PROVIDING FREE MUSIC OVER THE INTERNET
Making Profits Out of an Ad-based Business Model

Dimitrios Margounakis, Dionysios Politis
Multimedia Lab, Department of Informatics, Aristotle University of Thessaloniki, Thessaloniki, Greece

Christina Boutsouki
Department of Economics, Aristotle University of Thessaloniki, Thessaloniki, Greece

Keywords: Music Industry, Online Music Distribution, Business Models, Digital Content, Advertising.

Abstract: The digital revolution and the new way of thinking in the 21st century (as a result of the rapid evolution of technology) inevitably affect the music industry. Innovative kinds of e-business, which are virtual and evolve dynamically in a digital environment, tend to prevail the traditional retail stores. The traditional models should be revised, and new business models should be created, in order the electronic business to succeed. Information technologies (IT) would have the main role in the new business models, while new features will reconstruct the processes and the relations that constitute the music industry value chain. The new face of music e-commerce requires new strategies and new B2C and B2B models. Such a model is the advertisement model (ad-based model). Advertisements could be used as an alternative way of making profits, instead of selling music, since Internet users are yet quite familiar with free music downloading. The core idea of the proposed model of the paper is the distribution of free music with embedded sound advertisement spots of sponsors over the Internet. Certain improvements on the model design can lead to an integrated combination of the two most promising models: the ad-based and the subscription model.

1 INTRODUCTION

New digital technologies change radically the way that music is distributed and "consumed". The music industry should be foreseeing and adaptive to these changes, in order to maintain its competitive advantage. The last years' decrease in the sales of recording products worldwide and the consumers' denial of paying for music leads inevitably the music industry to revising its traditional business strategies. The profitability of the music industry can be maintained in the future only if consumers are willing to pay for the music they "consume", or alternative ways of revenue are found. The development of legal alternatives for music "downloading" does not only fight the Internet piracy, but also creates an opportunity for the development of new income sources.

2 EXISTING BUSINESS MODELS

Many researchers have investigated the ways, which may transform the face of music industry and several new business models have been proposed. Kwork, Lang, and Tam (2002) state that a music distribution model may succeed in the digital world only if the content is sufficiently protected. Gehrke and Anding (2003) have proposed a peer-to-peer (P2P) system, according to which each user pays for songs downloading and gets paid for songs offering for download. Different proposals from different points of view can be found at (IFPI, 2002), (IFPI, 2004), and (Oberholzer & Strumpf, 2004).

As far as the recording production procedure followed the classic way (Bockstedt, Kauffman, & Riggins, 2005), there was only one business model: the traditional model. With the advent of the Internet and digital media, this model differentiated and, as a result, two new business models occurred: network models and hybrid models. An easy-to-use framework is presented in this paper in order to classify the models into 4 categories (Fig. 1):

Margounakis D., Politis D. and Boutsouki C. (2006).
PROVIDING FREE MUSIC OVER THE INTERNET - Making Profits Out of an Ad-based Business Model.
In *Proceedings of WEBIST 2006 - Second International Conference on Web Information Systems and Technologies - Society, e-Business and e-Government / e-Learning*, pages 93-99
DOI: 10.5220/0001250800930099

1. Traditional models (physical distribution / physical product)
2. Network models (online distribution / digital product)
3. Hybrid models (physical distribution / digital product OR online distribution / physical product)
4. Mobile distribution models

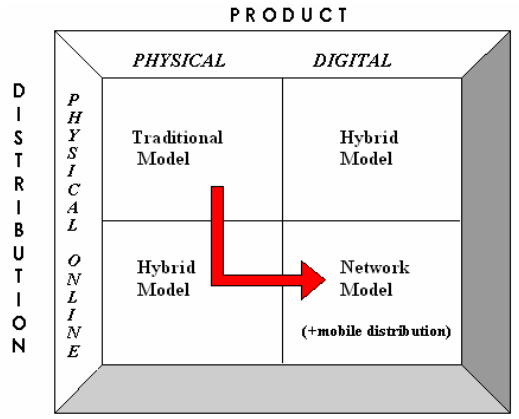

Figure 1: A framework for business models in the music industry. The arrow shows the transition from the traditional model to the Internet models thorough hybrid forms.

A lot of the newly appeared models are classified as Network models, especially the purely Internet models (prevention model, ad-supported model, subscription model, music locker, ala carte, etc.). Surveys about these models could be found in (Fischbeck, 2000) and (Dubosson-Torbay, Pigneur, & Usunier, 2004). The proposed model in this paper is based on the ad-based model (or advertisement model), which is presented in the next section.

3 THE ADVERTISEMENT MODEL

The *advertisement business model* could be defined as a strategic business model, whose main (and determinative) source of income is advertising, and not the provided service (usually free) to the customer.

This model is very common in e-businesses (e.g. Google), where several ways of advertising – sponsorships from third parties are used. On-line advertising is used more and more lately, since it has many advantages comparing to traditional advertising (TV, radio, magazines etc.). Another reason for the on-line advertising growth is the big increase of Internet users. Advertising over the Internet (or on-line advertising) is the kind of advertising that makes exclusive use of the Internet (in particular the Internet' s main service: World Wide Web) as a means of promotion and communication (Zeff & Aronson, 1997).

A web advertisement could be of several types: banners, massive advertisement e-mails, logos, promotional websites, hyperlinks, pop-up windows etc. The main reason for a company to use on-line advertising is that the evolution in multimedia technology allows the transmission of big volumes of information to a large number of recipients (target groups) with minimal cost, but also with significantly low cost for the readjustment of the message content (even for ad-targeting) (Gleason,1995) (Boyce, 1999).

The use of the advertisement model for music distribution via Internet is not a new idea. There should a legal way for the audience to get what they wanted: free music. Therefore, some sites started using advertising as an alternative way for collecting revenues, while the most of the other models were selling (and still sell) music. For example, *EverAd* started in 1998 to provide ad banners together with downloads of several types. As far as music is concerned, EverAd signed with: over 12 music sites in two years in order to distribute their content (the famous www.Listen.com is among them), 60 labels and over 40 companies-sponsors (Hansen, 2000). EverAd uses encryption technologies that restrain the use of the downloaded music files, so as they can be reproduced only in parallel with the appearance of visual ad spots on the computer's monitor.

Another approach of the model (though not in the Internet environment) is the case of SingTel Mobile in Singapore. After only a few months from the beginning of the service, thousands of people registered in SingTel Mobile, so as they win 2 minutes of free local or long-distance calls from their mobile telephone, every time they listened to a 10-seconds advertisement spot before their calls (Eklund, 2001). SingTel started this program in co-operation with Spotcast, which specializes in advertisements transmission. SingTel paid $600,000 to Spotcast for the software platform and still pays current maintenance fees. Spotcast' s technology gives SingTel the capability of creating detailed profiles of its subscribers and therefore sending personal ad spots to them, according to their profile (ad-targeting). SingTel recouped its initial investment from ad revenues in about a year (Turban, King, Lee & Viehland, 2004).

3.1 Making Profits Out of Advertisements or Subscriptions?

Internet in its present form provides many services to the users for free. However there is one fact: someone has to pay for these services. The solution to this is found in sponsorships: there are sponsors that pay for the services. Another issue is that if you don't give something for free, a competitor will do it. In this case, the competition simply delays the cost of free services. Sooner or later, the business should bring in profits. This means that the competitors should adopt a profitable business model.

The main revenue models for Internet services are two: the subscription model (users pay a subscription for the service on a monthly or annual basis), and the ad-based model, where users click on a banner and the sponsors pay to the service provider an amount of money (in proportion to clicks). This is a great opportunity for e-marketers. As the number of free services go up, those free service providers will want to collect money through sponsors and the more they want to collect the better it is for e-marketers because it gives them better opportunity for marketing (Aleem, 2005).

All in all users will expect subscription-based models to be replaced with ad-based revenue models provided ads don't act as an annoyance. As data mining technologies and methodologies evolve, ad targeting will improve. At present some sites have resorted to obtrusive ads — the kind that users must click to proceed to the site content (Aleem, 2005).

There are two points about the question: Subscription or Advertising? Some analysts believe that the subscription models, in which labels have unlimited access to the content for a certain value, offer the greatest hope for a viable music business Internet model. On the other hand, other analysts believe that free content will always be more attractive than any payment plan, so the demand for ad-supported music will grow faster than the demand for subscription services. Moreover, Internet advertising is becoming more and more intelligent, resulting to profits for e-marketers and companies that use it as a main income resource.

Figure 2 shows the prevailing ways, with which labels win money from e-business. The graph is based on a research with interviews and questionnaires to 250 label managers in 10 countries of Europe (Krueger, Swatman & van der Beek, 2004).

Although the digital content sales comprise the main income source, this is true only in a small percentage, since only 34,7% of the labels claim to win money that way. Online advertising stands in the 4th position (after the indirect merchandise sales and the newsletters) with 18,4%. At the same time however, the use of advertisements as an income resource is a rapidly evolving area, which is predicted to bring great numbers for use and profitability in the near future.

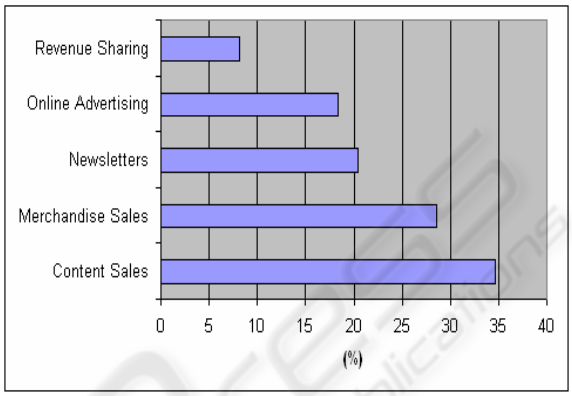

Figure 2: Labels incomings from Internet.

It would be logic to conclude that the best solution at the moment is a model that combines the two ways: the subscription- and the ad-based. Such an integrated model for music distribution over the Internet is presented in the next section.

4 THE SOUND-EMBEDDED ADVERTISEMENT MODEL

The proposed model of this paper can be seen in figures 3 and 4. It is a purely Internet-based model, without, however, prohibiting the selling of physical CDs through the e-shop. One can clearly see from the figures that the core of all the transactions and the component relations in the model is an e-shop (if we finally accept that there is no physical CDs distribution, then the shop does not even need a warehouse, so the model presents an absolutely virtual shop).

The central idea of the model is the distribution of music with embedded sound advertisements within a musical piece. The basic model can be called (and will be from now on through this paper) *Sound-Embedded Advertisement Model (SEAM)*. If this basic model is integrated with the functions of other already existed models, then SEAM turns to the *Integrated Sound-Embedded Advertisement Model (ISEAM)*.

The basic model SEAM supports the one-way business-client relation, where the client uses the service absolutely free (therefore the term 'client' proves to be improper – the term 'user' will be used

from now on). The user is able of downloading any number of full MP3 songs free of charge. However, those songs contain sound advertisements (just like radio spots) during the song. All the music files will lie on the central database of the e-shop's server and will be provided by the labels.

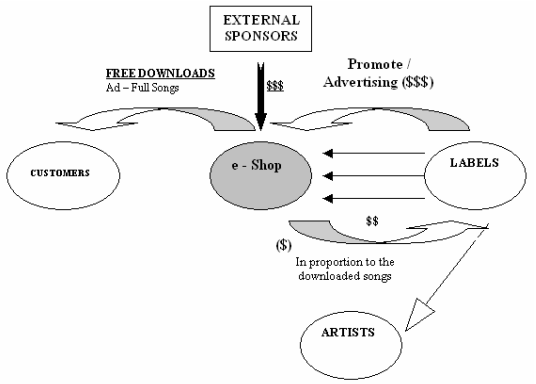

Figure 3: The basic Sound-Embedded Advertisement Model (SEAM).

The economic structure of the basic model is explained next: Each company/ organization that is promoted through the musical songs pays the proportional value to the e-shop for the advertisement. Likewise, the labels themselves can promote their own products (e.g. a new release promoted in a song of another artist, even an artist belonging to another label!). These spots will also cost some money from the label to the e-shop. In order any conflicts to be avoided, the distribution and the placement of the advertisement spots is suggested to be in absolute province of the e-shop, after an agreement with the interested parts. In other words, since a song is added on the server collection, this could bear any advertisement spot.

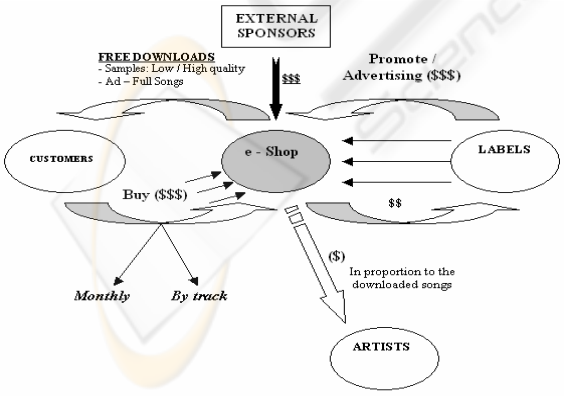

Figure 4: The Integrated Sound-Embedded Advertisement Model (ISEAM).

The labels gain money from the e-shop in proportion to the downloaded songs. According to the *SEAM* model, the artists and the rest stakeholders are paid by the labels, so there is a profit margin for both sides (e-shop & labels).

A main parameter, which differentiates *SEAM* from *ISEAM*, is that in the second integrated model, the artists are paid directly from the e-intermediary, absolving the labels this way from portion sharing. The reason why this is possible in the integrated model is that the business-client relation is yet a two-ways relation (and the word 'client' is proper in this case). This means more effective incomings for the e-shop, which can allow the artists rights payment again in proportion to the sold musical pieces.

ISEAM is not limited to free musical pieces offering to the customers. This is used as a promotional tool, so as the visitors to finally become subscribers of the site, either using a subscription model, or an a la carte model. Namely, the final aim is the visitors starting buying full musical pieces, which are 'clean' (without advertisements), through the Internet.

Since the final aim of the integrated model is selling, more marketing actions must be taken by the owners of the e-shop, in order the site to be more attractive to people. Although the stand-alone idea of free downloading of music files with embedded advertisements is really attractive, other traditional techniques can also be used (free samples downloading, e.g. 30 sec. of a song in low or high sound quality – with or without advertisements). If the subscription of a small amount of people is finally achieved, then we can discuss about more money flowing into the e-shop and therefore greater flexibility at issues like co-operation with external sponsors, labels etc.

4.1 Observations

On that score, a short discussion (observations and declarations) about the proposed model follows.

First of all, a very crucial factor of the success of the model is the advertisements embedment procedure. Management of the e-shop should pay much attention to this procedure, since it comprises the business metacenter. It is obvious that the advertisements should not be annoying to the audient, otherwise he/she will not be in favour of the site, or even worse he/she will discredit it. Of course, an ad spot or a speaker that edges into a song during a radio program may sometimes be annoying, but not always. Specialized researchers have to judge which parts of the songs are advisable of putting the spots into. Also, another issue is the appropriate duration of the spots. For example, a spot that interrupts a musical piece, while the artist

is singing, is unacceptable. On the other hand, it is better this to be done on an orchestral part of the song. There are many difficulties for analysis at this point, e.g. hip-hop pieces with many and long lyrics should be analysed by specialised musicians, psychologists and marketing consultants.

One could wonder: *Finally, what' s the difference with radio?* There are many differences. First of all, since we are not talking about streaming audio, but MP3 downloading, there is not a music sequence that plays repeatedly, but a chosen file collection on the hard disk of the user, who is able to use it as he wishes. Moreover, the user is not in need of being online to play his music. In other words, the user has all the advantages of an MP3 collection. The only "strike" may be the obligatory audience of ad spots, which is however counterbalanced by the free supply of all the music files. We should mention at this point that the system makes no difference from radio from the sponsors' point of view. This a big advantage, because the essence of the model can therefore be perceived by a conventional organization just like radio advertising. Thereby, the sponsor can compare the pricing with the corresponding radio advertisement. Another advantage (comparing to the radio case) is that *SEAM* addresses a much larger number of people worldwide: all the Internet visitors.

Another major aspect for all new models of music distribution via Internet is piracy. Some more experienced users may wonder why they should use SEAM or ISEAM, while they can (in many other ways) find the same songs in MP3 format over the Internet for free without embedded advertisements. This is a crucial question for all proposed models in the new music community. The answer is: **there is no meaning in seeking for solutions for the music industry, if piracy is not eliminated and people don't comprehend that the copyrighted music files sharing via Internet is illegal.** Obviously, without this premise, the function of SEAM (or any other model) is destined to fail. All the proposed and applied models repose on the assumption that more and more people (music consumers) start to be conscious of the law's copyright issues.

Some comparisons should also be done here to ad-based models that use visual advertisements (like TV spots). Visual spots are usually pop-up windows that the user is constrained to view in order to reproduce his music (usually streams) on his PC. It is true that visual spots are more impressive than the audio ones. But they could be more disturbing to the user than the audio spots, because they get at the user's concentration and attention to his work. Also, the user is used to listen to (and not view) ad spots while listening to music (from radio). Regarding the issue of the ad targeting (passing its message to the music audient), it is more likely to happen to the audio case. For example, the user may move the window of the visual ad somewhere at an edge of the screen (if he is not allowed to shut it at all). And even worse: the user may just listen to music and not be in front of his PC monitor, resulting to never viewing the ad (visual ads don't include sounds). On the contrary, the only way of not listening to an audio advertisement of SEAM is by forwarding the song at the time of the spot (which is practically farfetched· stopping a song for a few seconds is not worth it!).

4.2 Argumentation

Some explanations, concerning why this model has been chosen and designed like this, are given in this section.

First of all, *SEAM* is **free of charge**. There are three reasons for this choice:

1. The listeners, who have experience on using the new technology and music downloading, are used in getting what they want for free (even if that is illegal) and will not easily accept a different way.
2. There are still many people who haven't apprehended the added value (and the proprieties) of music files and streams yet.
3. There is still hesitation in using credit cards and giving personal information on the web for a lot of people in many countries.

Consequently, the transition from free music to charging music is difficult (for the present) (Simpson, 2002). Although some online ventures that function in a subscription base have started to develop, it is still too early to say that the subscription model is a profitable model. Nevertheless, the integrated *ISEAM* encases some subscription functions.

Also, SEAM is a **pure network** model. We should not ignore the recent trend towards e-shops, which is the emanation of technologic evolution. Researchers like Durlacher (2001) believe that digital distribution will constitute the basic form of music distribution in the future, while free downloading will hold on and bear down all the efforts of music industry to destroy its influence. According to him, the only way to encourage the customers to buy digital music is to provide very high quality, comfort, easiness and added value to the products, so as they can be more attractive than free access to music.

Because of the fact that ad-based models do not constitute a new idea, but they pre-exist and work (e.g. EverAd), the choice of *SEAM* attributes has

been done in a way that **service differentiation** is achieved. We consider that this is the most favourable way for a model to succeed in the present music industry environment. A totally new model would bear a great risk in manifestation with uncertain results. On the contrary, an already tested (and accepted by many people) model, like the advertisement model, is a very good base for a new proposal. Moreover, a business model should be differentiated from its uniform ones, in order to succeed. The music product in question cannot be differentiated: digital music files are as they are, and should be delivered through Internet. When the product is not possible to be differentiated, the secret for somebody to prevail his competitors is usually the increase of services that add value to the product and the improvement of their quality (Kotler, 2000).

The customers in *SEAM* are the sponsor-companies in essence, not the music audience. Taking into account this fact, the added-value services are obvious: 'smart' advertisement on certain target groups and intelligent systems for better ad-targeting are options that any advertised organization would wish to have. Moreover, the users will be completely satisfied from the free music distribution via Internet.

5 IMPLEMENTATION AND LIMITATIONS

Some problems and limitations at the implementation of SEAM and ISEAM are mentioned in this section. We will examine some general problems for all the network models and then make them specific to the proposed one. We will also discuss some more specific limitations.

A major issue for online music distribution is DRM – Digital Rights Management. The great number of DRM technologies and their licensing costs has increased the cost for a content distribution e-business so much, diminishing therefore the feasibility rate. Selling music without DRM technologies over the Internet contains the risk of Internet piracy and that's why many labels insist on their use on all business models (Virtanen, 2003). A model like SEAM should use such mechanisms for many reasons. The most important of them is for gaining the support of labels and independent artists. The point here is that the peculiarity of the ad spots in the model requires the development of specialized DRM systems, which will increase the already high costs of those technologies.

If we examine the case of materializing such a model in a domestic market (e.g. Greece), then several problems arise. Because of the high costs, online music shops are profitable only if there is great demand. In Greece, as well as in other countries, the domestic market is small and the potential target group of pure network shops is still relatively insufficient. Moreover, it is not desirable from consumers to download (how about buying) music from the Internet without a broadband connection, because of the cost and the slow transfer through a modem or an ISDN connection. xDSL technologies (and also T1,T3) that offer a great deal of speed, are not yet common in our country and cost quite a lot for an average user. Apart from these problems, Virtanen (2003) mentions also others (while describing the case of Finland about the adaptation of music distribution over the Internet), e.g. the slow learning and acceptance of the new way of buying from domestic consumers.

Although the technologic aspects on the implementation of the model are not the subject of this paper, we could nevertheless provide some relevant guidelines. As Durlacher (2001) states, quality and added value on products and services are the key factors for any new Internet model to succeed. On this direction, a suggestion for the model implementation is CDI (Content Distribution Internetworking) networks, with which 4 really important quality factors could be achieved to our model (Cushnie, Lopes & Hutchison, 2002):

1. Improvement in network performance
2. Reduced distribution costs for content providers
3. Branding of products and services
4. QoS mechanisms and quarantees

6 CONCLUSIONS

Theoretically, the proposed model could be vital and successful under certain conditions. If we accept the fact that the future of the music industry is the distribution of digital content via Internet, then SEAM stands on the evolution peak, since it is purely a network model.

The key factor to success is the free service offering. Many different payment-based models may be successfully developed in the future, but free content distribution (even including embedded advertisements) will always comprise a tempting proposal, even if it concerns a user trial before the buying of the original recording.

An electronic model turns to be successful, only if it is widely accepted by people. SEAM (in particular) creates a perpetual circle of success: more and more people will download files and, as a result, more and more sponsors will promote their services through the portal. As long as these numbers grow,

labels will repose their recording products to the portal. Moreover, the more the titles that are offered by the model are, the more the consumers will become, and the circle goes on the same way (Fig. 5).

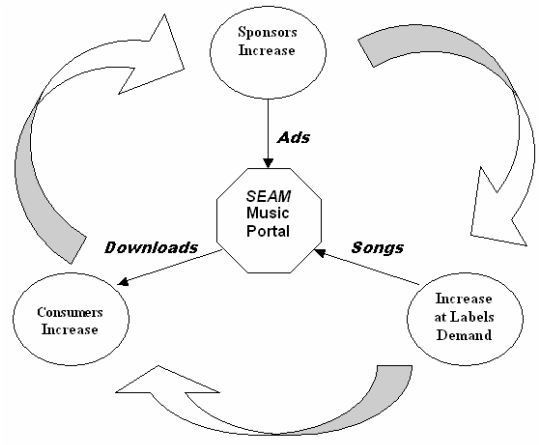

Figure 5: The continuous success circle of SEAM.

The circle of the figure makes sense, since the consumers are the factor that `prescribes' the success of a market and the strategic moves of the stakeholders. Relative researches (Krueger, Swatman, & Van der Beek, 2004) have shown that the customers mostly affect strategic decisions of labels. Consequently, labels are `sentenced' to follow the proposed model, if it is to be accepted by the consumers. This is inevitable but may come late in time (labels have proved their latency in adopting new technologies, having being stuck to the old structure of music industry for a long time) (Virtanen, 2003).

REFERENCES

Aleem, 2005. Subscriptions vs Advertisements. *The Net,* 15/2/2005. Available from http://aleembawany.com/

Bockstedt, J., Kauffman, R. & Riggins, F., 2005. The move to artist-led online music distribution: Explaining Structural Changes in the Digital Music Market. In *Proceedings of the 38th Hawaii International Conference on System Sciences*.

Boyce, R., 1999. "Exploring the WEB CPM myth", May 17, 1999, *http://www.iab.net.*

Cushnie, J., Lopes, R. & Hutchison, D., 2002. "*Making Content Delivery Pay*", ICQT 2002.

Dubosson-Torbay, M., Pigneur, Y. & Usunier, J., 2004. Business Models for Music Distribution after the P2P Revolution. In J. Delgado, P. Nesi, & K. Ng (Ed.), *Proceedings of the Fourth International Conference on Web Delivering of Music (WEDELMUSIC '04)* (pp. 172-179). Barcelona, Spain, IEEE Computer Society.

Durlacher, 2001. *"Impacts of Digital Distribution on the Music Industry"*, Research Report.

Eklund, B., 2001. "Wireless Advertising' s Home of the Free" *Red Herring*, March 6, 2001, redherring.com/mag/issue94/650018065.html

Fischbeck, B, 2000. *Digital Music Business Models.* E - Business II, Available from http://faculty.darden.edu/gbus885-00/Papers/PaperPost.htm

Gehrke, N. & Anding, M., 2003. A Peer-to-Peer Business Model for the Music Industry. In J.L. Monteiro et. al. (Eds.), *Towards the Knowledge Society E-Commerce, eBusiness and eGovernment*, (pp. 243 - 258). Boston.

Gleason, M., 1995. "Agencies probe Interactive Role", *Advertising Age*, UK, Sept. 11, 1995.

Hansen, E., 2000. "Free Music Downloads could come with a Price: Advertising", *CNET News,* July 5, 2000, *http://news.com.com/2100-1023-242801.html?legacy=cnet&tag=st.ne.ni.gartnercomm.ni*

IFPI, 2002. *Jahrbuch 2002, Phonographische Wirtschaft,* Bundesverband der Phonographischen Wirtschaft e. V. (ed.).

IFPI, 2004. *Online Music Report 2004,* Available from http://www.ifpi.com

Kotler, P., 2000. *Marketing – Management,* Prentice Hall, 9th International Edition, translated to Greek, EMI group, Interbooks.

Krueger, C., Swatman, P. M. C. & van der Beek, K., 2004**.** E-Business Models in the Online Music Sector - A Survey of 10 European Countries. In J. Delgado, P. Nesi, & K. Ng (Ed.), *Proceedings of the Fourth International Conference on Web Delivering of Music (WEDELMUSIC '04)* (pp. 156-165). Barcelona, Spain, IEEE Computer Society.

Kwork, S.H., Lang, K. R. & Tam, K. Y., 2002. Peer-to-Peer Technology Business and Service Models: Risks and Opportunities. *Electronic Markets,* 12(3), 175-183.

Oberholzer, F. & Strumpf, K., 2004. *The Effect of File Sharing on Record Sales: An Empirical Analysis*. Available from http://www.unc.edu/~cigar/papers/FileSharing_March2004.pdf

Simpson, S, 2002. *Music Business,* e-book, Shane Simpson.

Turban, E., King, D., Lee, J. & Viehland, D., 2004. *Electronic Commerce 2004: A Managerial Perspective,* International Edition, Pearson Prentice Hall.

Virtanen, H., 2003. Digital Delivery of Popular Music: The Case of Finland. *Finnish Economy and Society* (FES 4/2003), 50-64.

Zeff, R. & Aronson, B., 1997. *Advertising on the Internet*, John Wiley & Sons, Inc.