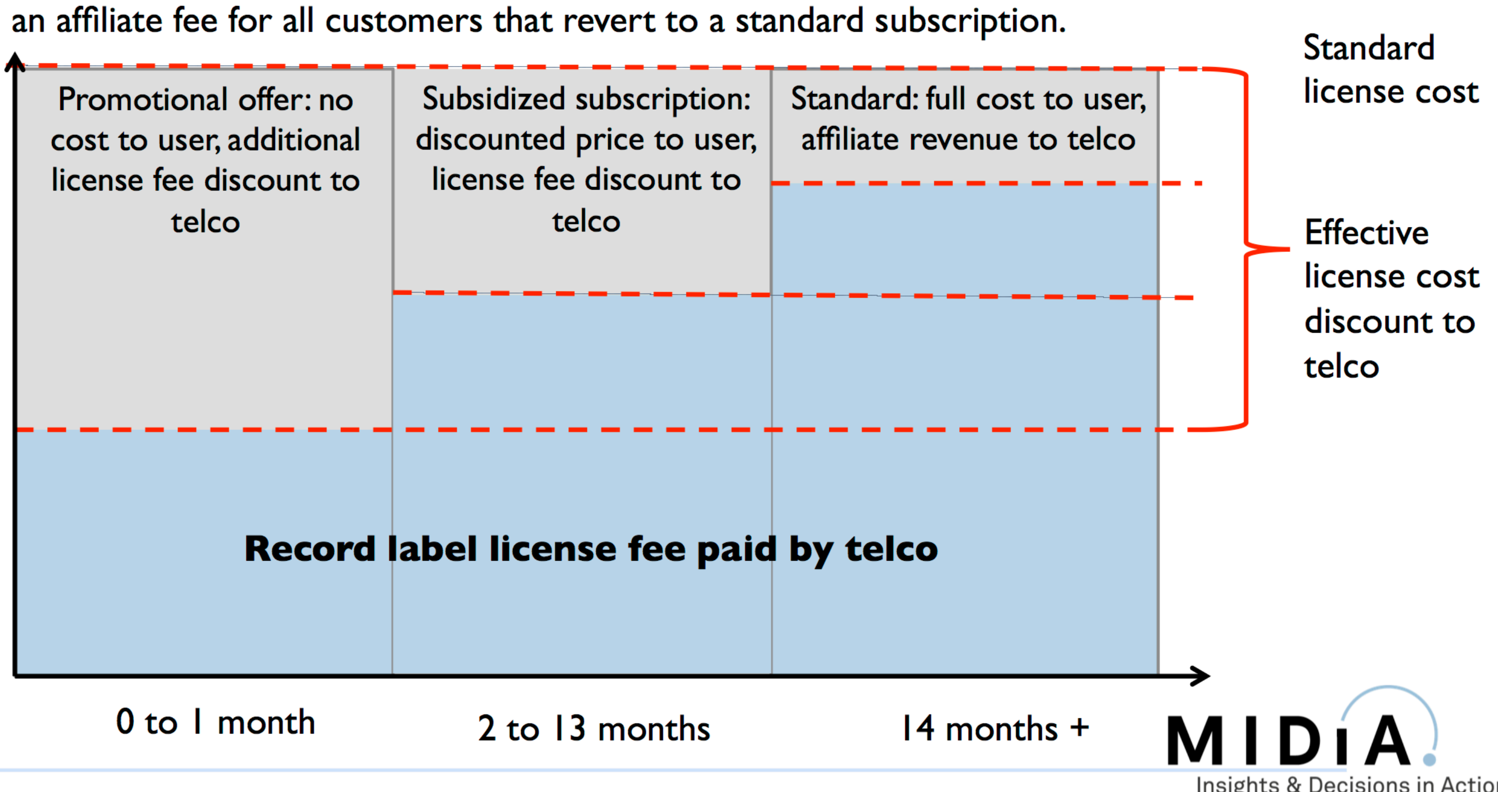
There is an increasingly diverse range of business models that telcos can leverage to launch bundled music offerings, with record labels now offering a greater choice of licensing options and strategies. One approach that leverages the power of promotional offers is the phased subsidized-to-subscription approach (see figure). In this straw man illustration a telco offers a 3 month promotional offer free period with a special discounted license fee rate from record labels. The consumer then reverts to a 3 month subsidized rate during which period the telco receives a higher but still discounted label license fee. Once the subsidized period comes to an end the telco receives an affiliate fee for any customer that switches to a full price subscription.

This approach enables telcos to:

- Establish a wide marketing funnel with a free trial
- Maintain a viable business model
- Benefit commercially once the bundle period is over

Telco Music Bundle Business Model Illustration: Upgrade Promotional Offer to Subsidized Period

In this model the telco negotiates a strong discount fee rate from record labels for a one month free promotional offer to existing customers in renewal phase. A 9 month subsidized offer follows during which the label pays a higher but discounted license fee. After the subsidized period is finished, the consumer price and license fee revert to full price but the telco receives an affiliate fee for all customers that revert to a standard subscription.



www.midiaconsulting.com – July 2013

Another approach that leverages the power of promotional offers is the phased-to-hard bundle approach (see figure). In this straw man illustration a telco offers a one month free trial with a special discounted license fee rate from record labels to all of its customers that enter the final year of their contract. A 12 month long hard bundle is then offered during which period the telco receives a higher but still discounted label license fee. Once the hard bundle period comes to an end the telco receives an affiliate fee for any customer that switches to a full price subscription.

This approach enables the telco to deliver genuine added value to its customer base at the most crucial part of their life cycle. In doing so the telco communicates to the customer clear benefits of renewing or upgrading with the telco. The 12 month time period also gives the telco opportunity to transition customers to a higher margin, non-subsidized model while still in the safe mid-contract period. This balances business benefits with cost effectiveness.

Case Study: Deezer

Key Success Metrics

Since 2010, during the period of the service partnership:

- 50% lower churn among Deezer subscribers compared to other Orange UK customers
- 75% increase in Orange UK brand favour among Deezer users
- Data ARPU increased from £120 in 2011 to £132 in 2012 for Orange UK

In summary: Deezer is the chosen music service provider for Orange in France (France Telecom) and the UK (now EE) as well as Poland and Romania and has been a major factor in Deezer's growth and brand development in these territories.

Objectives: Orange has been clear about the strategic value add for music. It has not focused on profits or direct revenues from music but has instead set strategic goals around customer retention, brand development and growth in ARPU. In a recent branding survey undertaken in the UK, Orange received a substantial brand uplift among Deezer users with 75% saying they favoured the brand more.

Implementation: In France, Deezer was hard bundled with premium data plans as well as offered as a standalone service. In the UK Deezer is hard bundled as a mobile only service into the 'Panther' tariff (£25 per month including a choice of any 2 (of 12) 'swap-able' subscriptions which includes Deezer as well as Sky Sports and The Times paywall news app). Deezer is marketed as 'included with package' rather than as 'free'. Deezer is by far the most popular choice of the services and also has the lowest churn.

Measuring Success: Orange has indicated churn rate of up to 50% lower for Deezer users when compared with the customer base, in France. In the UK EE has recently commissioned a full NPS-based study to look at the impact of Deezer, but so far it has been very clear of Deezer's value add as follows:

- A rejuvenation of sub 30 age demographic for the brand
- Increase retention / reduced churn
- Improved customer engagement

As for Deezer – these partnerships have been the major growth driver in the UK and France and have elevated Deezer into the 'major account' category for labels in these territories.

Our Take: Bundling can be a success when applied with a singular focus on strategic goals and implemented at scale. This has created a platform for further development for Deezer and Orange that should see an expansion across a wider tariff base in the UK as EE's 4G customer base grows

Section 4: 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 music subscriptions.[8] Yet customer satisfaction is an underutilized music service success metric that combines hard measurability with the emotional impact of a music service.

Although there is a range of customer satisfaction measurement tactics, Net Promoter Score (NPS) is emerging as the common quantitative currency. Among the telcos that we interviewed there was a consensus that NPS brings value as a standard metric that can be used across diverse business units, a metric that the business can 'get behind'. NPS typically takes a few years to become well embedded within an organization and in the earlier stages of implementation will lean towards stopping bad practice. But over time will lean more towards relational aspects and tweaking of products and pricing – this is the stage at which NPS presents core value in measuring music service impact.
NPS is an effective tool for measuring the relative impact of different products and services, and for a multiplay telco the benefits are clear, creating a single measure of success across diverse products and services. However the potential value of NPS and customer satisfaction for music services is determined by multiple factors:

- **How deeply embedded NPS is**: early on, NPS may not be readily recognized or understood across the organization. Among the telcos we spoke to NPS ranged from 'not yet wholly accepted' to being at the centre of company strategy.

- **Scale of the service:** effective NPS analysis requires robust sample sizes so a weakly adopted service is unlikely to generate enough data points to enable analysis.[9]

- **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. For example, Vodafone's Martin Kummer explained that for an NPS study of music service users in two of its markets results were influenced by the fact that many of the participants were iPhone customers and therefore skewed towards being engaged and largely positive users.

- **Profile, positioning and quality of the service:** if customers' expectations are raised artificially high they are less likely to find the service compelling. Similarly a poorly featured service will have poor NPS scores whatever the business benefits may be.

NPS works best as a quantitative half-way point between hard and soft measures. As Nokia's Jonathan Dworkin stated "NPS is an important and valuable business metric but retention, acquisition and conversion are all more important to Nokia's business than NPS." Also, bundled music services can deliver meaningful lift across other success metrics without significantly impacting customer satisfaction. Indeed as Canal Digital's Åse Fixdal explained of the otherwise successful WiMP bundle: "We haven't yet seen a strong impact on loyalty or customer satisfaction as a result of the WiMP partnership. NPS scores of WiMP users are not noticeably higher than those of other Canal Digital customers."

Amplifying the Voice

Though all brands have advocates, some lean much more naturally to passionate support than others.[10] Even the most edgy, cleverly positioned challenger telco is ultimately a provider of telecommunication services: crucially important products but not usually a consumer passion point. Music however 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 is 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. Virgin Media considers this element an important part of partner service selection, as Sean Risebrow explained: "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. But it also must be something that touches upon consumer desire and instils a desire to share."

Case Study: Nokia use NPS to effectively measure customer satisfaction impact of Nokia Mix Radio

In summary: Nokia has created a *mobile-first* music service Nokia Mix Radio, available on handsets such as the Lumia range of devices. Nokia has additionally leveraged its deeply integrated NPS methodology to monitor user satisfaction of the music service and its Nokia Music Store.

Objectives: Nokia Mix Radio's objective is to deliver a high quality user experience that lends market differentiation to its devices. Nokia keenly understands that a single poor service experience can shape a user's view about an entire device.

Implementation: With a rich mix of services and features on its handsets, Nokia needs to be able to distinguish the relative impact of each to the overall user experience and user satisfaction and thus each service has its own user KPIs. However to really get into the detail of music's impact on customer satisfaction Nokia fields NPS questionnaires within the music service itself.

Measuring Success: Nokia uses NPS as a blended measure to hone and refine its music. Nokia collects and analyses large volumes of NPS score data, combining it with other metrics to create a comprehensive understanding of music's contribution to the overall value of the device.

Our Take: Though Nokia is at a relatively early stage in its use of NPS, its highly tactical use of the methodology to assess music service satisfaction is a model of best practice. The ability to directly attribute the contribution of music service satisfaction to the overall device experience provides a crucial input into assessing the value of Nokia Mix Music to its customers.

Section 5: Measuring Success

Success Impact Assessment

OBJECTIVES	MEASUREMENT
CUSTOMER SATISFACTION	NPS or other structured measure; Surveys; Focus groups
BRAND PERCEPTION	Surveys; Conjoint analysis
CHURN REDUCTION	Natural subscriber base churn vs. music user churn
CUSTOMER ACQUISITION	New customers to telco with music bundle; Surveys
MUSIC SERVICE KPI's	Trial take-up; Activation; Usage; Conversion to paid; Revenue
CUSTOMER ARPU	Tariff upsell; Data usage; Handset upgrade; Accessories sales

MIDIA Insights & Decisions in Action

www.midiaconsulting.com – July 2013

Whatever the strategic objectives, music service KPIs must drive telco KPIs. Ultimately the crucial equation is whether a music service delivers more value to the business than the amount paid out to rights owners to operate the service. This analysis will prove or disprove the business value of a music service. Thus a sophisticated measurement approach is required:

- **Matching measures with business objectives**: music service KPI's need to be systematically mapped against telco metrics with appropriate measures for each business objective (see figure). The weight granted to each metric will be determined by the strategic priorities of the organization, but this blended approach is crucial for a true sense of ROI.

- **Combining metrics:** hard business metrics need combining with a structured understanding of the impact on brand impact, customer satisfaction and market positioning. As Vodafone's Martin Kummer commented "retention takes too long to measure and even then it's hard to attribute the reason to anything specific."

- **Measuring right across the consumer journey**: the impact on the entire consumer journey is crucial, regardless of where the budget came from within the business. For example France Telecom has declared the multiple impacts of the Deezer partnership to include churn reduction, brand rejuvenation for a younger demographic and a significant growth in ARPU.

- **Tracking customer satisfaction**: music drives positive brand sentiment and in turn improved satisfaction levels for the entire business benefits from and this is best measured with NPS.[12] For NPS measurement to work effectively it is key that it is measured within the music service itself, as is the case with Nokia's Mix Radio service. Measured against NPS scores on other services in a telco's portfolio enables a definitive assessment of the contribution of music towards a telco's overall customer satisfaction levels.

Conclusions

Telcos now have the ability to transform their roles in digital music from also-rans to market leaders because:

- **Streaming services need telco's marketing reach and resources:** most streaming services do not have extensive marketing resources, thus giving telcos significant positions of negotiating strength.

- **Telcos can convert free activity into premium revenue:** telcos can transform large scale demand but low willingness to pay into premium revenue by hiding some or all of the cost to the end user. Making music feel like free to customers delivers the double benefit of attracting otherwise elusive consumers and of being able to clearly demonstrate the financial value of the bundle.

- **Telcos understand subscription relationships:** the monthly subscription dynamic of streaming services is a natural fit for telcos and presents countless opportunities for sophisticated and seamless billing.

Although the business case for digital music has not historically always been easy to prove, subscription services create a new mix of telco business benefits, just when they need them:

- **The customer satisfaction halo effect:** with telco markets saturating and commoditizing, customer satisfaction has become a crucial point of differentiation. The challenge for telcos is that customer satisfaction is more easily impacted strongly by negative experiences than positive ones because factors such as uninterrupted coverage and fast download speeds are increasingly expected. Anything less is often considered poor service. Music though, triggers strong positive sentiment and gives telcos the opportunity to convert satisfied customers into highly vocal net promoters with satisfaction benefits felt across the full range of a telco's products. This is the *customer satisfaction halo effect* that music drives.

- **Amplifying the voice:** net promoters that are engaged with a compelling music service become invaluable brand advocates for a telco. Their bundled music experience becomes an extension of their telco service experience. If the music service is either unique to the telco or has unique productization – e.g. fully subsidized price – it will also become a reason for switching to the telco. Music services allow telcos to 'double dip' in this amplified voice benefit through their integration with social networks. Thus not only do these net promoters become brand advocates but they also broadcast their behaviour to their family, friends, colleagues and wider contacts on their social networks.

- **Brand impact:** in the past music service strategy often weakened telco brands because of poorly featured services that lacked differentiation. Now improved technology capabilities and strong streaming brands change the equation. As the Telia Sonera experience reveals, when a telco puts music at the core of its marketing strategy, the brand uplift is transformative, dramatically shifting consumer brand perceptions.

- **The dumb handset risk:** mobile handset companies now face the same 'dumb pipe' risk broadband ISPs did half a dozen years ago, of becoming 'dumb handsets'. Only Apple can safely claim to have tight control of both its device and software ecosystem and thus benefit directly from content and services revenue and behaviour. For the big Android handset manufacturers such as Samsung there is a very real risk of being relegated to little more than a 'dumb device' while others build successful content and services strategies via their hardware. Bundled music services are an opportunity to counter this trend.

But to capitalize on this opportunity telcos should:

- **Establish business objectives first:** a telco music service must help a telco meet a blend of specific strategic objectives. Only once these objectives have been established should the strategy and then technology choice emerge. Choosing the right partner will not always mean choosing the hottest game in town, but instead the one that will best meet 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. A music service needs setting up for success with a marketing strategy that leverages the music brand to the full. 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. One that is purely scored against measures such as churn reduction will most often fall short.

- **Seek out savvy partnerships:** it is in the joint interests of telcos and rights holders that music service bundles are implemented in a manner that is both sustainable and commercially viable. Thus telcos should pursue partnerships with content partners that offer the opportunity for long term relationships rather than simply seeking out short term winnings. Similarly telcos should look at how they can structure deals and bundles to deliver them sustainable commercial benefits. Thus a long term hard bundle, while hugely beneficial to a consumer, may not deliver as strong business benefits as a shorter term soft-bundle.

- **Harness NPS:** NPS is an underutilized measure for telco music services that can apply a quantitative method to otherwise largely subjective concepts. It represents the standard success currency with which a music service can be measured in direct relation to the rest of the business.

Bundled music services did not get off to the best of starts, but now their time has come.

understanding of the way in which music services can drive a telcos brand and customer satisfaction levels, have combined to create a new opportunity.13

But it is an opportunity that should be considered carefully. Indeed as Muve Music's Jeff Toig noted "As a bundled music service you have a two year window to convince customers and the carrier of the value of the product. If you cannot do so in that period then you probably haven't got the value to prove." In short, make the music service count, for your business and for your customers.

Notes

1. ComScore
2. eMarketer
3. An example of when a music service is not given sufficient strategic support is when a music phone can typically include the native audio player software, a music app or service from the handset manufacturer, a music app or service from the operator and one or more third party additional music related apps, such as radio or gig information. This practice continues today, and creates more risk of consumer confusion than it does adoption potential .
4. 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.
5. Cricket's market research revealed their customers rate music as one of the things they value most.
6. 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.
7. The mobile access offered is offered at half the standard retail price and a heavily discounted family package is also offered. A Set Top Box (STB) product was launched in 2012.
8. Universal Music Group Global Insight, UK 2012
9. In such circumstances it is crucial to avoid the temptation to use NPS scores from analogous services as a proxy.
10. One could not imagine, for example, AT&T customers tattooing themselves with the carrier's logo in the way that fans of the energy drink Monster frequently do.
11. NPS questionnaires are set with frequency thresholds set suitably low so as not to disrupt the user experience
12. NPS should not necessarily be the only measure, with surveys etc. being useful additional support methodologies, but NPS represents the most scalable tool for tracking systematically.
13. 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.

For more details visit our website:
www.midiaconsulting.com

Or email us at info@midiaconsulting.com

MIDiA
Insights & Decisions in Action

MIDIA

Insights & Decisions in Action