

Research on the Business Model and Development of NetEase Cloud Music

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Abstract: With the rapid development of the internet in today's world, there is a growing demand for online music streaming, accompanied by the formation of a substantial user base. According to statistical data, the majority of users belong to the 90s and 00s generations. It is precisely these younger customer segments that have transformed the characteristics of music products from a singular playback format to a more mobile and social experience. Presently, the market features prominent music streaming applications such as NetEase Cloud Music, QQ Music, and Xiami Music, each offering similar functionalities along with their unique preferences. This paper focuses on the business model, marketing strategies, and potential cross-industry offline operational models of NetEase Cloud Music, a subsidiary of NetEase. The paper employs SWOT and 4Ps analysis methods to explore the strengths, weaknesses, and growth prospects of this application as well as its marketing model. Additionally, this paper envisions a cross-industry offline development model for NetEase Cloud Music that integrates the lifestyle needs of a youthful user base and adheres to the operational dynamics of modern urbanization.

Keywords: Business Model, Development, NetEase Cloud Music

1. Introduction

Starting in 2010, China's music software market began to develop, but at that time, intelligent smartphone devices had not yet advanced to the point where they could support internet-connected music platform software. People could only satisfy their music preferences and basic needs through basic devices such as MP3 players and desktop computers. However, due to the negligence of both the government and individuals regarding the importance of copyright, this fostered the continuous growth of pirated music. According to the State Council Information Office of the People's Republic of China (SCIO), the "2010 China Network Music Market Annual Report" released by the Ministry of Culture showed that the overall market size of China's online music market reached 2.3 billion yuan in 2010. The report also indicated that the Chinese online music market maintained a stable operational trend in 2010, with the market size continuing to grow steadily. By 2012, more and more companies were making efforts and explorations in the online music market, resulting in a penetration rate of 66.9% among mobile users. However, the profit model remained relatively simplistic, primarily offering music playback functionality.

It was only from 2012 onwards that a portion of the audience gradually developed awareness of copyright issues and began questioning and opposing music software piracy. Simultaneously, the

internet social media company "Tencent Computer Systems Co., Ltd." (Tencent) began operating its own music playback platform, naming it "QQ Music." This marked China's first music platform to purchase foreign artist copyrights and build a legitimate music library. Tencent's legal team initiated legal action against the illegitimacy of pirated songs on various music platforms, leading to the removal of numerous pirated songs from music platforms. According to Han Xianfeng, a researcher at the Chinese Network Culture Department: "From the overall development trend, the online music market environment has gradually improved, and the market size has gradually increased. However, there are still many existing problems, including copyright, business models, industry distribution coordination, and financing issues, all of which affect the development of the online music industry." Copyright issues began to receive more attention, and this international issue is inseparable from the characteristics of the internet and music. The internet is an open environment where content is easily accessible, which has led people to be less inclined to understand the origin of music. Regulatory authorities have gradually intensified their efforts to combat piracy. The Ministry of Culture issued multiple investigation notices last year and conducted investigations into 400 websites, resulting in an improved environment. At this time, users began to realize the significance of "legitimate music copyrights," and major music platforms began to compete for digital music copyrights. On July 8, 2015, the National Copyright Administration issued a "Notice on Ordering Online Music Service Providers to Stop Unauthorized Distribution of Music Works," leading China's online music industry onto the path of legitimacy [1]. Dubbed the "strictest copyright order in China," it stated that online streaming services must stop providing unlicensed music to users. Service providers were required to remove unlicensed music by the end of July. Sixteen Chinese digital music companies gradually removed nearly 2.2 million unauthorized music works.

2. Company description

NetEase Cloud Music is a music player product developed by NetEase, focusing on core elements such as outstanding personalized user services, a large number of original musicians, friend recommendations, and social features, with online music services primarily centered around playlists and more. As a music service provider, NetEase Cloud Music acquires copyrights from content providers through licensing or copyright purchases. Users primarily pay for music services through premium memberships, music packages, individual song purchases, and premium albums to gain listening privileges. NetEase Cloud Music's product features can be categorized into four major classes: playback, discovery, social, and creation. Playback features include online listening, song downloads, playlist collection, and sound adjustment [2]. Discovery features encompass daily recommendations, private FM, playlist plaza, DJ programs, and hot reviews in various personalized and diverse content recommendations [3]. Social features include commenting, liking, following, private messaging, activity feeds, and other interactive functions with other users. Creation features encompass uploading songs, creating playlists, recording DJ programs, and participating in activities to showcase users' musical talents and tastes. NetEase Cloud Music's core functions lie in discovery and social interaction, offering users rich and in-depth music content through precise algorithms and manual recommendations, while also providing a platform for expression and communication through the comment system and Cloud Village community. A distinctive feature of NetEase Cloud Music is "Hot Reviews in Cloud Village," a ranking list displaying user comments on songs or playlists. Listeners can gain insight into others' perspectives on music and the stories connected to it through these comments, making it a major feature and attraction of NetEase Cloud Music. In the context of users listening to a "favorite song," the social demand is for a sense of identification and thoughts regarding that song. Typically, users open the comment section to view interesting comments, express agreement, respond with likes, and even leave comments based on their own feelings. Meanwhile, the daily recommendations updated at 6 AM are akin to unwrapping a mystery

gift, and this gift is not considered "unwrapped" until users have listened to the recommendations. After listening, users inevitably experience different emotions and moods, such as surprise, disappointment, or comfort [4]. These emotional values resulting from various factors are among the unique characteristics of NetEase Cloud Music as a social music software.

3. SWOT Analysis

3.1. Strength

First and foremost, NetEase Cloud Music has a comparative advantage over other music streaming platforms due to its extensive collection of independent musicians and user-generated content (UGC). UGC marketing leverages incentives to encourage users to produce content spontaneously and engage deeply, utilizing ordinary users as the primary dissemination channel to help the brand achieve cross-circle information penetration. NetEase Cloud Music's Cloud Village community concept encourages individuals to be their most authentic selves, allowing people of all personalities to find their own personas within various Cloud Village communities. Based on this insight, NetEase Cloud Music presents emotions in a unique way, making them tangible and resonating with a wide audience because of their authenticity. Secondly, the personalized recommendation distribution system of NetEase Cloud Music better caters to user needs. The music recommendation system of Cloud Music is committed to providing users with targeted personalized music recommendations through intelligent recommendation algorithms, offering users a distinct listening experience [5]. NetEase Cloud Music's personalized recommendation system can be divided into three components: the target audience, the recommended content, and the recommended scenarios. Firstly, NetEase Cloud Music extensively explores user's music preferences, including long-term accumulated interests, song-level preferences of each user, and latent interests formed through listening sequences, ultimately generating user profiles. Secondly, recommended content can be seen as rich material profiles. NetEase Cloud Music analyzes song conversion rates, audience demographics, and explores these songs to establish a quality assessment system. Meanwhile, NetEase Cloud Music accurately positions user interests at different time periods by analyzing factors such as replay rates and replay cycles and builds a contextual recommendation engine to deliver songs to users in suitable scenarios. Lastly, NetEase Cloud Music excels in the quality of song audio compared to other music platforms, offering users ultra-high-quality 320kbps music. With the advancement of the economy, people's living standards are continually rising, leading to an increasing demand for music quality [5]. NetEase Cloud Music meets the demands of customers who seek high-quality music by providing 320kbps ultra-high-quality music.

3.2. Weaknesses

Firstly, NetEase Cloud Music entered the market later than other music streaming companies, officially launching in 2013, making it a latecomer in the market. Software like QQ Music had already accumulated a significant user base, dominating a large market share, and this has resulted in NetEase Cloud Music having an incomplete music ecosystem compared to other music companies. Secondly, NetEase Cloud Music faces copyright issues, leading to an incomplete core music library and a lack of songs from top-tier artists. Despite securing 750 million yuan in Series A financing in 2017, NetEase Cloud Music still faces capital constraints when competing against industry giants like Tencent and Alibaba in terms of copyright acquisition [5]. For example, in March 2018, NetEase Cloud Music abruptly announced the removal of songs, including those by Jay Chou, due to demands from copyright holders, resulting in significant user attrition.

3.3. Opportunities

The continuous expansion of the online music industry offers NetEase Cloud Music ample opportunities to gather data from a vast user base and use big data to understand user needs, thereby improving its products. Additionally, NetEase Cloud Music has the opportunity to extend its industry chain due to its large user base and presence of talented musicians. It can diversify into upstream sectors of the music industry, bridging the gap between music production and distribution. The rise of short video platforms is also an opportunity for NetEase Cloud Music. Since nearly every short video incorporates background music, music has become a crucial component of short videos, enhancing their content and atmosphere. Therefore, NetEase Cloud Music can enhance its interaction with short video platforms and better promote its music. Lastly, government policies that prohibit exclusive copyright licensing benefit NetEase Cloud Music by breaking Tencent Music's monopoly on copyrights [5]. The end of the exclusive copyright model in the music industry has led to a continuous increase in NetEase Cloud Music's music library. By the end of 2020, the platform had approximately 60 million songs, and according to NetEase Cloud Music's financial report, in the first half of 2022, the platform's music library exceeded 100 million songs. In the era of music copyrights, Tencent Music gained a significant advantage in copyright acquisition by paying high fees for exclusive rights. In February 2018, the National Copyright Administration required online music platforms to grant comprehensive licenses for online music works, avoiding exclusive licenses. Tencent Music, Alibaba, and NetEase Cloud Music reached cooperation agreements to mutually license exclusive music works, covering more than 99% of exclusive music works for each platform. This policy allowed NetEase Cloud Music to overcome its major disadvantage and develop its business more effectively.

3.4. Threats

Firstly, the rapid growth of short video platforms not only brings benefits to the music industry but also intensifies competition within the industry. Short video platforms are also encroaching on the territory of online music, leading to increased competition. Moreover, short video platforms are consuming the time users allocate to using music apps. Users have limited fragmented time each day, and increasing the usage time of short video platforms inevitably reduces the time spent on listening to music. While from a user's perspective, these two activities may not directly conflict because users can listen to music while doing other tasks such as driving or working, music enthusiasts are willing to allocate additional individual time specifically for enjoying music. Therefore, short video platforms pose a significant impact and threat to the music industry. Secondly, with a lack of diversification in revenue sources and a single profit model, NetEase Cloud Music's user growth faces a bottleneck [5]. Simultaneously, competition in the mobile music product market is becoming increasingly fierce, with other music streaming apps also focusing on intelligent playlist recommendation features, and their technology is maturing. Consequently, personalized recommendation is no longer the primary advantage of NetEase Cloud Music, and a substantial number of users may migrate to other music apps.

4. Business Analysis

When examining NetEase Cloud Music's marketing strategy, we can employ the 4P's marketing analysis method, which encompasses four different theoretical perspectives: Product, Price, Place, and Promotion, to analyze the company.

4.1. Product

From the perspective of Product, NetEase Cloud Music has never defined itself purely as a music player. Instead, it focuses more on finding emotional resonance through songs and positioning itself as a music community where users can seek emotional connections, share their experiences, and engage with like-minded individuals. By building group identity based on an emotionally-driven community, NetEase Cloud Music provides users with a sense of belonging through its unique Cloud Village community. This personalized product approach aligns perfectly with the brand's emphasis on social interaction, connectivity, and emotions. It shortens the distance between users and fosters a closer connection between the brand and users, leading to emotional attachment [6]. Even in the details, NetEase Cloud Music's logo features a red background, and the player interface is designed to resemble a traditional retro vinyl record to evoke a sense of nostalgia. Even the brand's VIP membership is named 'Vinyl VIP.' With the shift to mobile app usage, the traditional rituals associated with listening to music via records or tapes have diminished. NetEase Cloud Music's use of vinyl record design adds a sense of ceremony and nostalgia, resonating with a broader audience. Furthermore, the platform encourages user engagement by assigning identity levels. Once users reach a certain level, they can choose and customize the color scheme and images of their player interface, thus enhancing user-generated content (UGC).

4.2. Price

In terms of Price, NetEase Cloud Music offers two different usage models: free and subscription-based. NetEase Cloud Music provides basic free services while also offering subscription services like VIP and Premium memberships, providing users with advanced features and offline listening privileges. The platform offers various value-added services related to music listening, including Vinyl VIP, various collaborative memberships with other entertainment platforms, music bundles, and data packages [7]. Vinyl VIP is the primary paid value-added service, offering paid members access to a vast library of songs, premium audio quality, ad-free experience, exclusive radio stations, personalized avatars, discounts in the in-app store, and offline ticket discounts, among other perks. Music sales primarily involve digital albums and concert ticketing. Individual songs are priced at around 3 CNY, while a full album costs approximately 20 CNY, with purchases allowing for free downloads.

4.3. Place

NetEase Cloud Music's user channels are divided into two categories: relationship-based and recommendation-based. In the relationship-based category, NetEase Cloud Music can establish initial social circles through the user's phone contacts, Weibo, WeChat friends, and other pre-existing social connections. The recommendation-based category includes social circles created through recommendation features, such as location-based services (LBS), which enable users to discover nearby strangers and their musical preferences, facilitating discussions and interactions. Moreover, users can share their listening activities and insights on social media platforms, expanding NetEase Cloud Music's presence on other social platforms. Users can also initiate discussions in music circles, express their views on topics related to emotions and music, and share stories related to those topics. This community satisfies the need for emotional expression and connection among individuals who may feel hesitant to share with those around them [8]. NetEase Cloud Music's brand promotion channels include online and offline platforms. Online channels primarily include the NetEase Cloud Music app, along with WeChat official accounts, Weibo, and various forums. Offline channels involve promotional activities in subways and at university campuses in cities like Hangzhou, as well as offline brand events. Advertisements related to services like Vinyl VIP typically appear as

supplementary information, requiring active user engagement for information acquisition, which can be costly and may not guarantee high user conversion rates.

4.4. Promotion

NetEase Cloud Music's Promotion strategy is characterized by creativity and uniqueness. One of its most famous promotions is the annual personalized listening report released to users at the beginning of each year. Using big data statistics, this report showcases users' favorite artists, most-listened-to songs, and most-liked lyrics of the year. It not only increases brand awareness and user engagement but also serves as an opportunity to narrate the brand's story and evoke empathy [9]. It generates a significant number of shares and plays a role in promoting the brand's image. NetEase Cloud Music's successful cross-industry marketing is also noteworthy. In August 2017, NetEase Cloud Music collaborated with Nongfu Spring, a bottled water brand. Thirty carefully selected music reviews from the platform's comment section were printed on the bottles [9]. This design added an artistic touch to each bottle of water. Scanning the bottle's QR code with a smartphone would direct users to the corresponding music playlist and allow them to take photos and share them on social media, enhancing the user experience and promoting the brand.

5. Prospects

NetEase Cloud Music can explore offline cross-industry activities to expand its business. With extended working hours and increasing urban life stress, the culture of light alcoholic beverages is becoming more prevalent in China. Young people are paying more attention to their personal lives after work, and some may choose to relieve stress through alcohol. Therefore, opening a chain of music-themed bars is a suitable option for NetEase Cloud Music [10]. A significant portion of NetEase Cloud's user base consists of young individuals for whom stress relief and socialization are essential aspects of life. NetEase Cloud Music can cater to this need by creating music-focused social and entertainment venues.

In terms of design, NetEase Cloud Music can create innovative and disruptive environments by blending urban and natural landscapes. Consumers can enjoy flexible and inclusive interactive social experiences since users with similar musical tastes usually find resonance and identity with each other. The venues should also offer more offline services, such as parties, gatherings, and live events. Inviting musicians for live performances can increase their exposure and connect them with their audience better. Such establishments provide users with spaces for direct communication, discussion, creative sharing, and emotional expression [11]. People can interact face-to-face without the limitations of online social distancing. This approach aligns with NetEase Cloud Music's differentiation from other online music apps, focusing on emotional connections and expressions.

6. Conclusion

With the disappearance of monopoly music copyright barriers, the order of competition in the domestic digital music market has been reshaped, restoring the competitive state of the market, and the focus of competition in the industry has returned to the content area and user experience. At the same time, factors that may pose a threat to the development of the digital music industry still exist, such as the exhaustion of the Internet traffic dividend, the arrival of the post-copyright era, and fierce competition in the industry. As a popular music application, NetEase Cloud Music has dominated the market share by virtue of its high quality music and personalized services to meet users' needs. Therefore, NetEase Cloud Music needs to fine-tune its brand under diversified marketing channels to maintain its brand advantages beyond copyright. At the same time, offline interaction close to life will leave a deeper impression on customers and increase more practical feelings to improve the

environmental atmosphere and mediate people's spiritual life for the purpose of a way of music appreciation. NetEase cloud music only continue to design innovation, reasonable increase in copyright investment, in order to make their own development is not subject to others. Online music is still evolving, and the platforms need to adjust their business models and competitive strategies in a timely manner according to market and user trends, so that they can stand in the midst of change and become the industry benchmark.

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