

A **Resolve MR** White Paper

RINGTONES

Ringin' in the Revenue



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Catalyst:

In today's digital age of accessibility and mobility, cell phones have arguably become the most utilized personal device in the everyday life of consumers. Amidst their ever advancing capabilities, one feature has remained a definitive and highly used function—ringtones. Ringtones have since evolved from simple polytones, composed of overlaid beeps varying in pitch to approximate a song melody, to mastertones that use actual excerpts from recordings. The quick proliferation of mobile phones as well as the advancement in the quality and accessibility of mastertones has transformed ringtones into a prominent source of revenue and an integral marketing device for the music industry. Ringtones have ushered in a new channel of attracting consumers and an improved means of leveraging musical relevancy for record labels and artists—both of whom are struggling with plummeting record sales.

The Argument:

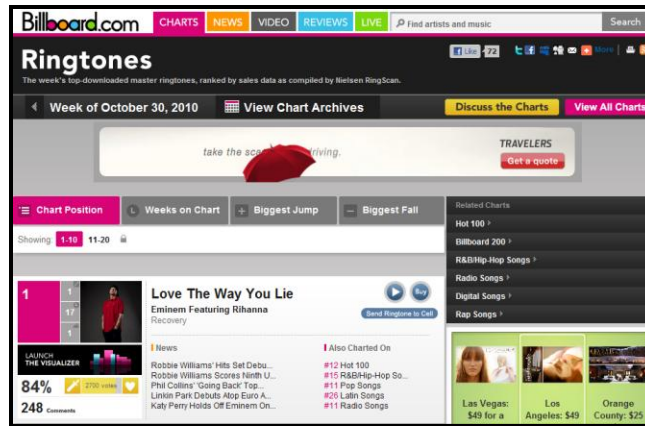
Contrary to the belief that the ringtone has lost its momentum since peaking in 2007, ringtones remain one of the most pervasive non-voice functions on cellular phones, and they have the potential to serve three purposes: 1) act as an alternative source of revenue for record labels and artists, 2) are a new platform to establish relevancy in the music industry, and 3) seen as an efficient tool to launch and execute marketing campaigns.

The Hypotheses:

- Ringtone sales help supplement the deficits left by plummeting record sales as another source of revenue.
- The high usage and accessibility of ringtones serves as another channel for artists to connect with fans.
- With its practical use and wide popularity ringtones can be implemented as an efficient marketing platform.

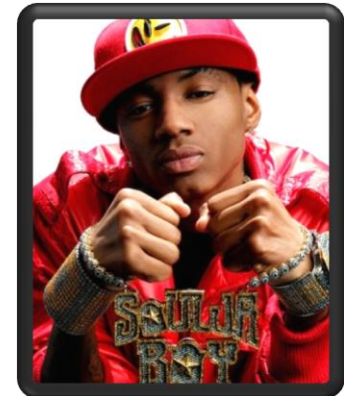
Revenue and Relevance

According to Nielsen Soundscan, in 2009 digital music accounted for 40% of all music purchases in the US and is increasingly a lucrative form of income while the sale of physical CDs decline. As the availability of broadband internet connections enables consumers to download albums and singles online (whether legally or illegally), most record labels and artists are targeting other markets to gain and sustain success in the music industry beyond the sale of physical CDs. Some artists and labels have caught on to the prominent potential of ringtones and now deliberately produce music with the anticipation of success in the ringtone market over the sales of physical CDs. As part of a \$729 million market for mobile phone downloads, ringtones carry a royalty of 24 cents per item. Furthermore, the popularity of ringtones and their wide usage helps maintain artists' relevancy despite failed album releases or concerts.



High ringtone sales can help establish an artist’s presence in the music industry and serve as a validation of their fan base. In 2006, Billboard, the world’s largest music market tracker, began to feature ringtones as a subsection alongside its other traditional music charts. Ringtones have given rise to a new arena for artists and record labels to compete and establish their dominance in the music industry as the sale of mastertones becomes increasingly musically and financially relevant. Furthermore, the competitive market of ringtones generates a new unit of measure that can be used to build an artist’s reputation as a key player in the industry.

Ringtones seem well-poised to serve as a form of leverage for artists and labels struggling with album sales. Interscope Records recording artist Soulja Boy Tell’em demonstrates the impact of ringtones on the overall perception of success. The popular teen rapper has broken records not with impressive album sales, but as a ringtone giant with the success of his first single, “Crank Dat.” Despite the flop of his album *Souljaboytellem.com*, which sold only 658,000 copies within the first few weeks of its 2008 release, Soulja Boy still emerged as one of the most relevant artists of the year due in large part to the popularity of his single in the ringtone market selling 3 million copies in digital downloads during the same period. While the album received disappointing sales, “Crank Dat” remained on Billboard Magazine’s Hot 100 chart for seven weeks.



The trend continued in 2009 as his ringtone sales buoyed his image with his single, “Kiss Me through the Phone” and held its position as the most downloaded mastertone of 2009 despite his mediocre album sales. The extent of his popularity, as with other high profile artists who have gained the same success through ringtone sales and other digital downloads, exemplifies the utility of ringtones as another opportunity for artists to remain relevant and maintain a fan base amidst a sluggish economy in the music industry.

Broadened Audience Outreach

The popularity and wide usage of ringtones has developed a new market, not only in a separate ringtone marketplace, but across multiple domains and integrated campaigns making artists more accessible to consumers and increasing labels’ opportunities for customer engagement. iTunes’ integration of

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ringtones and mastertones into the Apple footprint – by including mastertones in their digital download library – serves as an example of how ringtones can be used as an alternative platform for artists and labels to reach consumers. Since Apple introduced ringtones to iTunes in 2007, the iTunes marketplace evolved into other capabilities such as purchasing and downloading master ringtones directly from your iPhone 4. Coupling ringtones with various mobile devices enables artists and record labels to connect with a broader customer base. Also, the accessibility and mobility encourages customer engagement. Interaction generates revenue while building and sustaining a fan following. Furthermore, the aforementioned examples extend artist exposure through various channels in which mastertones are marketed and sold.



The sales of ringtones have also developed a new market segment, expanding the potential platforms on which artists can build their careers. Katy Perry is another artist whose success can be attributed to the ringtone market and its ability to further inject an artist into pop culture. The success of Katy Perry’s recently released album, *Teenage Dream*, and the increase in her popularity is partly due to more than television appearances, performances, and the traditional forms of engaging fans; she has become what News Blaze calls, “a pioneer in the new digital world of pop superstardom” as she has defeated other top artists not only in album sales but dominated the digital sales and ringtone charts,

breaking a Nielsen Soundscan-era record with more than 4.4 million tracks before her album even dropped in stores.

Despite holding the number one spot on Billboards top 100 for weeks, her album sales were relatively disappointing, selling only 281,000 in its first two weeks –well below the industry projection of 400,000 within the first week. In light of a generation where low album sales can disconnected an artist from their fans, Katy Perry was able to still reach her audience and maintain her popularity as well as sustain a

Number of U.S. Subscribers Using Mobile Data Services— Q2 2008		
Mobile Data Type	%	Subscribers (000)
Total*		258,900
SMS	53%	137,759
MMS	26%	67,783
Pre-installed games	21%	54,256
Ringtone downloads	19%	48,768
Mobile Internet	17%	43,339
Email	15%	38,951
Text alerts	13%	33,082
Picture downloads	12%	32,077
Instant messaging	12%	31,938
Wallpaper/Screensaver downloads	11%	28,930
Software/Application downloads	11%	28,219
Game downloads	9%	24,128
Uploads	8%	21,339
Video messaging	7%	18,064
Location-based services/GPS	7%	17,153
Full-track music downloads	5%	14,202
Video/Mobile TV	4%	11,468
Streaming online music/Radio	4%	11,064
Online game playing	4%	10,454

solid stream of revenue from digital sales of singles and ringtones. Moreover, she has attained the attention of a new generation interested in purchasing and following music through other outlets. Similar to Katy Perry, ringtones can provide more opportunities for artists in the industry to broaden their audience outreach and the scope of possibilities in connecting with fans.

A Quick and Efficient Marketing Platform

As one of the most prevalent non-voice features of cellular telephones, ringtones have the potential to be implemented as a new marketing tool for the music industry by enabling artists and labels to reach a broad audience quickly and efficiently. Of the 69% of the 258.9 million U.S. wireless users in 2008 who used their

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phone for at least one data service, 19% downloaded ringtones, making it the fourth most used non-voice data feature.

This immense activity makes ringtones what Nielsen calls part of a “**universe for mobile advertising.**” Tones are now used for more than just receiving phone calls; they are used for an array of alerts –texts, voicemails, picture messages, etc. –demonstrating its versatility and position as a prominent capability of cellular phones. Furthermore, the reach of ringtones stems beyond the mere cell phone user who downloads the tone. They are shared with any individuals in the presence of the caller when a phone call or alert is received –indirectly, marketing a song, album, artist, etc. to a wider audience.

If strategically implemented, ringtones can be utilized in marketing campaigns to promote artists and music labels. Tactics such as exclusively releasing singles via ringtones before a record drops in stores or is released as a digital album, generates buzz for music artists. An opportunity for record labels to build momentum for upcoming albums, ringtones can be used to reach a wide range of mobile phone users similar to the way viral marketing quickly spreads with Internet users. Additionally, ringtones have a better likelihood of longevity as a prominent platform because cell phone users’ have an incessant desire to customize their mobile devices with features such as mastertones. Whether on a smartphone or simple feature phone, in America or across the world, ringtones are an established staple of the mobile telephone. The accessibility and multifaceted use of tones worldwide enable labels to promote artists to a global market.

Current and Future Potential

Amidst the decline of album sales and emerging mobile device capabilities, ringtones provide a promising framework for record labels and artists to reach audiences through alternative channels. The sale and distribution of mastertones not only leverages more revenue for players in the music industry, but are a current medium to gain exposure and build a fan base. Record labels and artists have recognized the potential that lies in capitalizing on the popularity of ringtones and its opportunities for global publicity. The contribution of ringtones to the overall success of music industry professionals will continue to be reaped so long as mobile users seek to customize their phones and content is made readily available in a convenient manner. Not only have ringtones themselves come a long way from simple polytones to high quality mastertones, but the dimensions for which they can be utilized has also transformed. Thus, mastertones hold a promising possibility for other industries in their emerging initiatives by capitalizing on the utility of ringtones, similarly helping them the way it has helped the music industry ring in the revenue.



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