

The Profit Models of Chinese Online Music Platform

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Keywords: online music platform, Tencent Music Entertainment Group, profit model, Chinese music industry

Abstract: With the development of the Internet and data technology, online music platform has shown its key ability to distribute musical works, which has become one of the most important ways for people to consume music nowadays. This paper selects Tencent Music Entertainment Group (hereafter ‘TME’) as the research object and adopts literature analysis including academic articles and financial reports as the main research method. This article will discuss the representative and diversified profit models and analyze the strategies adopted by TME now and in the future. In addition, suggestions for achieving mutual benefit and win-win cooperation with the short video industry will also be elaborated at the end of the article.

1. Introduction

TME mainly includes four applications: QQ Music, KuGoo Music, KooWo Music and We Sing. The first three of them provide users with streaming media services similar to Spotify, and the other application called We Sing provides users with online karaoke service to meet the needs of singing lovers. In December 2018, TME officially listed on the New York Stock Exchange and was regarded as the first share in Chinese music industry. As the first profitable online music service provider in the world, TME is not only a representative of Chinese online music industry, but also provides useful experience for the development of online music platforms from all over the world to some extent, which constitutes the main reason why TME is chosen as the research object in this paper.

2. The Introduction to TME

The development of online music platforms is often closely related to relevant policies issued by the Chinese government. In July 2015, the National Copyright Administration of China issued the document Notice on Ordering Online Music Service Providers to Stop Unauthorized Dissemination of Music, requiring all musical works on online music platforms to obtain authorization from the copyright owner. While speeding up the process of legalization of the online music market, this also means that music copyright has become a necessity of the online music platform. The Chinese music market developed a unique licensing model during this period. As listening to music is the basic demand of platform users, most online music platforms has tended to sign an exclusive agency agreement for popular and high-quality musical works, which stipulates that the copyright owner can only grant the relevant rights of the musical work to a specific platform, so as to expand the user scale and increase the market share by virtue of the copyright resource advantage of ‘no one has it but me’. Rich music copyright resources are TME’s leading advantage over one of its biggest rivals, Netease Cloud Music. TME, for example, has signed exclusive agreement for multiple albums of Jay Chou, one of the most popular singers and songwriters in China, which means that users who would like to listen to his songs can only use TME’s online music platform, and other platforms have no right to post the songs without TME’s permission. However, the impact of too much exclusive musical works on TME has not been entirely positive. In August 2019, some medias reported that TME was suspected to be under anti-monopoly investigation by the State Administration for Market Regulation. Many scholars also debated and analyzed the legal issue of

whether such licensing mode constitutes monopoly ^[1]. Although, in February 2020, the State Administration for Market Regulation suspended the anti-monopoly investigation against TME and TME was not punished, this at least indicates that too much exclusive musical works has a certain degree of risk of copyright monopoly.

3. The Profit Models of TME

As the first profitable online music platform in the world, TME has demonstrated its typical multi-business model of 'online music + music-centric social entertainment'. The difficulty of monetisation is an urgent problem for online music platforms on a global scale. According to the Global Music Report released by IFPI in 2020, online music platforms account for 56.1 percent of the global record industry revenue. However, despite the fact that online music platforms contribute more than half of the revenues of the global music industry, there are still very few online music platforms that can achieve profitability globally, mainly because the ability of online music platforms to monetize copyright cannot balance the high music copyright licensing fees they pay to upstream copyright holders.

Generally speaking, the revenue sources of most of the online music platforms such as Spotify are advertising revenue and users' subscriptions ^[2]. In other words, these platforms largely follow the logic of 'Platform Economics' and exhibit a two-sided market ^[3]. Platform users and advertisers can be regarded as two different groups of consumers of online music platform. On the one hand, users can choose to pay a regular subscription fee in exchange for the platform's value-added services, which usually include ad-free service and better sound quality. On the other hand, the platform gains the attention from a large number of users through high-quality musical works and services, and then attracts advertisers to advertise by virtue of the accumulated user scale, and the user scale of the platform is usually positively correlated with the attention degree of the advertisement. However, it is difficult to achieve a virtuous cycle where copyright revenue is greater than copyright investment by relying only on user payments and advertising revenue, as giant Spotify provides an obvious example. According to Spotify's financial results for the fourth quarter of 2020, the revenue for the quarter grew 17 percent year-on-year to €2.168 billion and the number of paying users accounted for nearly 45 percent of the platform's total monthly active users, but still the quarterly net loss of 125 million euros. On the contrary, according to TME's financial report for the fourth quarter of 2020, the number of its paying users reached 56 million, accounting for only about 9%. However, TME showed a net profit of 1.2 billion yuan in this quarter, mainly since TME provides users with a wider range of functions and services.

3.1. Online Music Service

The profit sources of TME can be divided into two parts: online music and social entertainment, and this is also the main strategy adopted by TME at present. Online music service is mainly provided by QQ Music, KuGoo Music and KooWo Music. These three platforms share resources of music copyright gained by TME but operate independently and generate revenue through advertising, users' subscriptions and selling digital albums or singles.

Similar to most music platforms, TME also provides users with two modes of free and paid subscription. However, in order to improve the proportion of paid users, TME usually makes strict distinction between ordinary users and paid users in musical works. For example, some popular songs are only available to paid users of the platform, while users who enjoy free services just have the right to listen to the specific clip (usually 30 seconds) of these songs.

In addition, selling digital albums or digital singles is also an important way to achieve music consumption. This mode is ignored by many music platforms in other countries and can be regarded as one of the features of Chinese online music industry. Digital album or digital single is the embodiment of the migration of music issuance and consumption from offline physical record to online music platform, which can be regarded as a kind of 'dematerialized' music consumption ^[4]. QQ Music under TME, as the online music platform that pioneered the business model of digital albums at the earliest, clearly shows the intention of utilizing 'fan economy', that is, to consciously

promote consumers, especially fans, to make repeated purchases through certain activity rules. Each digital single is typically priced at 3 yuan. Taking the digital album *Young* released by a Chinese popular singer Cai Xukun on QQ Music in July 2019 as an example, the sales page had a fan list judged only by the purchase quantity, in order to encourage fans to buy the digital album in large numbers in the way of ranking competition. Moreover, QQ Music set up a relatively complete reward system that links individual purchasing power with the reward that can be obtained: Each user who buys eight digital albums can unlock a voice file recorded by Cai that confesses his love to his fans. Fans are willing to buy in bulk and repeated consumption digital albums or singles, not just because they can get the above gifts or awards, but influenced by the logic that high sales means the fans have stronger purchasing power, which helps their idol can be approved by the capital and obtain better resources and development in the cultural industry. So to speak, fans can get the satisfaction of supporting their idol's career through self-empowerment by buying a large number of digital albums or singles ^[5]. Although it is biased to directly include fans into the category of 'cultural fraud' under the framework of Adorno's theory, there is no doubt that in the business environment constructed by the online music platform, fans are still in a relatively weak position, and their consumption behavior will inevitably be guided and stimulated by the platform ^[6]. It is worth mentioning that Xinhua News Agency, a public institution directly under Chinese State Council, criticized online music platforms in April 2021 for inducing fans to repeatedly buy digital albums or singles, but the phenomenon of a single fan buying more than 10,000 identical digital albums still exists.

3.2. Social Entertainment Services

In addition to the revenue brought by online music, social entertainment services composed of music live-streaming and online karaoke are also an important source of TME's revenue. As Tong and Yang mentioned, the income of social entertainment with music as the core accounts for almost 70% of TME's total revenue ^[7]. QQ Music, KuGoo Music and KooWo Music include the function of music live-streaming, while online karaoke is implemented through TME's another application called We Sing. It is worth noting that TME is committed to making online music services closely linked to social entertainment services: For example, the interface of QQ Music for playing songs contains representative icons of music live streaming and online karaoke. Users can directly click on the corresponding icon to watch music live-streaming related to this song or jump to the online karaoke page to record their own performance or listen to other users' performance of this song. Gifting of virtual gifts is the main way for users to consume in music live-streaming and online karaoke, which refers to that users can send virtual gifts of different values to anchors or users they enjoy. In QQ Music, virtual gifts are purchased by topping up a virtual currency, which has a 10:1 exchange ratio with RMB. Giving virtual gifts is more of a form of 'emotional consumption'. Different from the traditional society in which interpersonal communication is the main way of emotional satisfaction and support, modern people's emotional needs are more and more satisfied by the way of obtaining emotional consumer goods from the market ^[8]. Namely, during music live-streaming, giving virtual gifts not only reflects users' love and support for anchors, but also enables users to gain more attention: Virtual gifts given by users will be displayed on the live-streaming screen, which can get attention from other users and timely thanks from anchors. Moreover, the economic value of virtual gifts is directly proportional to the attention received by users. To a certain extent, this also leads to comparisons and competition among users. In order to get more attention from anchors and other users and get more opportunities for anchors to interact with them, some users are willing to build their own identity in the live broadcast and gain recognition from others through giving more virtual gifts, so as to meet their spiritual needs.

4. The Future Strategy of TME

The positive and timely response to market changes is an important reason why TME can occupy a place in Chinese music industry now and in the future. Since 2020, the outbreak of COVID-19 in China has forced the cancellation of offline live music performances. In this case, online music

performance on the one hand can effectively increase the revenue and visibility of musicians or performance companies, and on the other hand can meet the demand of the public to enjoy the entertainment of music performance. Based on this, TME launched 'TME Live' that refers to presenting online concerts to users by means of webcast in March 2020. It should be noted that TME Live is not the same as the music live-streaming described above. The service of live-streaming mentioned above tends to focus on the interaction between anchors and users, and there are no strict requirements on the places where anchors broadcast and their musical ability. TME Live, by contrast, aims to take concerts beyond the limitation of offline space, using virtual reality and UHD digital video technology to provide users with an immersive experience akin to going to a live concert. Therefore, TME Live basically invites performers such as Wang Leehom and Mayday, who are representative singers in Chinese pop music industry. In addition, in order to restore the atmosphere of traditional offline concert, TME Live pays attention to elaborate the stage and scene of the performance to bring auditory and visual double enjoyment to the users. With 18.5 billion exposure, TME Live has proven its potential as a form of online live music performance, despite the fact that TME Live does not currently charge users for music, and instead pushes the 'continue play' button for previously suspended live music shows based on social benefits. In the context of the rapid development of 5G technology, because of the lower time cost and economic cost, online music performance will be a suitable extension and supplement to offline music performance even if offline concert fully recovers in the future.

It can be foreseen that obtaining rich music copyright resources and providing users with more diversified services will be included in TME's future plans. On the one hand, TME carries out strategic cooperation with the independent musicians to replace the music copyright of their original musical works with the channel advantage of the platform. At the same time, the platform also obtains the music copyright of their original musical works for free, which greatly reduces the acquisition cost of music copyright while ensuring the quality of copyright resources, and achieves mutual benefit and win-win between the platform and original musicians. On the other hand, "long audio", in the form of audiobooks, Internet radio and podcasts, is an area where TME will continue to be strong in the future. According to data from iiMedia Research, the number of online audio users in China will reach 570 million in 2020 and is expected to rise to 690 million in 2022, which shows that the long audio market has not reached saturation state and still has development potential. Compared with the eyeball economy with visual impact as the main stimulus, the ear economy with hearing as the main stimulus can enable people to use fewer senses for information acquisition, with stronger accompaniments^[9]. Just as people can use online music platforms to listen to music during many daily situations, including on the way to and from work, they also can also choose to consume long audio. In order to avoid obscuring the music properties of platforms such as QQ Music, TME has developed a new application called KooWo Free Listen, which is specially designed to provide users with long audio related products and services. The musical advantages accumulated by TME plays a positive role in the development of long audio. However, it is worth noting that, in most cases, the core content of long audio may not be music, which is not limited to the music industry, but extends to the broader scope of the cultural industry. TME's position has also been updated from 'Chinese leading online music entertainment service leader' to 'Chinese leading one-stop online music and audio entertainment platform'.

Clearly, there is still room for improvement in TME's growth. Realizing the linkage and development of the music industry and the short video industry such as TikTok can provide a good example to some extent. While TikTok and TME are seen as entertainment products in two distinct areas: video and music, the attention economy is usually a zero-sum game, as users have a limited amount of time and energy to consume information. In other words, TikTok is getting a lot of attention from people, which suggests that other entertainment platforms may be losing this attention. By licensing musical works to TikTok, TME can create a win-win situation for both the music industry and the short video industry. When most copyright owners license to online music platforms, they also grant the right to sublicense to the platform at the same time, so as to promote the wide dissemination of their musical works. This means that TME has the right to license the

musical works that obtain the sublicense right to a third party and obtain the royalty cheques. In addition, background music is an important part of short video, and it is the obligation of short video platform such as TikTok to obtain the copyright authorization of musical works which used in platform. On the one hand, the online music platform can license musical works to the short video platform to obtain the royalties. On the other hand, short video provides an important way for the promotion of musical works. The popularity of music works on short video platforms tends to increase the amount of music works played on online music platforms.

5. Conclusion

In conclusion, TME built profit barrier with rich music copyright resources as the core, and developed a diversified profit model of parallel online music and social entertainment. This not only makes a significant contribution to the revenue of Chinese music industry, but also provides useful reference for online music platforms in other countries. In 2017, the Outline of the National Plan for Cultural Development and Reform during the 13th Five-Year Plan Period issued by the General Office of the CPC Central Committee and the State Council included the development of the music industry in the ‘major cultural industry projects’. The music industry is receiving increasing attention in China. As a important way for people to enjoy and consume music, represented by TME online music platforms in comply with the industry standard, music copyright protection, on the basis of can develop more music services and the corresponding consumption patterns to meet the public’s growing spiritual and cultural needs, so as to realize and promote the benign development of Chinese online music industry.

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