



Formats lengthen but revenues shrink as FTDs catch up with ring tones

Content aggregator Musiwave predicts that full-track downloads will overtake real tones by year-end, even though some record labels are still struggling to see much value from the long-play format.

As demand for full tracks grows on mobile, record-company insiders voice concerns about the revenue they generate from FTD sales. Typically, FTDs retail at €1.50 (US\$1.88), about half the price of real tones. While in each case the proportion that the label receives is similar, between 30% and 40%, the difference in price means that the label sees considerably less income from an FTD, even though the buyer is purchasing the complete track – as opposed to a recycled slice, as is the case with real tones.

Gap closing

The threat of diminishing revenues becomes greater to record labels as demand for the full tracks increases. Ring tones outsell FTDs, but the gap is closing. End-users' perception that full tracks provide greater value, as well as advances in network speed and handset capabilities, have added to the momentum behind FTDs. So have celco marketing and customer education in this area.

Responsible for aggregating music content for more than 50 operators worldwide, Musiwave recently announced that it was selling 1.5 million FTDs each month, accounting for 30% of its total sales. Chief Marketing Officer Albin Servant fully expects the format to overtake real tones in sales volume by 1Q07. He bases his prediction on the fact that he has seen the handset manufacturers' road maps and knows that more full-track-compatible devices are on the way. "For sure, [FTDs and real tones] will be level by Christmas 2006," he told *MM*. "We always see strong activity around that time as people change their phones and

explore what they can do."

This is worrying news for record labels dependent on digital income. One method of combating the threat of a potential loss of revenue is to increase the price of FTDs, expanding the pie for all. However, the dominance of Apple's iTunes, where tracks retail for US\$0.99, albeit on PC, has set the benchmark for digital music pricing. "We are competing in FTDs with the standard Apple has set," says Jamster CEO Markus Berger.

Patrick Hagenaar, head of mobile for digital-music aggregator Ministry Of Sound, worries that the Internet pricing model is not sustainable. Furthermore, he is not convinced that customers receive value for money from FTDs. Poor-quality tracks delivered over slow network connections result in a poor user experience.

"The technology is keeping us from offering a good-quality product," he says. "It affects sales. The customer asks: 'Why would I pay £1.50 [US\$2.73] for a track that is 99p online?' It doesn't offer them that much more."

But attempting to protect real-tone revenues by not offering full tracks is inconceivable. Given labels' ever-dwindling physical sales and increased user knowledge of sideloading tracks to devices for free, labels must cater to all customer demands. "People know how to get full tracks on their phones for free now anyway," Hagenaar says. "You have to join in."

Aggregators maintain that customers still see value in real tones and are accordingly prepared to pay a premium for them. DRM issues do not allow FTDs to be edited or set as a ring tone, and therefore the full tracks hold less value on a phone.

But it's not clear for how much longer customers will accept the price difference, regardless of the greater value they may perceive in one or the oth-

er. Accordingly, aggregators are beginning to bundle full tracks and real tones together into attractive packages.

Record labels are wary of such a shift, however. They fear a situation in which they'll end up offering more content for less money. "In Korea, they have a service where a customer can buy an FTD and then select which part of the track they want to use as their ring tone – for free," Hagenaar says. "It's great technology but bad news for us."

Major labels, meanwhile, welcome the growth of FTDs, even if it means sacrificing the additional revenues generated from real tones. They are shifting huge digital-sales volumes and can therefore more easily absorb the shortfall in revenue. Francis Keeling, commercial director of digital for Universal Music, embraces the opportunity. "Mobile is a volume game, so we think [the shift] is a positive thing," he says. "It's about wider distribution in any format."

Threat not imminent

Some comfort can be drawn by record labels from the fact that Berger says the threat of FTDs' cannibalizing real tones is not imminent. In contrast to Musiwave's prediction, he sees just one FTD sold for every four real tones and predicts that sales of the two formats will not draw level for two years at least. Considerable opportunity still exists for Jamster in the ring-tone market, he says. "Only a very small fraction of those with phones use ring tones," he says. "We still see significant revenues on monophonic tones. Don't forget, the basic Nokia 3410 is still being sold!"

Despite its ebullient stance on ring tones, Jamster is investing in a music-subscription service for launch next month. The primary product to be sold? Full-track downloads.

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