

2012 Trends: Cloud-Based Music Streaming

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A mainstream activity—but only when it's free

Despite better-than-expected business in the first half of 2011, the recorded music industry remains plagued by a decade-long decline in CD sales—still its core product—and insufficient digital revenue to make up the difference.

Discrete downloads and ringtones were once hailed as promising revenue streams but both have fizzled. Even the company that pioneered the legal download model, Apple, is now pushing a cloud-based alternative, iCloud. Amazon is making a similar push with its Cloud Drive.

The key to the long-term survival of these services is whether they can generate enough revenue for themselves, copyright holders, music publishers and other rights owners in the recorded music value chain.

Regardless of how cloud-based streaming plays out in the long run, 2012 will be a year in which this access-based approach will get a full test. As an indication of how streaming fits into the consumption spectrum, in September 2011 roughly equal percentages of US music consumers purchased music online, bought physical copies and streamed for free, according to a survey by music retailer eMusic.

This survey indicates that cloud-based streaming is a mainstream activity on a par with buying CDs or downloads, but that only a small percentage of consumers are willing to pay for this activity.

If past usage of offerings such as Pandora and Spotify is any indication, cloud-based streaming will follow an economic model akin to virtual goods in social games: only a fraction of users will pay for premium service, while the majority enjoy a lesser level of service for free.

A key to whether the current generation of streaming services will succeed will be the extent to which they provide promotional value.

If enough people use Spotify, Pandora, Apple, Amazon and others as try-before-you-buy outlets, those services could play a similarly important, if indirect, role in driving business.

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