

Online Music

Free Music, Big Money

Louis Hau, 03.07.08, 2:25 PM ET

What does the music industry do now that customers won't pay for music anymore? So far, they flail.

But San Francisco media social network imeem is pursuing an increasingly popular alternative: provide consumers with free, advertising-supported access to songs over the Internet.

Last year, all four major labels--Universal Music Group, Sony BMG Music Entertainment, Warner Music Group and EMI Group--signed deals with imeem to allow just that: full-track streaming of any of their songs uploaded to the site by imeem users. In return, the labels get a cut of the advertising revenue.

The site's on to something. **CBS's** Last.fm has also secured deals with these companies, and MySpace (owned by News Corp.) and Facebook are now [working on ad-supported music services](#).

"What imeem's proposing--and there are other companies out there trying to do it too--is, rather than monetizing the consumer's wallet, which is a finite budget and not all that big, monetize their attention," explains imeem Chief Marketing Officer and Head of Business Development Steve Jang.

"If you monetize attention properly, it's a much bigger market because you're not monetizing consumer wallets anymore, you're monetizing brand advertisers," says Jang.

Ad-supported access to music? Sounds like radio. But it isn't. Terrestrial radio doesn't pay record labels for use of their recordings, nor does it share the ad revenue it generates. And radio listeners can't choose which songs they want to listen to.

By giving music fans free, on-demand streaming access to their favorite tunes, imeem and other media social networks are pursuing a path that could go some way toward repairing the recording industry's strained relationship with the music-consuming public.

Whether it will work is still an open question. Running an ad-supported music site can be challenging because of the royalties that record labels command for the right to stream their music, notes David Card, vice president and research director at JupiterResearch in New York.

The industry is trying to figure out which business models will work. "I still don't think we've cracked the code yet," Card says. But, he adds, "I'm bullish on the space in the long run."

Imeem won't release figures on its revenue or earnings to date. But while audience measurement data is all over the map, it's clear that imeem is growing.

Compete says imeem had 3.2 million unique U.S. visitors in January, up 35% from a year earlier, while comScore estimates that imeem had 4.4 million unique U.S. visitors in January, a 171% increase from its year-earlier estimate. According to imeem's internal traffic data, the site had 23 million unique visitors worldwide in January, up 155% from a year earlier.

Thanks in large part to MySpace, consumers are accustomed to getting streaming music for free online. Meanwhile, Jang notes, consumers are accustomed to downloading files illegally from peer-to-peer networks.

"In their mind, it's not even illegal," Jang says. "That's the big cultural rift right now...The cat's out of the bag. They've had it free for years now."

But for its entire existence, the recording industry has always been about retail sales, whether the product in question was a vinyl LP, a compact disc or a digital download. Instead of pursuing the same failing transaction-oriented business model, imeem is focused instead on maximizing ad impressions by emphasizing music discovery and providing users with what Jang calls "an expression element" with customized personal pages and the creation and sharing of song and video playlists.

That's not to say that e-commerce doesn't have a place at imeem. Users can click on links to buy song downloads from iTunes or Amazon.com and will soon have the ability to buy ringtones as well, Jang says.

Why not sell music downloads directly from the site? A 99-cent download typically yields a gross margin of about 30%, which is too thin to make sense unless you're Apple and your focus is selling iPods or you're Amazon and you're trying to use MP3 downloads as a way to expand your appeal among young consumers, Jang said.

While imeem will feature some e-commerce elements, its business model remains rooted in advertising. The company sells some lower-priced ad inventory via third-party ad networks, but most of its revenue comes from premium brand advertising campaigns, which can include banner display ads and audio and video ads.

Imeem has built up a 20-person sales team to serve big brands. Cellphone maker Nokia, apparel retailer H&M and wireless carrier T-Mobile are among the prominent names that have advertised on imeem.

"For consumers, you have to market them very persuasively to get them to spend, like, 10 bucks out of their pocket because they have so many substitutes that are free and easily accessible," Jang says. "When it comes to brand advertising, they're already used to it. We already live in a commercial world."