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# **NEW PRICING MODELS FOR ONLINE MUSIC IN US**

**TEAM WOW**

MIT Students

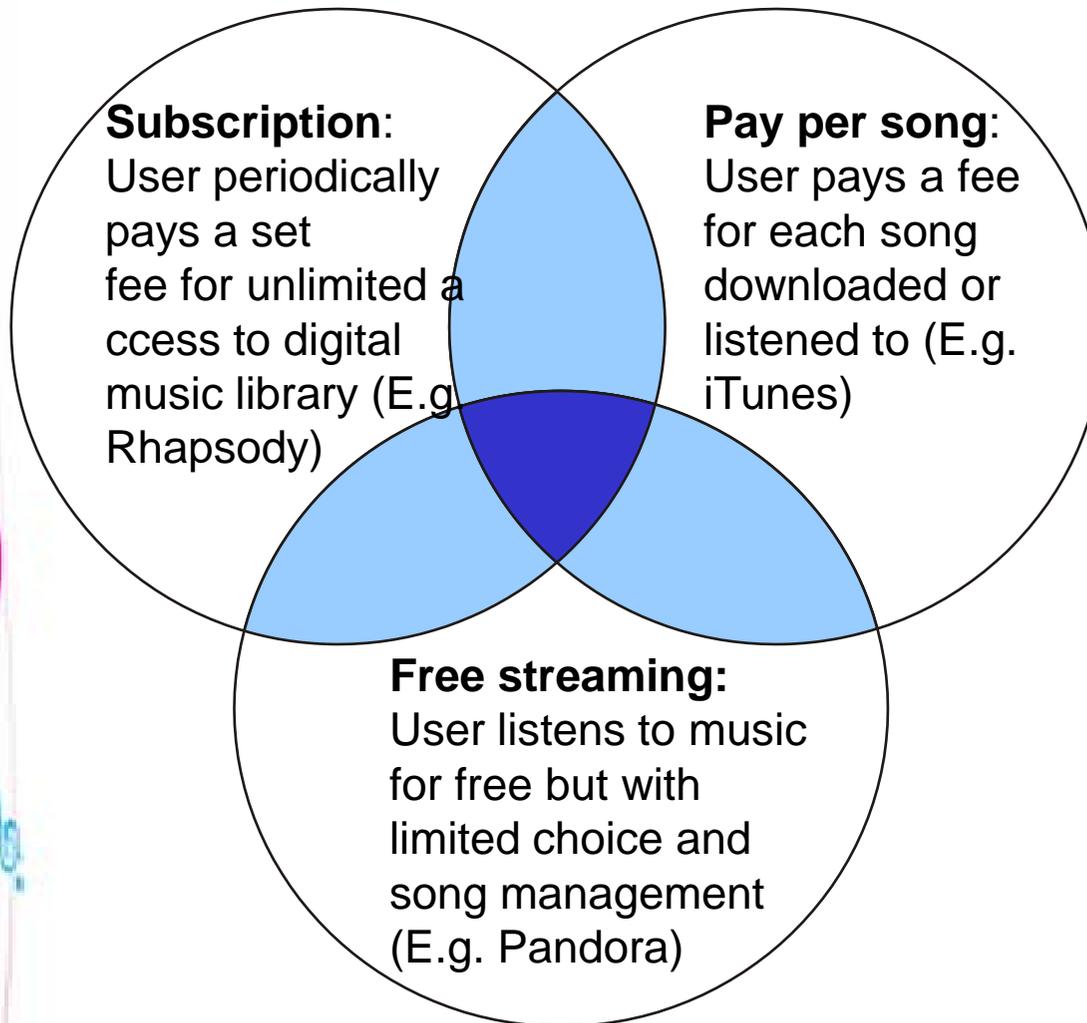
# Agenda

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- **Status Quo**
- Economic Models & Supporting Evidence
- Other Interesting Findings

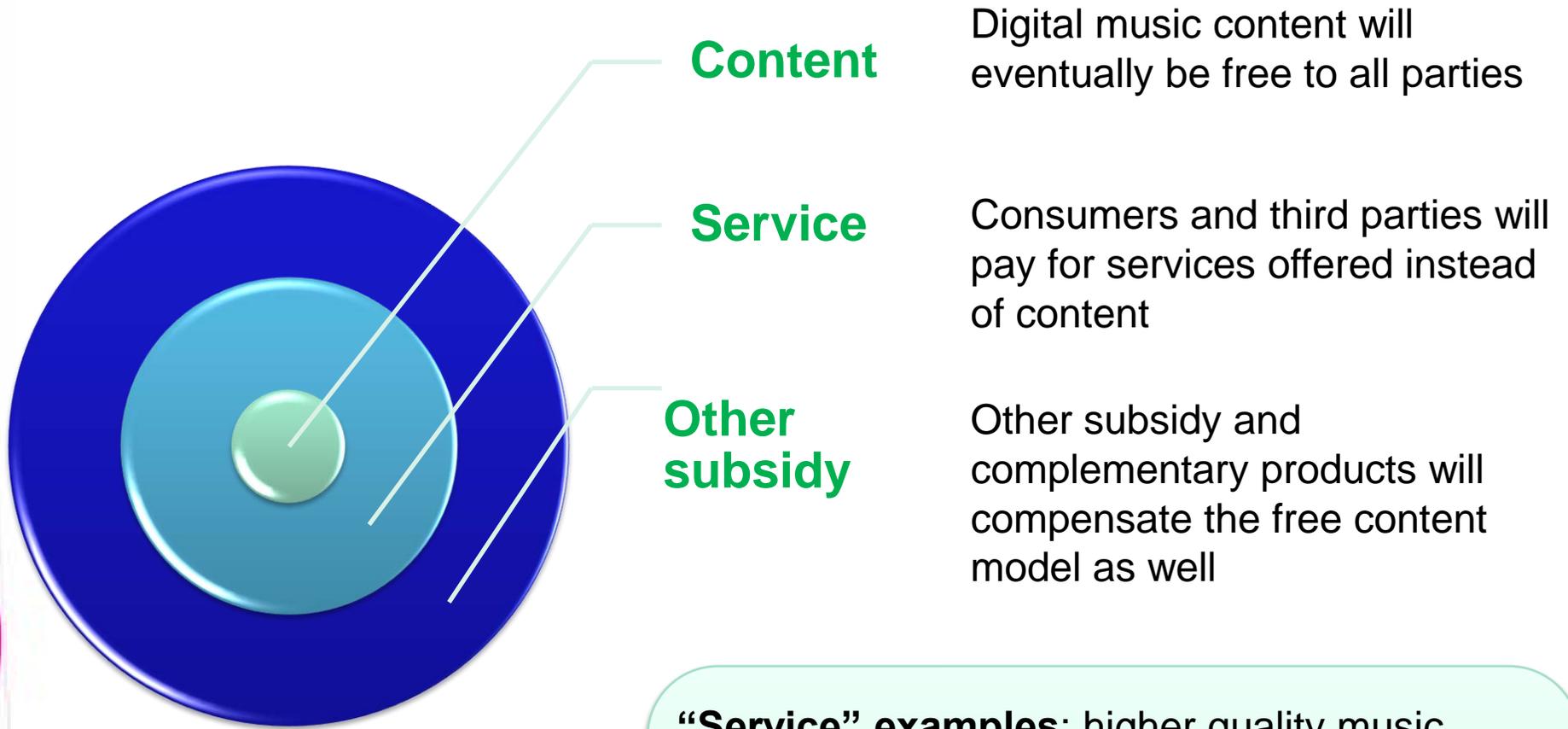
# Status Quo: Digital music content is not currently free

Digital music is reaching consumers through a variety of online services



Digital music content is not currently free; end users or third parties such as advertisers acquire this content for a cost

# Our Hypothesis



**“Service” examples:** higher quality music, better music library management, faster download speed, etc.

**“Other subsidy” examples:** live concert tickets, star labeled products, ads., etc

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# Economic Model (1/2): Why Content Should Go Free

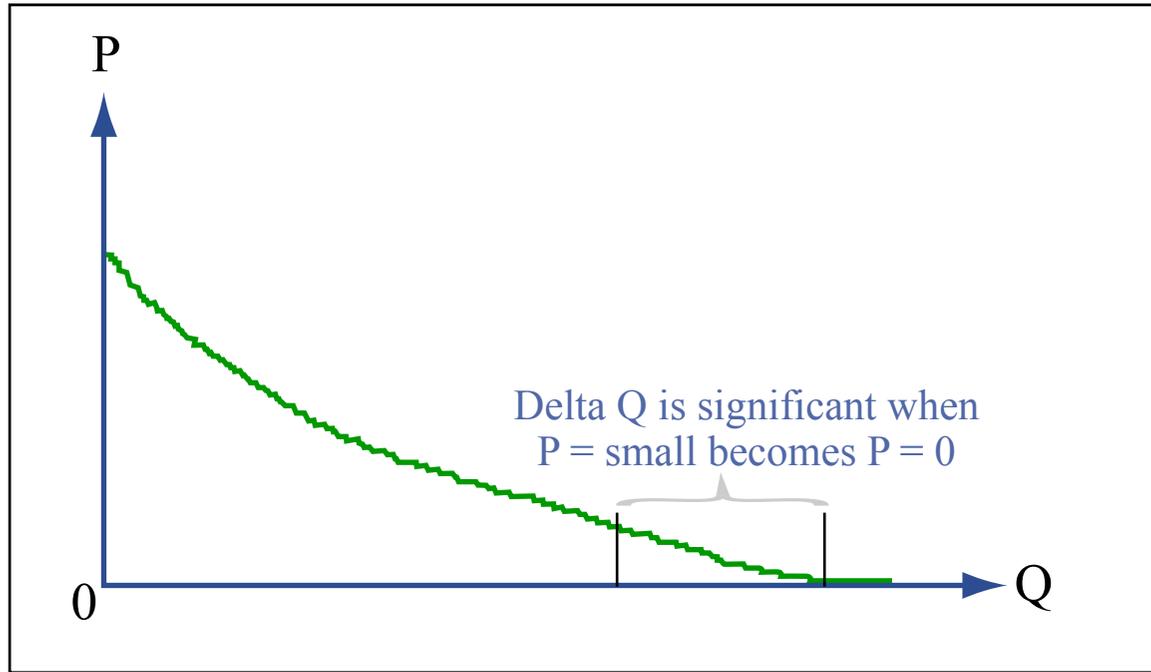
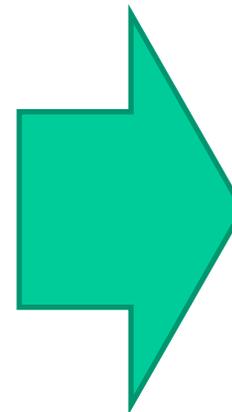


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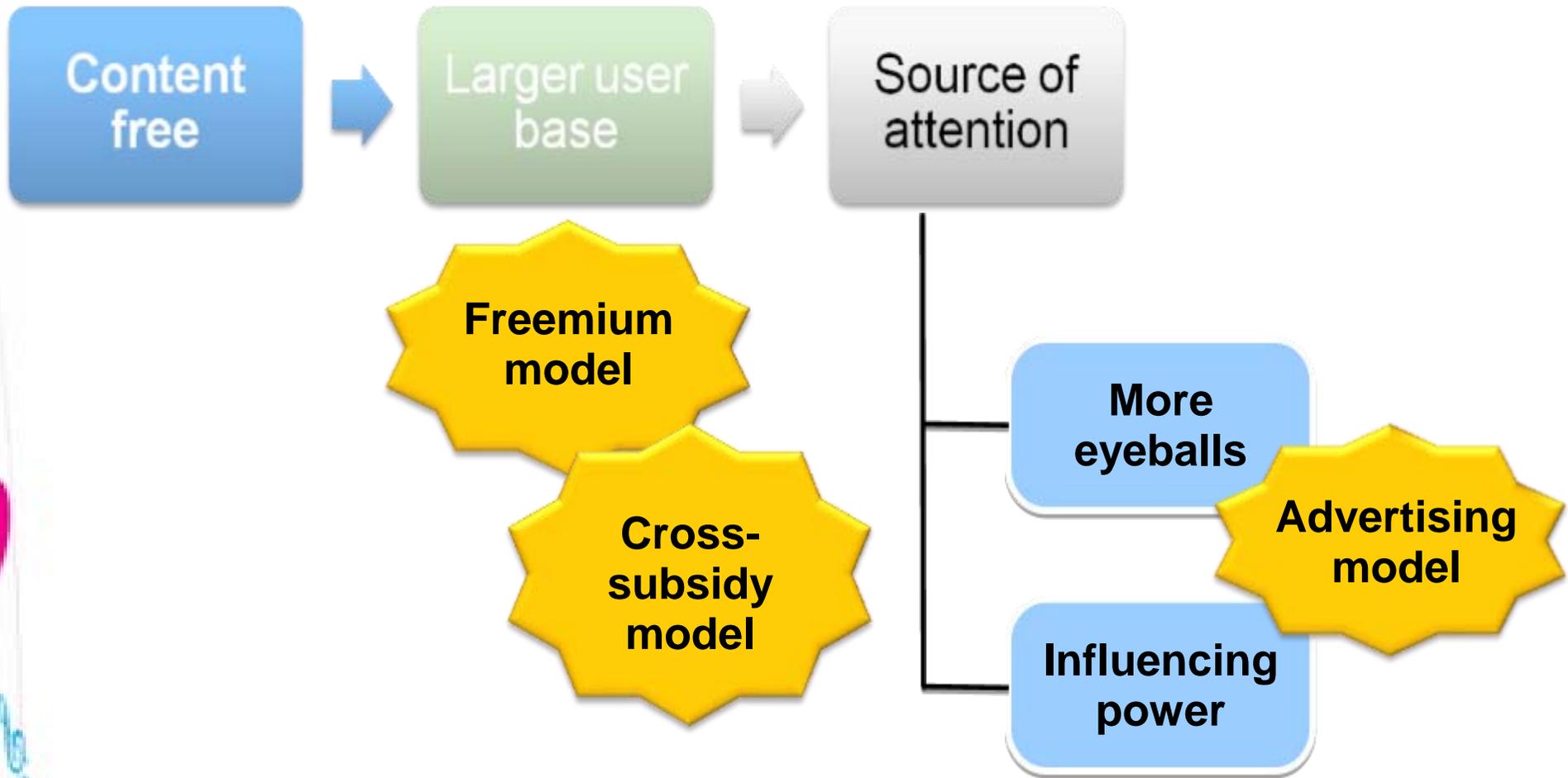
Marginal cost of Production  $\rightarrow 0$

Cost of Distribution  $\rightarrow 0$



Demand for  
Free  
Information  
Goods

# Economic Model (2/2): How Can Service Back-up



# Existing Examples of Free Online Music Content

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Category	Example	Explanation
<ul style="list-style-type: none"><li>• Online music sharing sites</li></ul>	<ul style="list-style-type: none"><li>• Pandora (<i>free music radio</i>)</li><li>• Baidu (<i>free music radio + download</i>)</li></ul>	<ul style="list-style-type: none"><li>• <b>Freemium + Ads. model</b></li><li>• Provide paid upgraded subscription service, , insert ads. into the website, and profit share with iTunes when users purchase songs</li><li>• <b>Ads. Model</b></li><li>• Insert ads. into the content, and share profits with record labels, rather than paying royalties</li></ul>
<ul style="list-style-type: none"><li>• Some individual artists</li></ul>		<ul style="list-style-type: none"><li>• <b>Cross-subsidy model</b></li><li>• Generate buzz by offering music for free, and gaining revenue from complementary goods, like live concert tickets, posters, movie shows. etc.</li></ul>

# Existing Examples of Free Online Information Goods

Category	Example	Explanation
<ul style="list-style-type: none"><li>Some streaming media sites</li></ul>	<ul style="list-style-type: none"><li>Youtube,</li><li>Hulu</li></ul>	<ul style="list-style-type: none"><li><b>Ads. + labor exchange model</b></li><li>Users upload videos for sharing, and youtube inserts ads. for revenue</li><li><b>Ads. +Freemium model</b></li><li>Provides genuine and high quality content. Insert ads. into content and charge through subscription model to certain users</li></ul>
<ul style="list-style-type: none"><li>Other online info. goods providers,</li></ul>	<ul style="list-style-type: none"><li>WSJ website</li></ul>	<ul style="list-style-type: none"><li><b>Ads. + Freemium model</b></li><li>Insert ads. into content and charge through subscription model to certain users.</li><li>WSJ has to go free to maintain its influencing power in the business news area</li></ul>

# What We Heard From ~10 Interviews

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“Music will be supported by advertising in the future” – Amazon Music employee and former record label employee

“Free music content can benefit all in the industry. We don’t understand why they are not free ” – Former Microsoft Zune product manager

“Digital music will eventually move towards cloud services, and may one day be free” – Consultant in digital media

“Online music is changing the way the entire industry thinks about making money” – Former employee of investment firm specializing in media

# What We Found In Literature Research

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“There are plenty of artists like Radiohead who understand the value of Free in reaching a larger audience of people who may someday become paying customers in the form of convert attendees., T-shirt buyers, or even-gasp-music buyers.....the traditional record labels, who blame Free for their ills.....but it is a mistake to equate the label’s interests with those of the music market at large.....some of the smaller labels are innovating more successfully, often by using Free in some form or another “

- *Chris Anderson, author of “Long Tail” and “Free”*

“Recorded music will largely be little more than marketing collateral.”

- *Michael Arrington, Founder of TechCrunch*

“Internet services being sued will be embraced as ways to get the word out on hot new music.”

- *Michael Arrington, Founder of TechCrunch*

# Obstacles To Make Online Music Content Free

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**Record Labels will fight hard to maintain their control over the industry, and are never willing to give free content**



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# Some Wide Thought To Clear The Way

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**Vertical Integration – one company owns both content and services**



# Cloud Music

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- Music is not owned, it is "simply there"
- Subscription fees support record labels and give users access to all music
- Heavily depends on reliable internet for mobile devices

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**Q & A**



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