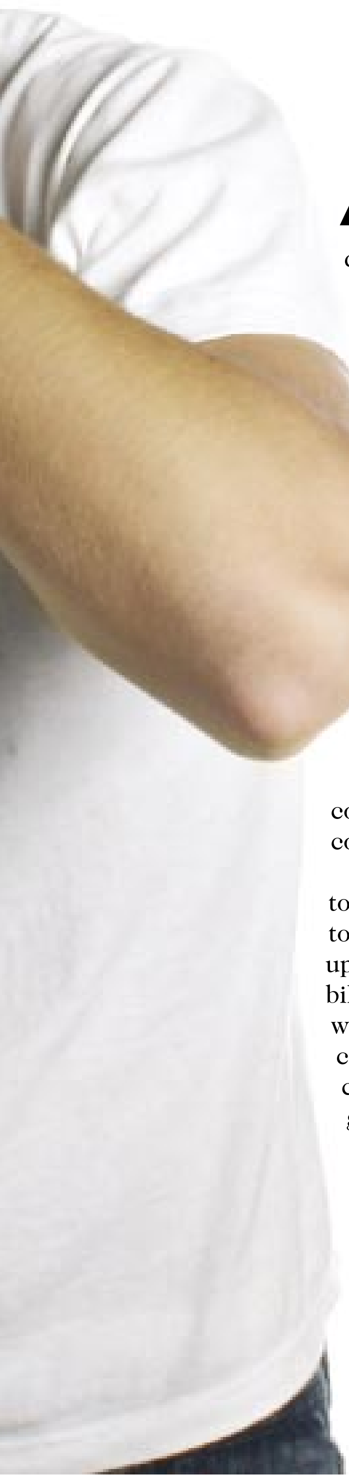
Mobile Music: More ringtone than rock

Have the prospects for mobile music been over-hyped? Certainly the enthusiasm generated by those in the value chain is being labelled by some as yet another industry bubble that needs a severe dose of realism. While the ringtone has ably demonstrated its success, is the business destined to be dominated by this most simplistic form of 'melody', or can it become a real and viable channel for the sale and replay of music? **Paul Rasmussen** reports.



Apple's iPod is held up as proof that there is widespread demand for portable music. While the device has certainly attracted overwhelming media interest and been responsible for adding several new words to our already groaning dictionaries, the numbers sold are absolutely miniscule when compared to mobile phone volumes.

Better to view the iPod as providing clues to what the future might hold for mobile music, because the industry is only just at the very start of its journey and faces significant hurdles before it can be counted as an important contributor within the cellular community.

To gain some perspective as to how this sector is positioned today, ringtone revenues made up nearly 90% of the global mobile music market during 2005, while full-track music downloads contributed just over one per cent, in an overall market that generated US$5.5 billion. While the attention today might be focused on the revenue potential that full-track music downloads hold, the ringtone business will continue to hold a position of high dominance through 2010. But ringtones will themselves undergo transition away from the most basic monophonic ringtone – which first become popular in 1998, to something more sophisticated that involves the co-operation of the music industry.

Global mobile music revenues (US$) million

Global totals	2005	2010
Ringtone downloads	4,912.7	6,815.7
Streaming audio	72.0	562.4
Music downloads	65.1	1,555.3
Ringback tones	489.0	2,404.6
Totals	5,538.9	11,338.0

Source: Informa Telecoms & Media

BEYOND RINGTONES

The monophonic ringtone industry was largely built by small entrepreneurs looking to capitalise on the hundreds of million of cell phones capable of supporting the twenty to thirty notes that is all that makes up the ringtone. These firms offered the product for sale in magazines or online with payment being made by premium telephony (IVR) lines or premium SMS – a simple proposition with a straightforward purchasing process.

But the handset vendors moved on and provided devices capable of reproducing a number of sounds at once (polyphonic), which therefore sounded more like the recording they were supposed to reproduce. As handset owners have migrated to more modern devices, the now unfashionable monophonic ringtone has fallen from favour and is presently estimated to account for not more than five per cent of the total market in Western Europe. T-Mobile has ceased offering monophonic ringtones in the UK, Germany and Austria, and Orange is no longer offering them in France. Elsewhere the picture is somewhat different. In Latin America, for example, monophonic still makes up the majority of the ringtone market today, while in the US there is almost no revenue generated from the sale of monophonic products.

While polyphonic ringtones have taken the place of their monophonic predecessor, they cannot reproduce the sound of a voice. This limitation has been a critical shortcoming to its ability (along with monophonic) to reproduce actual recordings. However, this inadequacy might also have unwittingly been the ringtones saviour by not demanding that the developers negotiate with the record labels over the required licences – although both monophonic and polyphonic ringtone do require licences from music publishers for the musical work which is being reproduced and transmitted.

According to Simon Dyson, a research analyst at Informa Telecoms & Media,, this relative ease with which musical works can be licensed, compared to the complexity and additional cost in licensing a ringtone which uses an actual sound recording (a realtone), has meant that the monophonic and polyphonic business has flourished in many regions around the world. However, others involved with the ringtone industry are critical of the traditional recorded music industry, claiming that it missed the opportunity to become involved with the birth of the ringtone and is only now attempting to gain a foothold.

Putting a diplomatic gloss to this criticism, Patrick Parodi, chairman of the Mobile Entertainment Forum (MEF) and a VP with Packetvideo Network Solutions, confirms that the major record labels are now looking more closely into the ringtone segment. “They’re beginning to understand that it’s a completely new distribution model and not just a cross promotional offering for the existing online or retail model. Consumer behaviour is very different with mobile, and the record industry needs to look at innovative methods to create new revenue streams from music.”

Jon Davies, director of new media with Sony BMG, is more upbeat about his company’s involvement. “I’m not sure we did miss the ringtone market. We were only able to enter this segment when the handsets were able to support more than a monophonic or polyphonic ringtone. Until this happened we couldn’t attract consumers – we knew there was a market and once the handsets were available we have been aggressively addressing this sector.”

REAL MUSIC RINGTONES

Sony BMG claims that the trend during 2006 will be much more towards realtones (also called mastertones and truetones). “As a format, realtones will be a bigger opportunity than polyphonic ringtones, overtaking the other ringtone formats and becoming dominant and, as a record label company, we have the copyright on the realtone content,” comments Davies, “we also feel that the overall market for ringtones is not growing anymore, although we’re seeing demand for our realtone products.”

Another major record label, Universal Music, claims that realtones have already overtaken mono/polyphonic ringtones. “The music industry has moved forward considerably in the last twelve months with regard to its mobile offerings,” says Rob Wells, the company’s divisional director of new media and digital services. “Our mastertones have already outsold both mono and polyphonic ringtones, and within the next year this will have been superseded by full-track ringtones.”

Global market share for major record companies (%)

	2001	2002	2003	2004
BMG	8.2	11.1	11.9	–
EMI	13.0	12.0	13.4	12.0
Sony	14.7	14.1	13.2	–
Universal Music	23.5	25.9	23.5	24.7
Warner	11.8	11.9	12.7	11.2
Sony BMG				24.5
Others	28.9	25.0	25.3	26.0

Source: Informa Telecoms & Media

The notion of using full-track music as a ringtone is already well-established in Japan where the mobile operator KDDI allows subscribers of its full-track ‘Chaku-uta Full’ download service to save the music as tones. Marketing initiatives such as this could help stimulate higher usage of a full-track service and effectively provide the trigger for the demise of polyphonic ringtones.

However, there are alternative options that might interfere with this strategy of the record labels. Realtones fall into two categories – those that use a recording which has been commercially released by a record label, and those which make their own ‘soundalike’ recordings. Understandably, the record companies find this intrusion ‘unhelpful’, claiming that these soundalike firms, which do not want to secure a licence for the original recording, are profiting from the record company’s original support for the artist and its promotional activities.

If the switch to realtones does take place, which seems likely, then the business pressure on mono and polyphonic ringtone providers will increase significantly given the cost of entry into the realtone segment. The licence for the realtone recording is considered the most expensive element for ringtone companies, as record labels typically demand in the region of 40% of gross revenue, although this figure varies according to region, and the relative size of the record company and the ringtone provider.

But full-track downloads bring with them the prospect most feared by record companies – piracy.

KEEPING CONTROL

Having experienced the problems that the likes of Napster inflicted on the record companies in the early days of the online world, the rights owners are determined that their venture into mobile music will not suffer the same fate.

To ensure that its products are secure from illicit copying, the record labels have insisted that there is a credible DRM (Digital Rights Management) system in place – either controlled and vetted by themselves or the mobile operator. The minimum capability, according to the music companies, is that the DRM must provide a trusted environment in two ways – firstly, a clearing house that reports how much content is sold and, secondly, the DRM needs to be approved by the content owners themselves.

Unfortunately, there is no open and standardised DRM that completely satisfies these requirements, although the OMA (Open Mobile Alliance) is pushing ahead with its attempt to include this level of functionality within its forthcoming release of the OMA phase 2.0 specifications. In tandem with the OMA, the European Commission is also trying to guide the industry forward by attempting to bring the interested parties together and get the cellular and record companies to agree some level of interoperability and DRM standards.

"Unfortunately, there's some money to be made by staying with DRMs that are established but proprietary – the iPod is a particular example of this," says Duncan Callow, a partner with international law firm DLA Piper. "Why wait for an open standard to be agreed when you can move forward with your own DRM technology, especially if the record company is satisfied that it is a good technical and commercial solution and allows them to get to market sooner?"

FORWARD LOCK

The simplicity of ringtones, where there was little motivation to illegally copy the product, does not require the more advanced DRMs associated with full-track music. Instead, OMA phase 1.0 could provide an adequate solution for light content such as ringtones, wallpaper, games, etc., by enabling a 'forward lock' feature. Also of importance is that there are no licence fees associated with OMA phase 1.0 or patent issues.

For rich content, such as music or video, OMA phase 1 is deemed unsuitable and record companies and mobile operators are implementing proprietary solutions, such as those available from Secure Digital Container (SDC), a leading developer of DRMs.

However, SDC's CEO, Michael Bornhausser, admits that the mobile DRM market is a somewhat confusing place at present. "Microsoft wants to enter the market but, unfortunately, its software was designed for use on PC platforms and they have encountered significant problems running this on the processors presently found in handsets. Secondly, the OMA has successfully launched its first DRM OMA phase 1 with forward lock, but it doesn't support encryption or any private key infrastructure, it's only a protection mechanism."

The situation has been further clouded by the claims made by the MPEG LA patents group and others that want to see licence fees of US$0.65 for each handset capable of full-track downloads together with a annual fee per subscriber of US$0.25 – something that is being resisted strongly by the entire mobile community.

Regardless of these tussles, Bornhausser argues that this infighting will only delay and possibly diminish the growth of mobile music. "We must remember that DRM is not an application that brings any value to the user, and should be transparent to them as long as they stay within the licence conditions. If the user stays within these conditions they will be unaware of the DRM, which will only become apparent when they venture outside the licence conditions that were originally purchased. There should then be a clear message that the user doesn't have a licence to do this and we can provide them with a link to the retail point. This is all you need. There shouldn't be any call for user registration, passwords, etc. Mobile music will fail if this route is taken."

RETAIL OPPORTUNITIES

Despite DRM being a potential block to development, the major record labels are bullish in their forecasts for mobile music. Rob Wells of Universal claims that the next twelve months will see this segment of the overall music business go through a boom period as operators discover how this market functions.

"Today the operators are still learning. But what we plan to do is bring the retail expertise that shops have gained over the last twenty years and map this onto the mobile industry. What we want is for this digital distribution channel to become more involved with selling music, and much more than just a mobile commerce platform. It's not possible to transport the business model for music downloads presently seen with the fixed Internet over to mobile. There is a need for mobile users to be much more educated as to how to use the services and what the benefits are – mobile music is more for quick hit entertainment, whereas surfing on the fixed Internet is more immersive."

Even at this stage in the market with all its attendant problems, the record companies are looking beyond full-track downloads and are proposing new content bundles and innovative alternatives. Chief among these is the use of 3G for music video downloads, providing exclusive music clips from live performance and promoting users to join music communities, which has proved within the mobile games industry to drive incremental revenues.

"This is a business that is still in its very early stages, and there are many issues to resolve – pricing structures, adequate handsets, the DRM, etc.," adds Wells, "but I'm confident that some stability will be seen in the mobile music world within the next twelve to eighteen months."