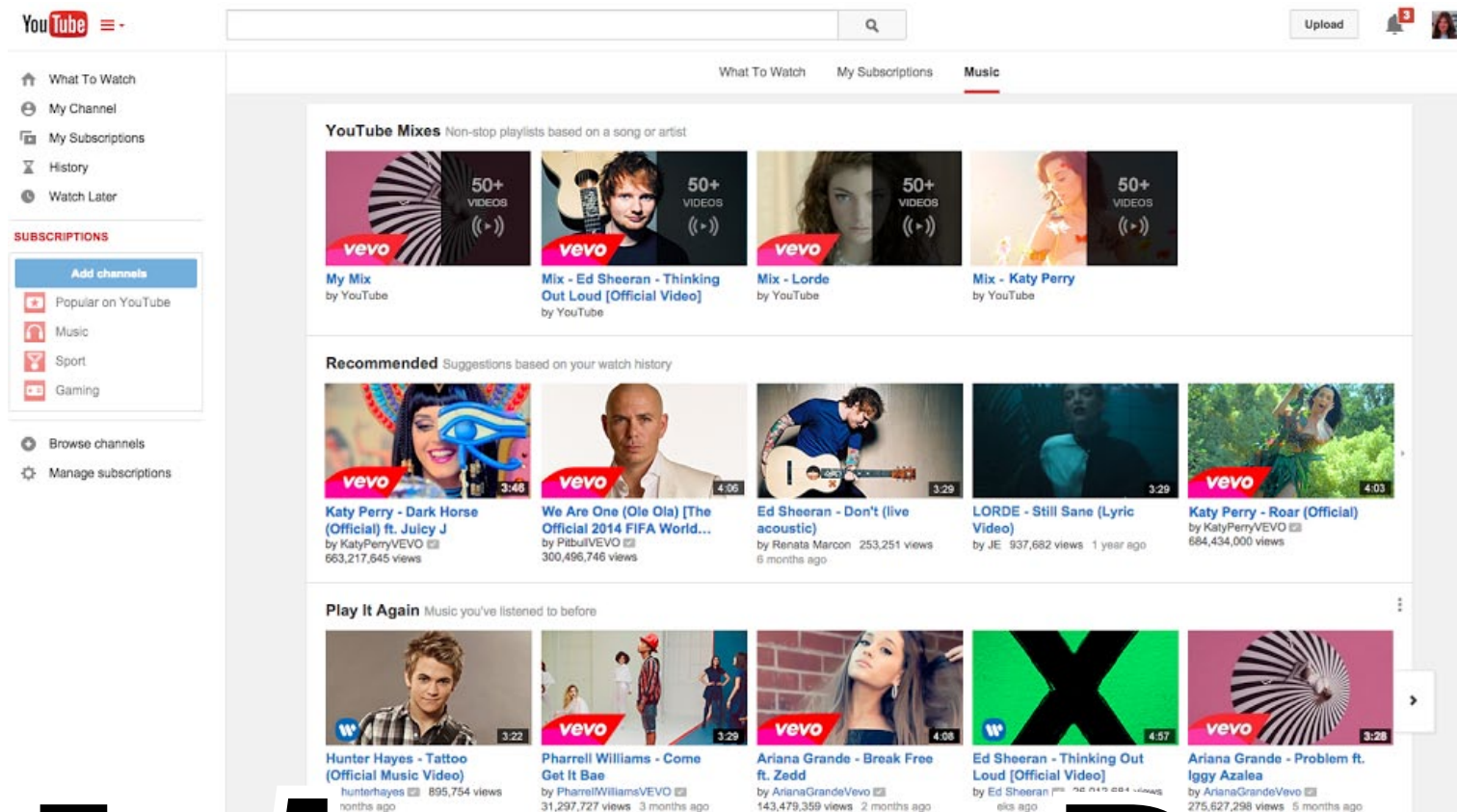


Judgement Day

YouTube's subscription
music service unveiled

Contents

- 05 Beyond music: Social strategy
- 06 Pinboard: Stats, deals, startups and more
- 08 Country profile: Mexico



Judgement Day

YouTube's subscription music service unveiled

YouTube's plans for a music subscription service have been picked over for months already: rows with independent labels; speculation about how it fits with Google Play Music All Access; debate about whether Google can sell subscriptions; and more. Reports of an indie deal earlier this week prompted suggestions that YouTube's service would launch within weeks. Well, it's days: YouTube Music Key is rolling out from tonight. Here's our first take on how it works, and what it means.

YouTube today is the biggest music service on the planet"

We'll get the basic facts out of the way first. Yes, it's called YouTube Music Key. It's launching this week (in beta) and it has a full complement of major and independent labels.

There will be free and paid tiers: the free tier is YouTube but with new music discovery features and (official) full album streaming on demand, supported by ads.

The paid tier will cost £9.99 a month, but the beta will be an invite-only six-month free trial, with those early adopters then getting a discounted £7.99-a-month rate once the trial ends.

Subscribers automatically get a Google Play Music All Access subscription thrown in (and vice versa: All Access subscribers will get Music Key for no additional cost).

The new service is mobile-focused, Vevo channels are still in the mix and yes, since you ask, there are Taylor Swift albums to stream. But no, not the new ones, and Music Key is likely to be as controversial on the free/premium windowing question as Spotify.

It's launching in seven countries from this week – the UK, US, Italy, Spain, Portugal, Finland and Ireland – with the possibility for others to be brought on during the beta.

More questions? **music:)ally** had an early demo of YouTube Music Key alongside other technology and music journalists at Google's London headquarters this morning, where Angali Southward, who handles music content partnerships at YouTube, outlined the thinking behind the new service.

"YouTube today is the biggest music service on the planet, thanks to our artists, our fans, our partners and the millions of official music videos, remixes, covers, mashups... you name it. We have a very

COVER FEATURE

varied and creative ecosystem,” she said.

“We want YouTube to continue to be the best place for fans and artists to connect: we want fans to be able to connect with more of the music that they enjoy, and artists to have more opportunities to connect, as well as more revenue.”

Few would deny that “biggest music service on the planet” claim. A recent report by Midia Research claimed – admittedly based on a UK-only survey – that 14% of YouTube’s audience watch music videos a few times a week, and 7% every day.

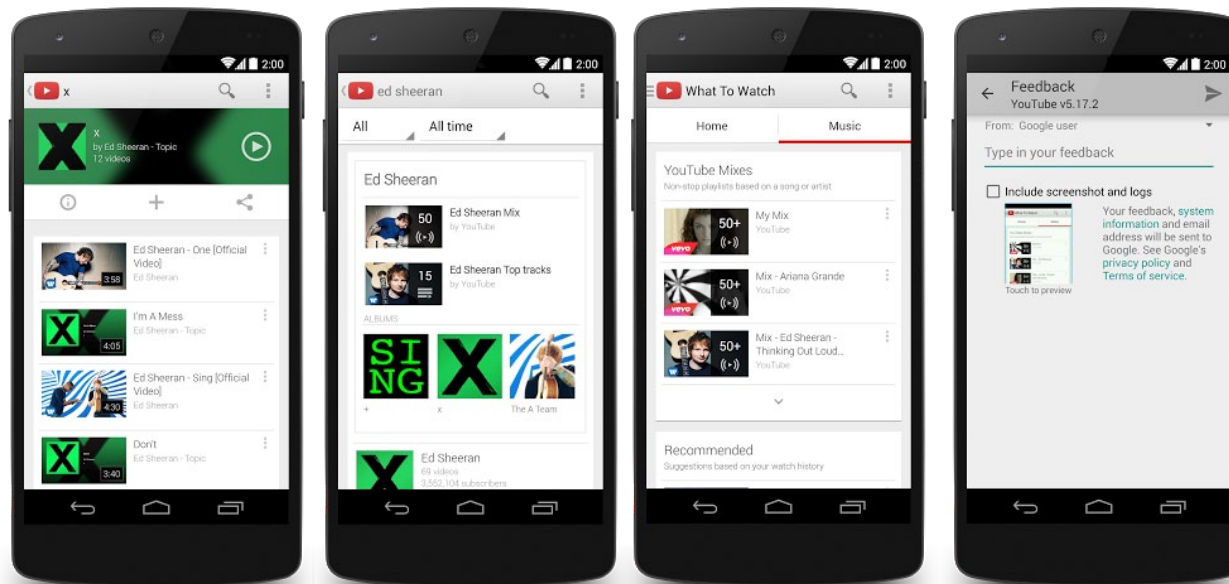
Based on YouTube’s public figure of 1bn monthly visitors, that’s already 70m daily active music users and 140m weekly actives, while if you add in people who listen a few times a month, the total swells to 440m monthly active users.

This is why YouTube Music Key is such a crucial moment for the music industry, for better or worse depending on your viewpoint. Can that huge base of music fans be the springboard for a successful subscription service?

Or will the full-albums-for-free aspect suck money away from rival subscription services, as Midia suggested in its report with a horse-frightening claim that Music Key might be responsible for \$2.6bn in lost subscription revenue elsewhere.

Key to both questions is whether YouTube Music Key is any good. We’ll start with the free features, which are based around a new music homepage on YouTube, with an emphasis on discovery.

That means favourite videos, trending playlists, mixes – a lean-back infinite-play feature that launched a while ago



Free users will see the usual ads when listening to Music Key – “pretty much as per the existing service” – but paying subscribers will have the ads stripped out, and will also be able to cache songs and albums for offline listening.

YouTube Music Key is very much a mobile service, even though it will be accessible from desktop browsers too. “It’s definitely a mobile proposition, the subscription,” said Boyd. “The background and offline

on YouTube, and will be the equivalent of Spotify’s radio or Rdio’s Stations for Music Key – and recommendations based on past YouTube and Google Play listening.

Subscriptions in the existing YouTube sense – channels that users have signed up to follow – get their own “shelf” in the new YouTube music homepage, and there are also contextual playlists for activities and moods: “the obligatory hitting-the-gym mixes” as YouTube’s partner technology manager Eddie Boyd put it during the demo.

This being YouTube and Google, search is also a key part of Music Key. When people search for an artist or album, they’ll see another new feature: an “Artist Watch Card” or “Album Watch Card” that shows the officially-licensed music from that artist, or the full album respectively.

Boyd chose Beyonce for his example search, with the card showing mixes, her top 15 tracks, and then individual thumbnails for her albums, licensed to the new service

in full. Below comes her Vevo channel and then “organic search results” for remixes, cover versions, mash-ups and so on.

“It’s a really good mix between the very slick, organised way of going through a discography-type experience, and also the more organic crowdsourced legacy of YouTube,” said Boyd.

He also showed off the Album Watch

Card for Beyonce’s *Dangerously in Love* album – yes, it seems her more recent LP remains iTunes-only for now – to play tracks. “Very clearly

this is the official version of this album on YouTube,” said Boyd.

The obvious contrast is the unofficial fan-uploaded versions of full albums that Spotify has been keen to point to during its dispute with Taylor Swift.

If this content starts to appear in the “organic search” sections of artist watch cards on YouTube Music Key, there’ll be a big stink, but (unsurprisingly) there was no evidence of this in the demonstration.

It’s definitely a mobile proposition, the subscription”

features don’t make that much sense [on desktop]. Offline maybe, but it’s definitely a mobile proposition.”

When the first invites are sent out this week, Music Key will be available on the desktop and through the YouTube Android app, with iOS to follow. The free tier will be available first, with the paid features following a few days later. Each user can use up to 10 devices to access it, but only one at a time.

One curious aspect: caching songs offline requires caching their videos too: there’s a choice of HD or 360p quality, but for anyone wanting to store a lot of music on their device, it’s likely to be a bigger space-hogger than audio-only services.

YouTube’s view is that its users will want the videos as well as the audio, given the history of the service – and that anyone wanting pure audio can switch to their (bundled) Google Play Music All Access subscription. The rollout process for YouTube Music Key is starting this week, although some details are still being finalised. First to be invited will be what Southward described as “our keenest music fans” – heavy music viewers on YouTube.

COVER FEATURE

They'll get free access to the beta, but will have to enter their credit card details when signing up, ready for the £7.99-a-month subscription to kick in six months later. At first, they won't have invitations to share with friends, but we suspect that will follow.

"We are going out to seven markets, and we are sending all the invites out. It will be a closed environment until we expand it," said Southward. "They will all be subscribers for free for six months, and we'll see what the feedback is."

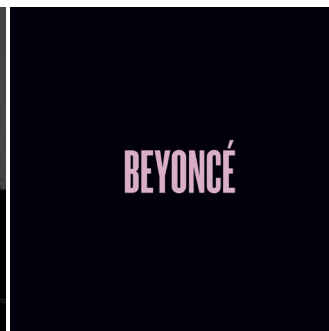
There's been a lot of speculation about how YouTube Music Key and Google Play Music All Access will compete or complement one another. The public message is that it's very much the latter: anyone paying for All Access will now also have a Music Key subscription, and vice versa.

"It's a two-for-one," said Southward. "You get two subscriptions for the price of one. And you'll see some new features in Google Play, including your watch history on YouTube, as well as the ability to play official music videos in your Play app."

So, to the current hot potato in music licensing: the question of free versus premium streaming, with YouTube Music Key adopting the same model as Spotify: a free tier and a paid tier, but both sharing the same music.

Southward was clear on this point. "It is one YouTube. The videos are for everyone, and it's the features that make the difference," she said. In other words, the incentive to pay is to get the offline and background features, not to get access to albums that aren't on the free service.

There's still a bit of cloud around what happens if an artist – Taylor Swift, to pluck



an example out of the air at random – decides that they want their albums to only be available to paying subscribers.

"An artist can choose to be on YouTube, and you then get revenue from the free service or through subscription," said Google communications manager Emily Clarke, when the question came up during the demo. So no premium/free windowing? "Currently, no."

"Artists have the choice – everything off or everything on," said Boyd, during smaller group demos later in the event. But it appears they won't now be booted off YouTube altogether: an artist like Swift will still be able to have her single videos on a Vevo channel, even if her full albums aren't on Music Key.

Southward took the Taylor Swift question head on. "We have deals with all the majors, and hundreds of indies. We are very confident in our partner base. We respect artists choices: we think a lot of artists have had success on YouTube," she said.

"She [Swift] has more than nine million subscribers. And also Nielsen 360 data has shown that YouTube is right up there in terms of how fans discover music, then go on to purchase it. YouTube is one of the first places people go to listen to a song before buying."

"Interestingly, while Swift's last two

albums (Red and 1989) aren't on Music Key for now, her older albums are, plus the videos for singles like Shake It Off and Blank Space. Southward also defended the inclusion of a free tier."

"We are a very successful ad-supported business to date, and we have paid out over a billion dollars to the music industry. Our partners have been growing in the ad-supported business 60% year-over-year. So we think this is an additional revenue stream for artists and our partners," she said.

Artists have the choice – everything off or everything on"

The message is well-rehearsed, judging by her later answer to a similar question. "An important thing to

remember is we're ad-supported and we've paid out a billion to the industry, based on an ad-supported business. We want fans to have a choice, so we're giving fans the choice to listen without ads, and adding a revenue stream for artists."

As a service, YouTube Music Key looks pretty good, for a beta product. Social appears to be much lower in the mix than rivals like Spotify or Rdio: its recommendations are at the algorithmic end of the scale at a point where rivals are focusing more on human curation; and there isn't the same depth of features as those established rivals.

But as Southward pointed out several times during the demo, Music Key is a beta, so features can be added over time. It probably won't suck people away from Spotify – especially not those tightly meshed in with playlists, friends and recommendations based on their play history.

But Music Key looks much more about doubling down the music experience for YouTube users, even if the jury is firmly out on its chances of upselling younger fans (i.e. YouTube's keenest music users) from free to even £7.99 a month.

As expected, though, it's the wider implications that are most interesting here. The impact on Vevo, for example, which if not quite a second-class citizen within Music Key, certainly isn't slap-bang at the top of the new artist watch cards.

Watch too that contrast with Spotify. Although the two services seem aligned in their determination not to window music between free and paid tiers, their reasoning is quite different.

Spotify sees a robust free service as key to driving subscriptions: hence CEO Daniel Ek's announcement this week that 80% of its subscribers started as free users. For YouTube, we came away with the impression that Music Key's ad-supported tier is much more than a means to an end.

Hardly a startling philosophy from Google but an approach that right now, in the climate of artist unrest over streaming royalties and control over distribution, may meet some resistance.

A lot of people will be watching to see how hard YouTube pushes the subscription option towards the end of Music Key's beta. Southward was right: YouTube IS "the biggest music service on the planet". Now we get to see what it does with that power. :)

Social strategy

Facebook focuses on the future at Ireland's Web Summit

We write a lot in **music:)ally** about Facebook and Twitter's capabilities for music marketing, but sometimes it's nice to zoom out and get the bigger picture on how these services are growing and making money.

Talks from senior executives at last week's Web Summit in Dublin, provided us with our latest opportunity to do exactly that.

Facebook's head of corporate development and partnerships Dan Rose talked about the way the social network sees the future, grouped into three periods: the next three years, the next five years and the next 10 years.

"Over the next three years, our focus is really on continuing to serve our existing community - 1.3bn people - and the businesses that are being built on top of that," he said.

"Over five years we're looking at really growing our new communities to a billion plus people. There you have a combination of organic products that we built like Messenger and search, as well as products we acquired like Instagram and WhatsApp."

And 10 years? "We're really focused on connecting the world through internet. org, understanding the world through our investments in AI, and investing in the platforms of the future."



▲ Facebook's Dan Rose on-stage at Web Summit

Rose said that mergers and acquisitions fit into this strategy, from those 'new communities' through to Facebook's \$2bn acquisition of virtual reality startup Oculus VR.

Rose talked about video on Facebook too. "It's fairly well understood now: we have over a billion views a day on our native video platform, and it's growing very quickly," he said.

He also addressed Facebook's strategy of unbundling its main app into individual,

focused apps for messaging, photography and news.

"The way people expect to engage with applications on mobile is through these very focused experiences. We didn't internalise that for a while, and it was part of the challenge and struggle as we transitioned the company," he said. "Once we did, we moved quickly to offer that."

And Twitter? The company's \$361.3m of revenues in the third quarter of this year was up 114% year-on-year, including \$320m

of advertising income - with 85% of that coming from the company's burgeoning mobile advertising business.

The company's president of global revenue - now there's a title to conjure with - Adam Bain told Web Summit that "there's no other billion-dollar ad business that's growing at close to 100%. And we feel like we're just getting started".

He stressed that there is no tension between Twitter's moneymaking efforts and its experience for users, despite several reports suggesting that Twitter may at some point follow Facebook's lead in algorithmically curating people's timelines.

"It would be a great storyline if that tension was there but in truth it's not there in the business," said Bain, who added that ads must cut through on Twitter through quality, rather than artificial boosting.

"There's an economic advantage on Twitter for advertisers to be good, instead of just loud like we've trained them in the past however many years in display."

But it's clear how the now-public Twitter is doubling down on revenues. "All we do is monetise emotions," said Bain. "Those four emotions: what's hot, what's new, what's going on in the world and what's happening in my world." :)

We have over a billion views a day on our native video platform, and it's growing very quickly"

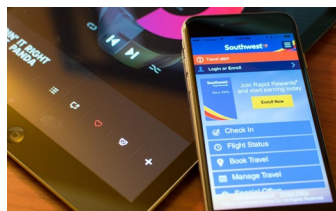
Pinboard » Deals

VIDZONE



Samsung and music videos service VidZone are expanding their European partnership, after the latter reached 100,000 downloads on Samsung devices in the UK, France, Germany, Italy and Spain.

BEATS MUSIC



to use Beats' streaming service for free while flying, on their own smartphones and tablets.

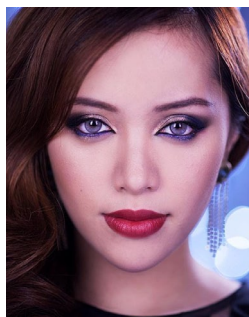
Beats Music has partnered with the US-based Southwest Airlines for a deal that will allow its passengers

VEVO



Vevo inked a deal with Sony Mobile to sponsor three Halloween gigs which will be broadcast via Vevo: OneRepublic in Frankfurt, the Script in Amsterdam and Ella Eyre, Gorgon City, Labrinth and Rixton from Manchester.

MICHELLE PHAN



YouTube beauty star Michelle Phan's Shift Music Group partnered with dance artist Late Night Alumni to feature tracks from their upcoming album in her videos, with prominent credits at the end.

SOUNDCLOUD

SoundCloud announced its first licensing deal with a major label, WMG, including publishing arm Warner/Chappell. It covers both SoundCloud's recently-announced 'On SoundCloud' ad program and an upcoming subscription service.



COCA-COLA/RED



featuring Avicii, and OneRepublic on iTunes.

Coca-Cola and AIDS charity RED teamed up for a campaign called "Share the Sound of an AIDS Free Generation", which will sell new songs from Queen, Aloe Blacc, Wyclef Jean

Tweets



#TaylorSwift



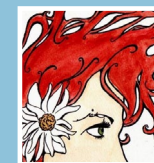
@fluxresearch
I love the fact that every "Spotify's Daniel El responds to

Taylor Swift" article I've seen is illustrated with a pic of Swift.



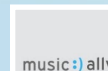
@tsingham I enjoy reading Bob 'tech is all powerful... actually the

artist is king!' Lefsetz attack Taylor Swift for her apparent lack of consistency.



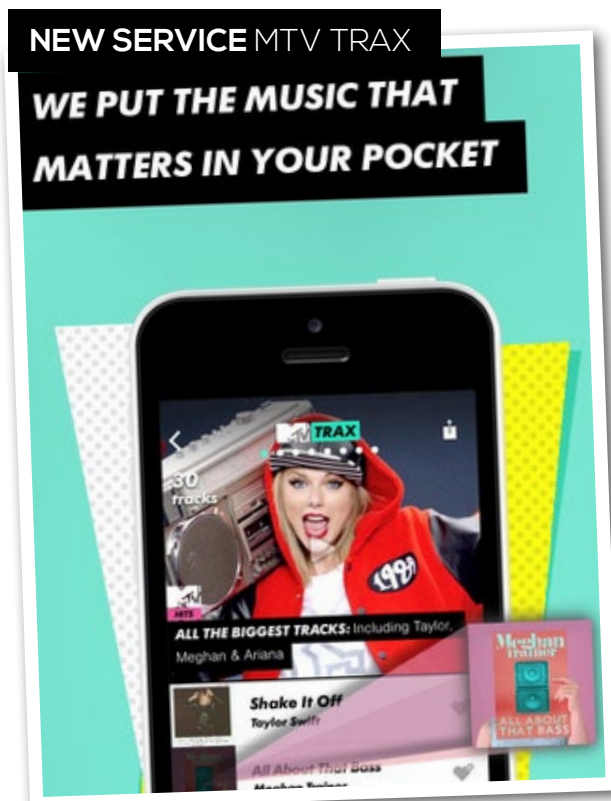
@amandapalmer
People want me to ride in and lop off Taylor Swift's head

with my crowdsourcing sword and I won't do it



Follow Music Ally
on Twitter...
twitter.com/musically

Pinboard



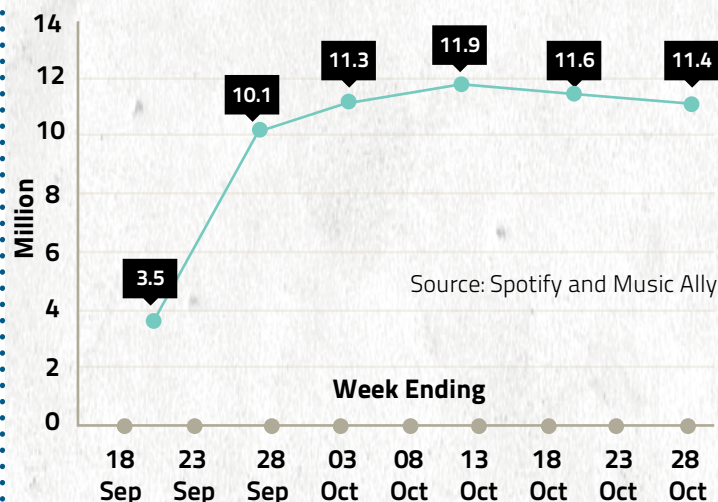
What is it?

British startup MusicQubed is exploring the potential for mid-priced subscription services, most prominently with its O2 Tracks app that costs £1 a week. Its latest partner is another big brand, but this time from the world of media rather than telecoms: MTV. The MTV Trax app has a similar model though: fans "get today's hottest music tracks downloaded free-of-charge overnight so they can wake up to new tracks every day and listen to them anytime and anywhere, even underground or in the air".

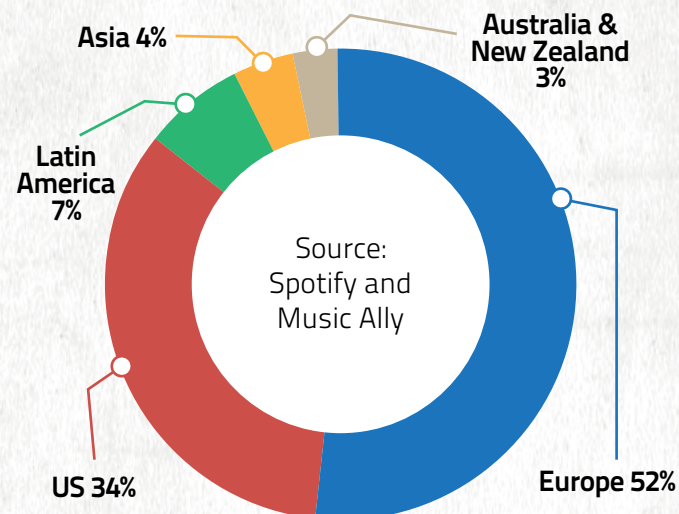
It's free for three months, but we'll be interested to see if it keeps the same weekly subscription charge: MTV might have more capability to include ads, for example.

» Stats

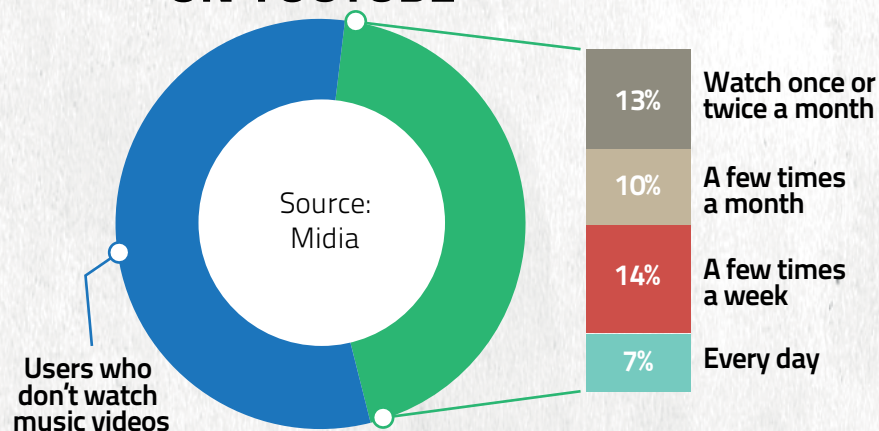
SPOTIFY STREAMS PER WEEK OF 'SHAKE IT OFF'



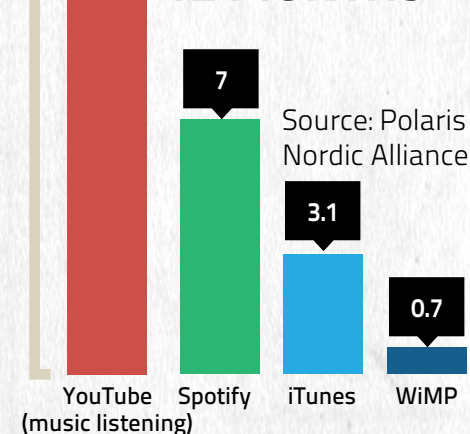
REGIONAL BREAKDOWN OF 'SHAKE IT OFF' STREAMS



UK CONSUMERS WHO WATCH MUSIC VIDEOS ON YOUTUBE



AMOUNT OF NORDIC USERS IN LAST 12 MONTHS



Mexico



The second largest market in Latin America, Mexico is often the first in which big international music services tread the waters in the region. First iTunes and now Spotify show encouraging developments towards stabilising music sales.

According to the IFPI, recorded music sales in Mexico fell 7.1% in 2013, totalling \$131.4 million in trade value.

Despite digital sales growing 23.9% to \$63.2 million, they did not make up for the 24.6% decline in physical formats to \$68.2 million. The market thus ended 2013 with a 52% physical / 48% digital split.

Unlike some of the more developed markets, last year Mexico was still seeing healthy growth in downloads sales, with an annual increase of 20% to USD 39.2 million – 62% of all digital revenues.

The segment is dominated virtually exclusively by iTunes: its ongoing strength

is due in part to the fact that Apple only launched its store in the country in mid-2009. The company drove an encouraging increase in digital music consumption since then, and the market only recently started showing signs of diversification towards streaming.







Advertising income was the fastest growing area last year, with an upsurge of 43.5% to USD 13.9 million which, in turn, represented 22% of digital revenues. IFPI published subscriptions sales in Mexico for the first time last year, reporting that the format's revenues totalled USD 5.1 million (8% of all digital income).

More recently, local trade body

MEXICO



STATS

 Population	120.2m
 GDP per capita	US\$15,600
 Internet users	52m
 Broadband households	10.7m
 Mobile subscriptions	97.6m
 Smartphone users	33.3m

Sources: CIA World Factbook, eMarketer, IFPI, OCDE

revenues surpass physical ones in the first half of the year: in 1H-2013 the split had been 52%/48%, only to see this balanced towards the end of the year with significant physical sales around Christmas.

The three most important factors about 2014's half year results are: that digital growth made up for the physical decline (total revenues grew 0.1% year-on-year); that this performance might lead to 2014 being the first full year in which the market is predominantly digital; and that streaming is quickly becoming a key driver behind these transformations. Although Deezer and Rdio have been available in Mexico since 2012, we understand that pure on-demand music streaming was quickly taken over by Spotify following its rollout in the country in Q2-2013.

In talks with **music:)ally**, Gustavo Diament (Latin America Managing Director, Spotify) highlighted that "Mexico has been one of Spotify's most successful launches in the world, in terms of both active users and user base growth... it is one of our top five in overall advertising revenues, which is a very important KPI for us".

Discussing the key factors behind the quick uptake of Spotify in Mexico, Diament explained that "there are several reasons... it's a leading country in Latin America in terms of digital penetration and tech-savviness; there is a strong influence from the US, where Spotify has been growing a lot; and we fill this sweet spot of music and technology, which are two areas Mexicans are passionate about."

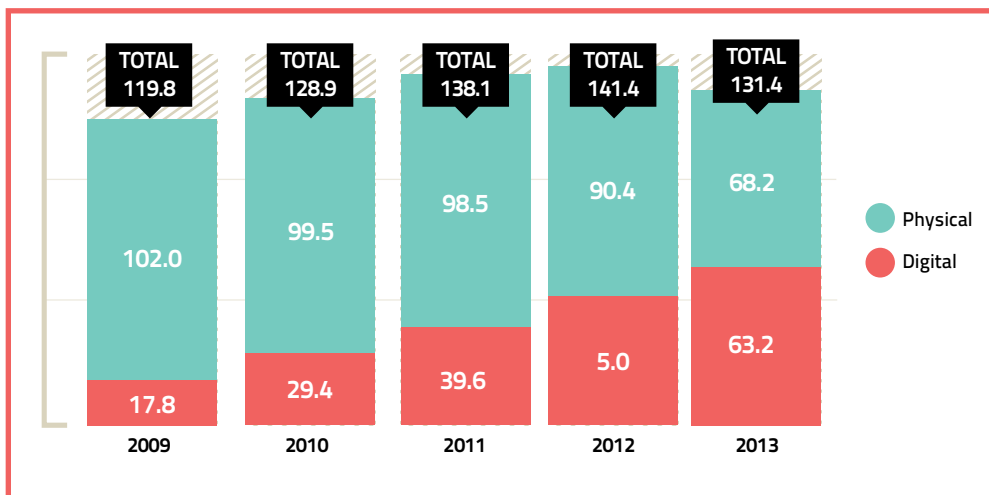
Spotify Premium costs MXN 99 (USD 7.31) per month in Mexico. The company has a bundling partnership in place with

Amprofon placed particular emphasis on the growing relevance of access models in the market. According to the organisation, in the first half of 2014 streaming revenues grew 130% to MXN 175 million (USD 12.9 million). The segment's uptake was such that it brought in 41% of digital revenues, quickly closing the gap with downloads, which accounted for 44%.

On the whole, digital sales grew 13.9% year-on-year to MXN 428 million (USD 31.6 million) in the first six months of 2014, while physical income totalled MXN 296.8 million (USD 21.9 million) – a 59%/41% split in favour of the former.

This is not the first time that digital

Mexico *continued...*

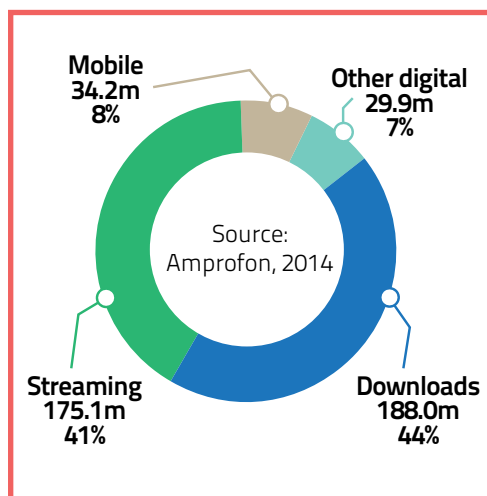


▲ Mexico recorded music sales (US\$ millions, trade value, historical exchange rates) Source: IFPI

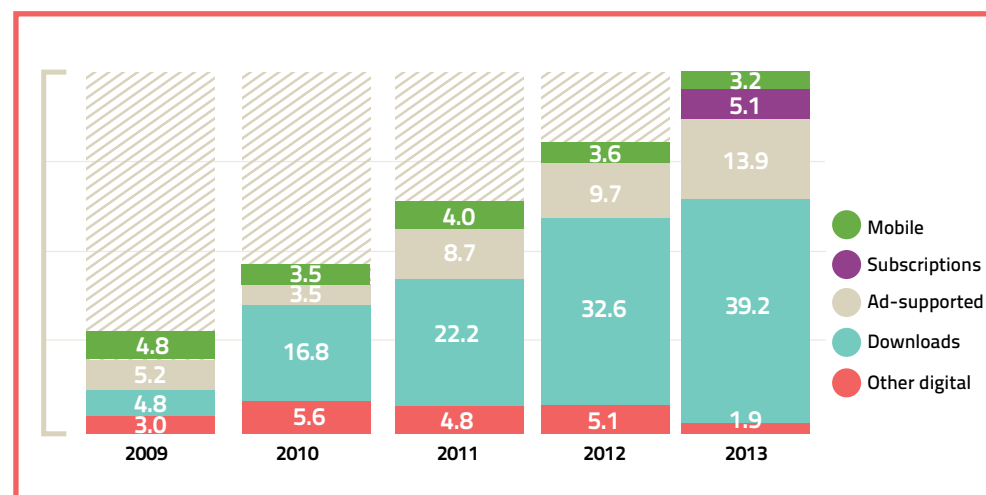
mobile operator Movistar (Telefónica), whose market share trails behind the local incumbent telco Telcel (América Móvil). “We’re very happy with our partnership with Movistar... it has helped to drive our premium subscriptions”, indicated Diamant.

Further detailing the service’s performance in the country, he added that “although we’re doing very well both in our free and premium tiers, Mexico’s conversion rates are below Spotify’s global average. This was somewhat expected, given that disposable income in the country is lower than those in developing markets”. According to OECD, the average household net-adjusted disposable income per capita in Mexico stands at USD 12,850 a year, nearly half the OECD average of USD 23,938.

With regards to Spotify’s outlook for growth in Mexico, Diamant stressed that



▲ Mexico: 1H-2014 recorded music digital sales (MXN millions in trade value)



▲ Mexico: recorded music digital sales (US\$ millions, trade value, historical exchange rates) Source: IFPI

“Spotify still has a lot of room left. We’re only at the beginning of the journey, especially when you consider that even paid-for music downloads are still growing here. This is a country with 40% of its population in the middle class, who invest heavily in entertainment. You can also see this in the fact that Netflix is doing well... One of [Spotify’s] key challenges is awareness. We’re increasingly well known in Mexico, but there is still a lot of work ahead and we need to be creative in our marketing investments”.

It is worth highlighting that the Mexican market still suffers from rampant piracy: although counterfeit CDs and DVDs are no longer as widespread as they used to be, this is clearly not due to a massive move towards legality, but to the fact that piracy has evolved towards unlicensed online filesharing. In this context, even if these

days Spotify’s contributions to the music industry are the object of much global debate, the company’s encouraging entry into Mexico certainly brings a breath of fresh air, complementing iTunes’ earlier efforts to develop an online music market.

Much like in the rest of Latin America, YouTube is also exceptionally popular in Mexico and the leading digital platform for casual music consumption and discovery. According to ComScore, in June 2014 Google sites (i.e. YouTube) had 20.55 million unique viewers in Mexico, ahead of Vevo’s 15.56 million.

The latter only launched in the country in April 2014 and quickly grew to become the most popular YouTube channel, with an average of 1,245 minutes per viewer in June 2014 – far ahead of UMG (the second most popular channel with 286 minutes) and WMG (267 minutes). :)

Music Ally is a music business information and strategy company. We focus on the change taking place in the industry and provide information and insight into every aspect of the business, consumer research analysing the changing behaviour and trends in the industry, consultancy services to companies ranging from blue chip retailers and telecoms companies to start-ups; and training around methods to digitally market your artists and maximise the effectiveness of digital campaigns. We also work with a number of high profile music events around the world, from Bogota to Berlin and Brighton, bringing the industry together to have a good commonsense debate and get some consensus on how to move forward.



Andrew Fisher,
CEO, Shazam
Entertainment

Music Ally is an example of perceptive journalism at its best, with unrivalled coverage of the digital music sector"



ANTHONY CHURCHMAN

Business development
anthony@musically.com



CLAIRE MAS

Training & development
claire@musically.com



EAMONN FORDE

Reports editor
eamonn.forde@me.com



KARIM FANOUS

Head of research
karim@musically.com



LEO TOYAMA

Country profiles & data
leo@musically.com



PAUL BRINDLEY

CEO & founder
paul.brindley@musically.com



STEVE MAYALL

Director & founder
steve.mayall@musically.com



STUART DREDGE

Editor at large
stuart@musically.com

Contact:

music:)ally

Studio 11, Holborn Studios, 49-50 Eagle Wharf Rd,
London N1 7ED

Tel: +44 (0)20 7250 3637

www.MusicAlly.com mail@MusicAlly.com

Registered company number: 04525243

VAT number: 858212321

© Music Ally Ltd. For the purposes of personal, private use the subscriber may print this publication or move it to a storage medium; however, this publication is intended for subscribers only and as such may not be redistributed without permission. Subscribers agree to terms and conditions set up on the Music Ally website, except where a separate contract takes precedence. Music Ally has taken all reasonable endeavours to ensure the validity of all items reported within this document. We do not assume, and hereby disclaim, any liability for loss or damage caused by errors or omissions. In particular the content is not intended to be relied upon in making (or refraining from making) investments or other decisions. We cannot be held responsible for the contents of any linked sites.

music:)ally

Our clients include:



SONY MUSIC

