

Music site Imeem dials up volume of traffic

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(08-10) 16:37 PDT -- Months after striking unprecedented deals with four major record labels, San Francisco social network Imeem has found itself on the forefront of the music industry's frantic experiment with free, ad-supported music sites.

Armed with an expansive music and video catalog, which offers on-demand streaming of major record artists and independent bands, Imeem has attracted millions of users worldwide, in July becoming the No. 1 streaming music site in the United States, according to Web analytics company Compete.

"We were really persistent and proactive to work with the record companies, making them investors with Imeem," said CEO Dalton Caldwell, a Stanford graduate. "No one has done that before in a legal way."

Co-founded in 2003 by Caldwell and Jan Jannink of Napster, Imeem started as an instant messaging service but quickly reinvented itself as a social-networking site, where users create flash-based playlists, discover new artists through recommendations and share their tastes on other blogs and Web sites with the help of a sleek widget.

Backed by such venture capital behemoths as Sequoia Capital and Morgenthaler Ventures, Imeem gained momentum last year after it became the first social network to reach a revenue-sharing licensing agreement with Universal Music Group, Sony BMG Music Entertainment, Warner Music Group and EMI Group. Earlier this year, it also landed a deal with Viacom's MTV Networks to show videos from Comedy Central, MTV and VH1.

The company's efforts to legally offer free music and video seem to be paying off - in June, Imeem had more than 27 million unique visitors, with about 65,000 new users registering each day, according to comScore, which ranked it as one of the biggest and fastest-growing social networks in the United States. Imeem also claims more than 85 million total unique visitors of its widgets.

"In terms of the distribution, they have a very positive platform," said Gene Munster, senior research analyst at Piper Jaffray. "They have created their own network and can also attract other users from different social networking sites."

But this year, Imeem will face competition from CBS's Last.fm and News Corp.'s MySpace, which plans to roll out MySpace Music next month. Imeem also will be up against new technologies such as Squeezebox, a home audio device that plays a wide variety of digital music files using a wireless network connection, as well as phone applications by online radio station Pandora that allow users to listen to music on the go, said James McQuivey, a media and technology analyst at Forrester Research.

"Imeem won't be a widely profitable model unless they have other ways to distribute their service," McQuivey said. "People came to Imeem so quickly because they had the music they want, but they can go other places as well."

So far, they're sticking around, partly in thanks to original features like Forkcast, a playlist updated by prominent music critics that gets millions of fans and has been a blessing for many under-the-radar bands.

Imeem also has attracted celebrities such as Scarlett Johansson, who released her album "Anywhere I Lay My Head" exclusively on the Web site in May.

"As the industry changes, we are looking for more different models for growing bands," said Jonny Kaps, owner of the + 1 Records company. "It's really hard to get people to spend money on music, but going to sites like Imeem is a good way to learn about the band before you ... buy tickets."

Kaps, who manages Morning Benders, a San Francisco band that is promoted on Imeem, said he thinks revenue-sharing agreements with companies like Imeem are the future for an industry struggling with plummeting record sales.

"If they were promoting our artists and we would be giving them content, it would make sense to have some kind of relationship with them," Kaps said. "And everyone wins at the end."

Imeem doesn't disclose figures on its revenue or earnings to date, and it remains to be seen whether the business model - based on online advertising - will work.

With a wealth of data about its users' musical preferences, the company has attracted big-name advertisers, such as Apple, Nokia, Toyota and Sony, which flock to the site hoping to tap into Imeem's young demographic.

The company is also experimenting with the e-commerce model - users can download songs they like on iTunes or Amazon.com, and later this year they will be able to purchase ring tones and merchandise. Meanwhile, Imeem's digital music wholesaler, Snocap, helps indie bands sell their music online.

Piper Jaffray's Munster said that unlike other social networks with user-generated content, which may be not suitable for some advertisers, Imeem is an attractive platform for businesses.

"Big brands are willing to pay higher rates to reach customers, and ad rates are actually higher than people realize," Munster said. "Over time, as long as sites continue to provide value for advertisers, the rates are going to be sustainable."

High notes

-- **Employees:** 95

-- **Location:** San Francisco, offices in New York, Los Angeles, Chicago

-- **Traffic:** 27.7 million unique visitors in June; traffic has nearly doubled within the past year.

-- **Rank:** No. 63 on Alexa list of top 100 Web sites in the United States

-- **Popularity:** Third-largest social network in the United States after MySpace and Facebook; No. 1 streaming music site in the United States.

Source: Imeem, Compete

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