November 2016

McKinsey Quarterly

DIGITAL MUSIC'S ASIAN BEAT

The heady growth of new music-streaming services in the region may contain lessons for other industries.

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The digital music industry's future is likely to have a distinctly Asian beat. Innovative, regionally based music-streaming platforms have recently grabbed a significant share of Asia's fast-growing markets and are now striving to forge a revenue model that will be sustainable in the years ahead. Other industries seeking to ride Asia's digital updraft may learn from their experiences.[1]

Asian consumers have switched from downloading to streaming far quicker than their Western counterparts. Fifty-six percent of digital music revenue in the region comes from streaming, up from very low rates of streaming penetration only two years ago. By contrast, in the United States, revenue from streaming for 2015 was around 34 percent. Although global heavyweights like Spotify were among the first to enter the Asian market, regional players such as JOOX have since captured a huge share of music-streaming downloads (exhibit). They play a home-field advantage, deploying localized editorial teams and user interfaces, and amp up music content from across the region.

As these new services have gained scale and reach, they have attracted interest from brand advertisers eager to target Asia's youthful audiences. Mobile operators, meanwhile, have bundled music-streaming packages as part of their data-plan offerings.

Even with a mushrooming user base, however, players are still shaping a business model suited for the long haul. Lower incomes in many markets mean subscription revenues per user and advertising rates on streaming platforms are lower than in the West. Asia accounts for just 14 percent of global digital music revenues. Relatively high mobile data fees are also a burden.

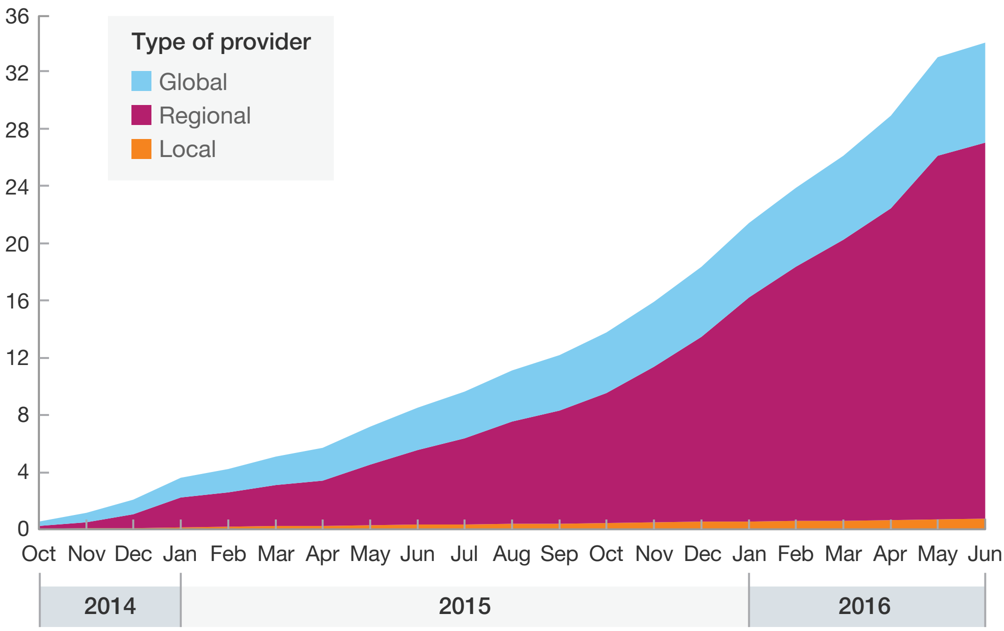
Our analysis shows that for a hypothetical leading streaming service (with a 15–20 percent market share) to cover its content costs, it would need to either get 60 percent of its users to buy a premium subscription or attract 30 percent more advertising revenue than the total regional streaming industry achieved in 2015.

The streaming services are eyeing fresh, innovative ways to tap Asia's huge potential, born of rapid growth in Internet penetration and smartphone usage, particularly among young people. They are using big data, for example, to deliver more targeted advertising and marketing messages, augmenting their

Exhibit

Regionally based music-streaming platforms have gained a significant share of Asia's fast-growing markets.

New monthly downloads, cumulative in millions[1]



[1]Represents iOS and Android downloads from September 2014 to June 2016.

Source: Priori Data

effectiveness as a marketing platform for brands. They are teaming up with music-rights holders to produce original content and experiment with live concerts online. And they are working to develop customized music-streaming content that will help telcos lure new mobile customers.

Those music streamers that crack the code could offer a road map for other digital products and industries hoping to navigate Asia's burgeoning digital markets.

[1] Our analysis covered only Asian growth markets under $30 million: Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Taiwan, and Thailand.

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The authors wish to thank Roy Liu and Andrew Pereira for their contributions to this article.

Download the full report on which this article is based, *The beat of progress: The rise of music streaming in Asia*, on McKinsey.com.