WHITEPAPER

Mobile music hits the right note

This whitepaper is an extract from:

Mobile Music Opportunities
Market Size, Strategic Analysis & Forecasts 2011-2015

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Mobile music hits the right note

1.1 Introduction

Music services on the mobile handset are uniquely positioned to become a key platform within the music industry. Since the turn of the millennium, sales of physical music – CDs etc. – have slowly declined year-on-year, largely as a result of online piracy. While digital sales have yet to compensate for this decline, they nevertheless represent a significantly increasing proportion of the revenue of the major music recording companies.

MP3 players, such as Apple's iconic iPod and corresponding online music storefront iTunes, have driven the switch from physical to digital. With mobile handsets already being a widely-owned device, and having evolved to a point where they support the downloading and mass storage of MP3s and other audio files, they represent a significant opportunity for digital music services – particularly because they remain a largely untapped market.

The launch of 3G services has significantly benefited mobile music, and the rollout of 4G services will boost it further. This, combined with the falling cost of basic data packages, means consumption is cost effective and easy for the user. Furthermore, users are finding that smartphones are now of similar, if not higher quality than high-end MP3 players, and include many other features. Finally, mobile connectivity combined with a new thirst for online social interaction is aiding music discovery to the benefit of all members of the value chain.

1.2 Types of Mobile Music

Mobile music, as defined in this report, is musical tracks, tones and videos consumed on devices that are also mobile phones. Within this definition of mobile music, we divide mobile music into a number of digital products. The principle categories are:

- Ringtones: enabling a personalised sound to be played to the user of the handset whilst an incoming call is received - initially populised as monophonic ringtones, these have developed into polyphonic, and subsequently realtones (partial versions of an original piece of music).
- Ringback tones: enabling the user of the handset to personalise the sound an incoming caller hears when calling that handset.

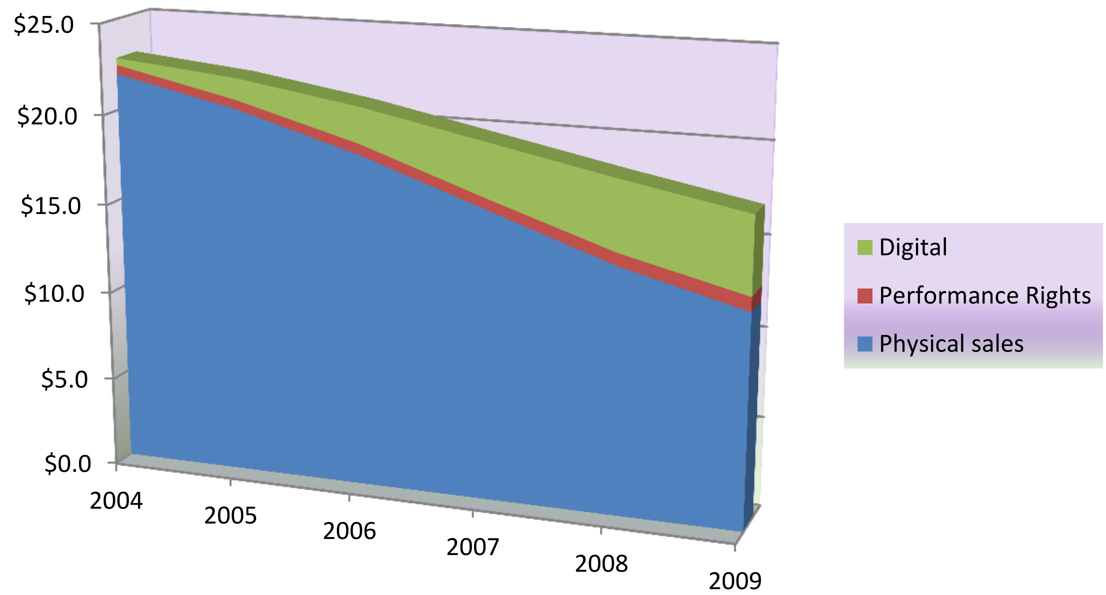
- Full-track services: complete versions of a recording artist's music, either as streamed music services for immediate consumption, or as downloads which are permanently stored on the device.
- Music video: streamed or downloaded official music videos.

1.3 The Opportunity for Mobile Music

1.3.1 Digital is the Future of Music Distribution

Digital music, as opposed to physical music (CDs etc.), is without a doubt the future of the music industry. From 2004-2009, according to the IFPI's (International Federation of the Phonographic Industry) 2010 report[1], sales of digital music – both online and mobile –increased by 940%. Additionally, sales of physical music during the same period have fallen by 30%, placing increasing importance on the digital medium for the music industry. Figure 1.1 depicts the shifting make-up of global recorded music sales over the aforementioned period.

Figure 1.1: Global Recorded Music Sales ($bn) Split by Format (Digital, Performance Rights & Physical Sales) 2004-2009



Source: IFPI

Furthermore, Digital revenue of the world's largest four recording companies has increased as a proportion of total revenues over the last four years. For FY2006, revenue from digital music for EMI, Sony Music, Universal Music and Warner Music was on average 10% of their total; however, by the end of FY2009 this figure had increased to 22%. Further, EMI, in its FY2009 report stated that it expected this trend to continue with the figure reaching 30% by 2013[2].

[1] http://www.ifpi.org/content/library/DMR2010.pdf
[2] http://www.emimusic.com/wp-content/uploads/2010/02/EMI_00978_Annual-Review_AW_FINAL_Print.pdf

1.3.2 Mobile Handsets are Ubiquitous

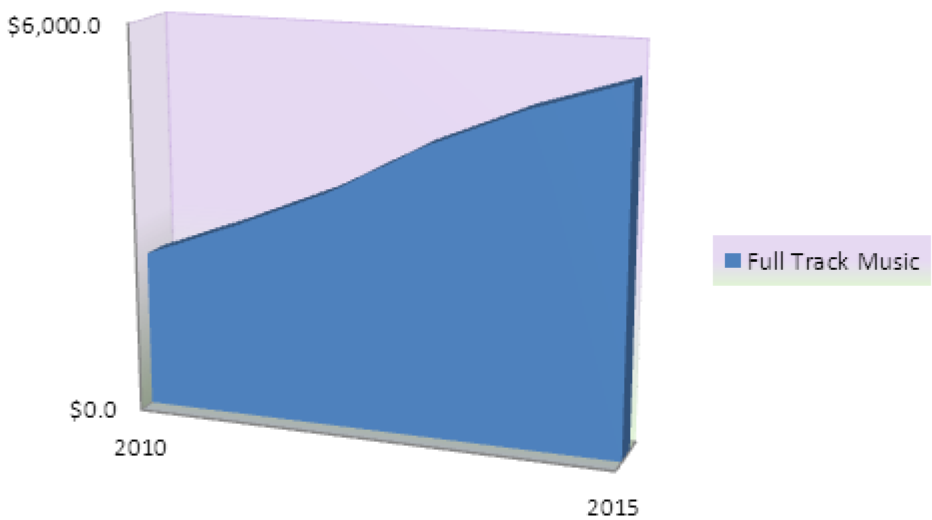
As illustrated by the peaking of iPod sales in contrast with continued improvement in iPhone sales, mobile handsets which are equipped with MP3 players are increasing in popularity at the expense of dedicated MP3 players. This is because of the already high penetration of all types of mobile handsets, and consequently as higher features, including MP3 storage and playback become more common, so consumers are increasingly preferring to carry one of these devices rather than two, of which the mobile is clearly the more versatile.

To illustrate the scale of this ubiquity: mobile penetration exceeded 100% in Western Europe in 2006, in Central & Eastern Europe in 2007; other key markets where penetration has exceeded this mark include Argentina, Australia, Chile, Hong Kong, Israel, Malaysia, New Zealand, Saudi Arabia, Singapore, South Africa, United Arab Emirates and Vietnam. In the US, where adoption often lagged well behind that in Europe, penetration passed 90% in 2009; in India and China, penetration stood at 62% and 60% respectively at the end of 2010; only in a handful of (overwhelmingly sub-Saharan Africa) markets does penetration remain below 15%. Global penetration of active SIMs reached 50% at the end of 2007 and by the end of 2010 stood at 73%.

1.4 The Market for Mobile Music

Juniper Research forecasts that music consumed on mobile handsets will generate $5.5 billion annually in 2015, a rise of $3.1 billion from 2010. Mobile music is becoming an increasingly important part of the digital music sector, which is propping up a failing industry hit by over a decade of widespread online piracy.

Figure 1.2: Total Global Revenues ($m) from Full Track Mobile Music Per Year 2010 - 2015



Source: Juniper Research

Since the popularisation of P2P file sharing at the end of the last century, the music industry's sales have gone into free fall, as consumers rejected the physical distribution of music in favour of easier, but illegal means of acquiring it. The industry response was initially slow, but legal digital distribution services, such as Apple's iTunes are now blossoming, and mobile handsets are increasingly becoming the key platform for them.

Order the Full Report

Mobile Music Opportunities: Market Size, Strategic Analysis & Forecasts 2011-2015

This Whitepaper is taken from Juniper Research's report entitled "Mobile Music Opportunities: Market Size, Strategic Analysis & Forecasts 2011-2015". The full report provides user and revenue forecasts for each category of mobile music, as well as the average price paid for, and total market value of music services on the mobile. It also provides the number of downloads per user, total number of downloads, and adspend on mobile music, all by 8 key regions.

The report sets the scene by establishing mobile music in context of the music industry as a whole, contrasting the latest shipment data of other devices against mobile handsets, and analysing revenues from digital music as a whole against physical sales. It also analyses the impact of piracy through P2P file sharing on the mobile music market and discusses rights holder and government responses.

This new edition to Juniper's highly regarded mobile entertainment series provides vital analysis of the future for digital music, comparing sales of iPods to iPhones as well as evaluating the costs of tracks and subscriptions on music stores such as iTunes, Spotify and Grooveshark.

Comparative profiles of leading players within the music sector are presented, evaluating their presence in the mobile music value chain. Strategic recommendations for record companies, operators, handset vendors, app providers and legislators are also provided.

Key Questions the Report Answers:

- How is mobile music situated within the wider music industry and what are the opportunities for growth?.
- What are the prevailing business models for players within the mobile music industry?
- How has the value chain for mobile music changed?
- What is the potential size of the market for ringtones, ringback tones, full track services and music videos on the mobile platform?
- How are piracy and other challenges hindering the development of mobile music?
- How are copyright holders and governments combating the threat from piracy?
- Who are the major players in the mobile music industry?

For more details on this report visit the website http://www.juniperresearch.com or phone +44 (0)1256 830002.

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