

Mobile Devices Boost Music, Software Biz

Editor's Note: Of course selling free bandwidth for text messages, cute games and convenience software, and seconds-long music snippets for ringtones aren't going to do anything to improve the wireless industry in the long run. The entire industry needs to change and provide more and better service. Bells and whistles only go so far to distract customers from the basic need to use their phones.

DENVER ([Billboard](#) [1]) - The mobile music landscape is very much a study in good news, bad news.

The bad news is that mobile music has failed to live up to the expectations that the early success of ringtones had inspired. Combined ringtone and ringback tone sales have fallen almost 23 percent so far this year, according to Nielsen RingScan. And Forrester Research analyst Sonal Gandhi estimates that only one-third of U.S. mobile subscribers with music-capable phones use their devices to listen to music.

"That's not very big in the grand scheme of things, considering how long we've had MP3-capable phones," she says.

"Compare that to iPhones users. Almost 60 percent of them are listening to music on their phones, and it's only been around two years."

But it's not all gloom and doom. The mobile content business is undergoing a dramatic sea change, evidenced by the introduction of downloadable applications for such devices as the iPhone, BlackBerry and Android-powered phones. This new app-based distribution model allows developers and service providers to create mobile-specific services and sell them directly to users without interference from mobile operators, which historically have restricted the flow of

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new services available on their networks.

This, combined with more sophisticated handsets and smart phones, has already had a positive effect on mobile music consumption. According to Gandhi, mobile music usage -- while still low overall -- doubled during the past year. She credits music apps like Pandora and Slacker as driving the bulk of that increase.

And there are more music apps coming. RealNetworks just released an iPhone version of its Rhapsody subscription music service, marking the first time U.S. music fans can access on-demand streaming music from their mobile phones. Spotify just launched a similar app in Europe as well.

Both require monthly subscription plans, which will certainly affect adoption. But it's only a matter of time before a U.S. mobile carrier decides to bundle a monthly music subscription into the cost of an unlimited mobile data plan to retain existing customers and attract new ones.

"Mobile companies have to be really serious about using music as a differentiator," Gandhi says. "They're the best people to do music subscription because they have a billing relationship. They can get people to pay a certain amount monthly without even thinking about it, (and) that can be used as a way to drive data adoption as well."

Carriers have avoided doing so because of network bandwidth capacity and cost concerns. But carrier sources say network improvements have addressed those concerns, adding that the remaining hurdle is getting labels to agree to a licensing rate low enough to offer a reasonable price to subscribers.

In the meantime, even Verizon Wireless --

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once considered the most difficult operator to work with -- is now providing developers access to such sensitive network data as location data and messaging controls in hopes of discovering new, innovative services that will also appeal to customers.

The success of the iPhone App Store has served as a wakeup call to mobile carriers, which haven't focused much on developing new services around music. In their defense, the thin margins gained from mobile music services didn't result in the kind of revenue that inspires innovation on that front. So by partnering with music-focused companies that have the incentive to make their services accessible to mobile customers, carriers hope to discover new services and spur adoption.

"This is us saying we're going to be good at a few things ... but there's a whole bunch of other stuff open to innovation," says Ed Ruth, director of strategic business development and partner management for Verizon Wireless. "Combine the ideas of the developer with the areas of expertise of the carrier, and you now have a brand-new offering with great consumer advocacy and interest meeting a need that's traditionally been a nascent space."

Of course, this could just be the beginning of yet another round of hype, something the mobile industry is no stranger to. How it responds to the early success of music apps could determine whether the industry will repeat its earlier disappointment with ringtones or finally succeed in developing a larger, more lucrative mobile music market.

"Ringtones and ringback tones have certainly been a really big business and caused artists and the music industry to really pay attention to mobile," says Rob

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