

NEWS DIGITAL



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FRAGILE BUSINESS MODELS 'UNDER THREAT' AS APPLE CLAIMS 30% IN-APP SALES PORTION

Apple's slice stymies streaming market

STREAMING

BY EAMONN FORDE

THE NASCENT MUSIC-streaming market risks being strangled before it can get a proper foothold in the market thanks to Apple's moves to take 30% of subscriptions sold in-app, according to the CEO of France's leading streaming service.

But with international expansion, investment capital, a market still fixated on ownership and mooted new streaming services from tech giants including Apple and Google all to consider, this is likely to be just one of the concerns for companies to consider over what is likely to be a crucial six months for the future of music streaming.

'SPELLING DISASTER'

Axel Dauchez, CEO of the popular Deezer service which has 20m users in France, said Apple's move spelled disaster for subscription streaming services that relied on Apple's iOS platform for iPhone and iPad to reach a large enough audience to become economically self-sufficient.

"We work on a very low gross margin in this business," he said. "[This move by Apple] would be disastrous as I have absolutely no way of financing this on my margins."

Apple CEO Steve Jobs recently outlined the new terms, under which his company would take 30% of subscriptions sold in-app on its App Store.

"When Apple brings a new subscriber to the app, Apple earns a 30% share; when the publisher brings an existing or new subscriber to the app, the publisher keeps 100% and Apple earns nothing. All we require is that, if a publisher is making a subscription offer outside of the app, the same (or better) offer be made inside the app, so that customers can easily subscribe with one-click right in the app."

Dauchez said he hoped regulatory intervention would ultimately derail Apple's moves but was not holding out many hopes. Instead, he suspected that Apple would be allowed to take a cut of in-app subscriptions, although possibly reduced to 5% instead of 30%.

Dauchez revealed to *Music Week* that Deezer had acquired 800,000 paying subscribers since last year, partly through a carrier deal with Orange.

"We have found a way to open a paid music service to the mass mar-



ket," he said. But he cautioned that having to surrender any share of monthly subscriptions would undermine the fragile business model holding the service together until it reached mainstream penetration.

Deezer, he said, was on course to break even this year, but the moves by Apple had thrown this into doubt.

"In just one year, we are now generating for the industry the same type of money that iTunes is," he said. "For the first time, iTunes has a real competitor that is a streaming service. I think this is linked to their position. It is very hard for them to lose their dominant position as a paid download service."

Dauchez claimed that his calls to Apple to clarify the issue of in-app subscriptions were going unanswered.

"We have only seen the PR from Apple so we don't know yet how they will treat music services," he said. "I requested a meeting with Apple, but they refused. They do not want to open any discussion on this for the moment."

The numbers (see tables) published by the likes of we7, Spotify, Last.fm and Pandora show just how difficult it is to make this market work for legal services.

This was underlined recently by the sale of streaming subscription service Thumbplay to Clear Channel just a year after launch and the fact it had only 20,000 subscribers.

Some streaming services are currently burning through start-up capital and seeking new investment as in the case of Spotify, which was recently said to have raised \$100m (£61.8m) from DST Global and Kleiner Perkins, giving it a market valuation of \$1bn (£0.62bn).

Spotify is still confined to seven European countries, although a US launch is said to be imminent.

Rdio, set up in the US last summer, was developed by the people behind Skype, Kazaa and Joost. It is currently only available in the US and Canada but plans to expand into European, South American and Asia markets.

Rdio CEO Drew Larner claimed partnerships were the quickest and most stable way for a service like his to reach scale.

"The way to really turbo-charge the subscriber base," he said, "is to use other companies who have existing subscriber bases and piggyback on them."

And what type of companies offer the most potential to do this?

"Handset manufacturers, carriers, ISPs and in-home companies like Sonos," he said. "It's across the range. It's about hitting multiple audiences. It's not easy from a licensing standpoint, but we intend to be a global service."

While the margins may be tight in developed markets and the competition fierce, this does not necessarily mean that less developed territories are out of the running.

WHITE-LABEL SOLUTIONS

3G Multimedia in Hungary is offering white-label music solutions to third parties much like Aspiro does with its WiMP service in Scandinavia.

The company's head of business development Dániel Molnár sees huge opportunities in Eastern Europe, Turkey and Russia - traditionally markets that services have been scared to launch in because of piracy.

"I believe that we can go for 'the small money' while the big players try to capitalise on the big markets such as the US, Western Europe and Scandinavia," said Molnár.

His company is focusing its efforts on partnerships with banks and consumer brands and Molnár suggested a deal in Hungary was imminent with T-Mobile.

He said that Apple was leaving the door open for domestic competitors in eastern and central Europe because it had not fully localised its catalogue on iTunes in these territories.

"We have a local iTunes but it is restricted in a lot of senses," Molnár said. "There is not much domestic repertoire. The problems, as far as we can see, are related to licensing deals."

3G Multimedia has signed up the leading local labels and said this was essential in markets like Hungary and Turkey where domestic repertoire dominated.

He added that, because the white-label services it was working on were funded by telcos and brands, they were unaffected by Apple's App Store moves as the end consumer did not pay a recurring subscription as they would if they signed up to a service like Spotify or Rdio.

"That is why we are not so worried about Apple's moves with in-app subscriptions," he explained. "It's definitely not good but, as we are a white-label solution company, it is not a given that we will have to pay for what we provide because a brand like Coca-Cola might pay for it."

Ultimately, the music market has not yet embraced streaming services in a way that is economically viable. This means that such services will have to ride through the losses and hope that profitability is coming over the horizon.

But with both Apple and Google said to be moving into this sector, clearly many companies do see a way through to profitability.

"You have to be aware of the competition and it would be stupid to exist in a vacuum," says Rdio's Larner of Apple and Google's potential plans.

"The market is not going to be dominated by one player. Over time, as subscription grows, there is going to be room in the market for multiple players. You can't ignore the incumbent and big-name entrants. If we stay focused on what we are doing, we will be successful."

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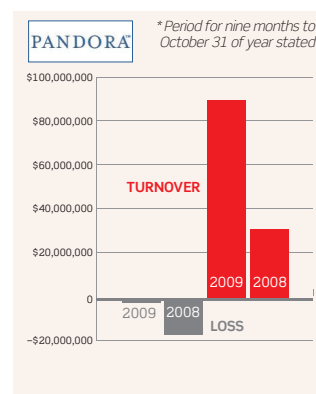
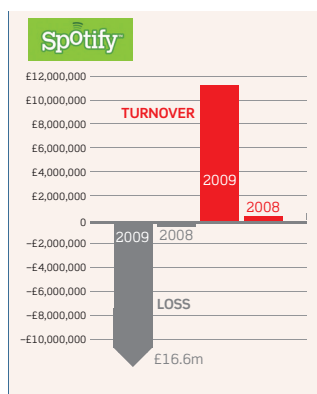
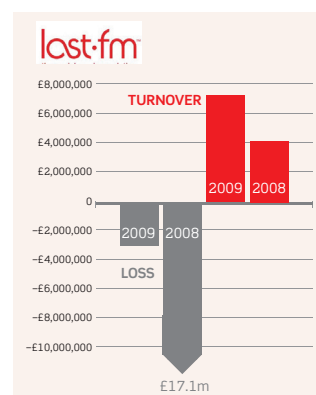
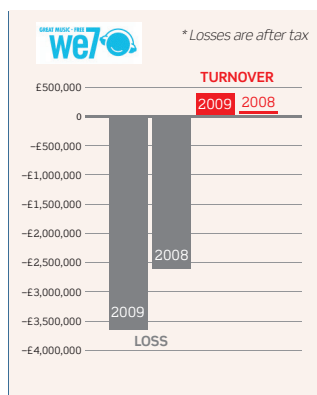
Others are - after years of walking a tightrope between boom and bust - seeking international expansion capital through an IPO, as with Pandora's recent moves to raise \$100m (£61.8m).

The odds are stacked against these services simply because the market is still focused on ownership - be that CDs or downloads - rather than access.

Hitting scale is essential but the setup costs in each new market are such that international expansion has to be done slowly.

We7, for example, only moved into Ireland, its second market after the UK, at the start of this year and

Streaming past streaming services' loss and turnover figures for 2008-09



Sources: we7/Spotify/Last.fm/Pandora/Companies House