



Mobile music: It's got to be free

Disguising the cost set to be the only way to generate substantial profit

London 4th December 2008: The latest report from media analysts Screen Digest (www.screendigest.com), examines the market for mobile music in 27 countries worldwide, covering Europe, the US and Asia Pacific. With a number of companies now offering mobile music bundled for 'free' at point of delivery via the mobile, '*Mobile music, the end of the beginning: market assessment and forecasts*', examines the different business strategies the players have adopted and forecasts the state of market in 2012.

Screen Digest believes that mobile music revenues from consumer sales will have doubled from €1.6bn in 2007 to €3.2bn by 2012. Although personalisation services such as mastertones and ringback tones will still account for more than half of this sum, full track and video service revenues will have increased to 46 per cent in 2012 from 29 per cent at 2007 year end. Whilst at €219m, the W European and N American full track and video mobile music market is a fraction of online music's current value of €1,309m it has an extremely important role in influencing customer handset choice, upgrade frequency and retention - all crucial in the fiercely competitive mobile market, and even more so in today's economic climate. But the big question remains: is music a revenue stream for the mobile market?

Nokia not yet a serious contender for iTunes

Two prominent players in this market are adopting different business strategies which reveal their views on the viability of music as a revenue stream. Nokia is already trying to move away from being primarily a handset manufacturer into service provision. Its *Comes with Music* (CWM) offer revolutionized the mobile music market by introducing unlimited music downloads simply by purchasing specific Nokia handsets.

With Nokia looking to make money from digital services, it must contend with Apple and Sony Ericsson, which use music as an add-on to support the sale of hardware, and less to make significant money in its own right. In Apple's case this means running iTunes music sales at around break-even, an approach at odds with Nokia's intended strategy and one that is almost impossible to compete with directly.

Wholesale prices must drop for mobile single track downloads to be profitable

iTunes near break-even pricing has set consumer expectations for buying individual tracks. Faced with the same wholesale demands from labels it is hard for mobile operators to turn a profit directly from music sales. This is compounded by high over the air (OTA) delivery costs associated with every track sold via mobile. For operators to benefit from music either wholesale prices must fall or they must embrace new business opportunities that go beyond simple retail models. The report assesses operator strategies for maximising the potential of music to positively affect the bottom line.

Subscription music and video revenues to double by 2012

Screen Digest believes that the introduction of affordable subscription models such as Vodafone's *MusicStation* in the UK will lead to a marked rise in the uptake of mobile music services. Some are bundling it with voice packages, others are offering it via handsets, and others still are offering cheap OTA downloads. Bundles already available to consumers make music 'free' at the point of delivery. The rise of these offers means that by 2012 Screen Digest forecasts full track music and video mobile subscription service revenues will be worth €928m, almost double that of a la carte (ALC) full track and video revenues (€508m).

Christine Binns, author of the report, comments: "All players in the mobile market know they need to increase their efforts to attract and retain customers – especially in the current challenging economic climate – and music is a key way to do it. Operators and service providers are using music in different ways to add value to their service and make money. But increasingly a consensus is emerging that music has to be offered free.

Paying for music is progressively becoming a niche activity as the value of recorded music is already in steep, possibly terminal, decline. Bundled music attempts to tackle this problem head-on, providing a way for every player in the value chain to benefit. Even offering music

for 'free' at point of delivery is not going to be enough to ensure uptake of the service – the customer experience and handset design have to be right if mobile music services are to become lasting propositions.”

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About this research

The research in this press release is taken from Screen Digest's report 'Mobile music, the end of the beginning: market assessment and forecasts'. Published in December 2008, it includes forecasts for mobile music in 27 countries including Europe, the US and Asia Pacific. The report focuses on business strategies in mobile music and the resultant impact on the market. Analysis includes consumer revenue forecasts split by business model and content type for each of the 27 countries.

Dan Cryan, Senior Analyst, Broadband Media

Dan is a Senior Analyst specialising in music, online content and the technical issues surrounding the distribution of digital entertainment. Dan has written a number of Screen Digest reports including 'Online Music: Market Assessment and Forecasts' and 'Broadband Digital Movies: European market assessment and forecasts'. In addition he has developed many of the models used in the online Broadband Intelligence service including online movies and online TV. He has also been involved in consultancy assignments for clients including Microsoft and the EC.

About Christine Binns, Research Analyst, Mobile Media

Christine is a research analyst in the mobile content team. Christine can provide comment and insight to the media on mobile music, market size and revenues, operators and manufacturer strategies, subscriber number, technology limitations and innovations.

About Screen Digest

Screen Digest is the pre-eminent firm of industry analysts covering global media markets. Headquartered in London, with offices in New York and Monterey, California, we employ a team of 40 specialist analysts covering film, television, broadband, mobile, cinema, home entertainment and gaming. Our online services and reports provide the information and analysis that hundreds of media companies worldwide base their decisions on. Most recently we have launched Global

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