A Report on Netease Cloud Music Business

Yang Zihan

Moses Brown School, 650000, Kunming, Yunnan, China

*Abstract:*The report has analyzed the NetEase Cloud music business narrowing down to the business model of the Company, the customers' preferences, the external factors such as the competition that is impacting business operations of the company, and future recommendations for the effective performance of the Company. Throughout the study, the paper relied on a qualitative research method to analyze the published content on various sources on the internet. The also implemented the use of an experimental design that necessitated the researcher to effectively analyze the data and reach out to the conclusions. The paper found out that despite the platform giving free music to its customers, other music genres may be difficult to be accessed by customers until they subscribe to premium services. This could be a discouraging factor because other platforms offering the same services could use it as a merit to compete NetEase and take away some of its customers. The paper recommended that the platform should improve the quality of freemium users' music to help receive many users annually. In line with this, the rate of premium users on the platform should be reduced in favor of the customers. When the platform receives many song listeners daily, I will be able to generate more revenue through other business opportunities like advertisements and selling of the music products. For instance, customers may use the platform to sell and buy music products like headsets, CDs, music notebooks, musical instruments among others. Advertisements form the basis of huge revenue generation because when users access the site the first image will be the background of NetEase which will keep altering automatically to display other products being advertised.

1. Introduction

No one can say that he/she does not like music. People can find and listen to music whether they are happy or not. The way people listen to Music also changes along. People used to go to the theater to listen to opera which was the earlier form of music. Then, the radio allowed people to listen for a long distance. After that, MP3 came out which provided each user with a personal music list. When the mobile phone became popular in this world, companies discovered the music market on phone. In May 2020, the global music industry body the IFPI published its latest Global Music Report, which revealed that at the end of 2019 there were 341 million 'users of paid streaming subscriptions' globally.

NetEase Cloud Music is a freemium Chinese music app. It was launched by NetEase Cloud Inc on 23 Apr. 2013. NetEase Cloud Music is one of the three big known Chinese music businesses. In the year 2017, this platform had over 300 million users and 10 million songs. In the same year, NetEase Cloud Music was valued at $1.14 billion. Over 800m users registered this service at the

end of last year, and songs of more than100,000 artists had played more than 270 billion times on this platform. (Tim Ingham) While it provides song lists, anchor radio, personalized recommendation, interaction, and other functions, it aims at providing users with a new musical life. Therefore, NetEase Cloud Music uses "The Power of Music" as its logan.

2. Business Model

Just as Spotify, NetEase Cloud Music provides operates a freemium business model. Five foundation structures of NetEase Cloud Music are finding music, video, music manager, community, and profile. This platform based on the structure of song lists which means NetEase Cloud music will automatically recommend users' song lists based on the songs they listened to before and users can find a group of people who have the same music taste as themselves and form a communication spontaneously (Musically.com, 2020). Users no longer require remembering the fall name of a song, they can just use several simple words form the song or lyric to search for the song on NetEase Cloud Music. NetEase Cloud Music helps users to reorganize the songs user collects as a song list. The name, background, or description of this song list can be personally customized. As a communication, others could find each other's song list and collect those lists to their playlist. One way it satisfied users wishing to share and communicate, in another way, it enhances the communication between users which provides the best atmosphere of a real neighborhood. (Jilin hot line)

Even though most of the songs on NetEase Cloud music are free, some famous songs still require users to be premium. "Vinyl Member" is the name of the premium members on NetEase Cloud Music and it only costs 18yuan a month (Zhang et al., 2020). As a Vinyl member, users have access to all available songs on NetEase Cloud Music including the most famous TikTok songs, which is not accessible for freemium users.

Fig.1 Vinyl Record(Https://Goods.Kaola.Com/Product/2441417.Html)

The quality of songs also can be improved if the user is a VInyl member. In Pic.2, there are three stages of the song's quality-- freemium users only have access to the normal one, Vinyl quality can choose the higher quality or the highest quality based on their network condition.

Still, as a premium user on NetEase Cloud music, some extra costs exist. Albums of some singers require listeners to pay for those single albums, and then the songs are available to listen to. Some famous examples are Taylor Swift, Justin Bieber, Ariana Grande, and so on. Even though each album cost from 15-25 yuan, users cannot buy it directly. NetEase Cloud Music asks users to top up money to its platform at first, and the amount of money must be an integer like 10yuan, 20yuan, and 30 yuan. Thus, every time, people will top up about 30 yuan to NetEase Cloud music, spend 25 yuan on an album, and left about 5yuan in the account. This way, NetEase Cloud Music makes users stay, and want to use this platform next time when they need to buy an album.

The third way NetEase Cloud Music to get money is the selling of music products. Users can use this platform to buy electronic products such as earpods, or headset. CD, musical instrument, NetEase Cloud music notebooks are available here too.

The Last way NetEase Cloud Music to get profit is an advertisement. Whenever users open the NetEase Cloud Music, the first picture will be the background of NetEase, after three sec, the background will change to an advertisement. There is also an advertisement on the page of songs searching and comment. Advertisement almost can be seen everywhere except the music page. Even though there are lots of advertisements on NetEase Cloud Music, it hardly influences users' feelings since those advertisements never bother them.

Based on those entire four profit model, NetEase Cloud Music becomes the most profitable part of NetEase Inc. Financial analysis showed that NetEase Inc's income was 15.74 billion yuan in the fourth quarter and 59.241 billion yuan in 2019. Among them, NetEase Cloud music revenue grew rapidly, driving the net revenue of innovation and other businesses to reach 3.72 billion yuan in the fourth quarter, up 18% year-on-year; gross margin increased to 20.6%.

For now, there are 113 work positions added up to 401 workers in NetEase Cloud Music. The average salary is 23,200Yuan per month. Most workers are Java engineers and the salary for them is up to 28,400Yuan per month. Therefore, the cost of workers' salaries is a huge number of NetEase. The second big cost for NetEase Cloud music copyrights. However, copyright is the biggest shortage of NetEase Cloud Music not because it does not have money to buy copyrights, but because NetEase Cloud Music has nowhere to buy the copyright.

3. Users of Netease Cloud Music

NetEase Cloud music focuses basically on people who like music and some of them want to write and sing their songs. Most users are very young. The percentage of users under 30 years old is 68.49%; of users from 31 to 40 is about 30% (Wang & Fu, 2020). Most users are female. The percentage of female users is 51.83%, 3.65% higher than the percentage of male users. Users have high spending power. 68.33% of users come from 1 and 2 tier cities.
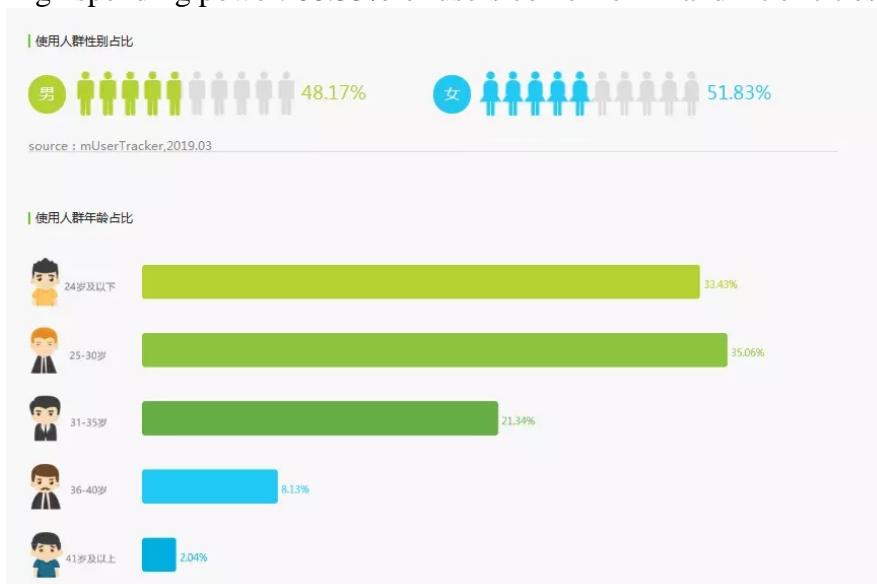

Fig.2 Netease Cloud's Population Distribution. Https://Zhuanlan.Zhihu.com/P/90661831

The main reason why NetEase Cloud Music attracts female users so much is because of the comments under each song. The most successful setting of NetEase Cloud Music is users can

comment and share their thoughts relating to the song, and other users can reply to those comments or like them. Most comments are moving personal stories and sentences that lead to people's imagination. Most of the time, those comments can lead viewers to cry. Thus, people say every night around midnight is the time to use NetEase Cloud Music and to get depressed. Thus, when people break up with their dates or feel unhappy, but they cannot express those emotions or have nowhere to release the stress, they will choose to open NetEase Music Cloud, find some sad music, read comments below and cry with those comments. Since girls and women are more emotional than male users, they are stuck in the comments that catch their feelings and express themselves.

4. The Competition and Shortage of Netease Cloud Music

All Chinese music apps can be seen as the competitors of NetEase Cloud Music, primary focus on QQ Music, and KuGou Music. Both QQ Music and Qugou music starts 10 years ago, about 2005 (Ingham, 2020). Thus, those two apps accumulate the most active users. 217.32 million Active users use Kugou music in the year 2017, and 205.28 million active users use QQ music in the year 2017. Only 69 million active users use NetEase music
in the year 2017.

NetEase Cloud Music started in the year 2013, which is about 8 years later than both QQ and Kugou Music. Since QQ music is one of the apps under Tencent, it has much more money and copyrights than NetEase Cloud music.

To solve the problem of copyrights, NetEase Cloud Music comes out with two solutions. The first one is attracting single song creators to upload their copies or their songs. Thus, NetEase Cloud music does not have to worry about where to get copyrights and still have a gigantic amount of songs. Some teens or young adults like music and want to create songs by themselves. Or they have already taken songs but have nowhere to publish and let people know. NetEase Cloud Music provides a platform for those people to upload their songs as long as they are approved as a musician by NetEase Cloud Music. Even though you cannot write your song, you can still be a musician by covering other people's songs. Most free songwriters and singers become famous through NetEase Cloud Music. Thus, it attracts more creators to come to NetEase Cloud Music to share their songs. The second way is trying to cooperate with other famous music company and trying to get copyrights. March 31, 2020, Netease cloud music and rolling stone music reached strategic cooperation; one of the cooperation content includes the exclusive licensing of its music. On May 12, 2020, Netease cloud music announced a strategic cooperation with Warner music copyright (WCM), the two parties will carry out all-round cooperation in music library content, online karaoke, music IP development, and other upstream and downstream areas of the music industry. Among them, NetEase cloud music will also be licensed to warner music works lyrics and music copyright. Under the deal, NetEase cloud music will acquire warner's rights to 1.3 million music lyrics and songs.

However, will those two solutions be sustainable? In my view, I don't think the second solution is the best. Every corporation has validity and therefore, the songs that are available during the validity time maybe unavailable one day. Thus, users who come to NetEase Cloud Music specifically for several songs may leave this platform and transform to other apps that have access to the songs. To keep cooperation is also very difficult. Partner may be attracted by a higher cooperating fee or other useful value another app. Therefore, I prefer the first solution--free song creators. Firstly, those creators are zealous of music and song creation. They just don't have a chance to let people listen to their songs. Thus, once they get the chance on NetEase Cloud Music, they will trust NetEase Cloud Music and want to upload on their songs on this form. Since their love of music, they will create the best songs day by day, maybe the songs that can compete with

professional singers. At that time, NetEase Cloud Music gets the first and the only copyrights. It is a win-win solution, NetEase Cloud Music does not spend any money, only a platform, but get the copyright which can use to charge users later. The creators become famous on NetEase Cloud music and also make money through their interest.

5. Conclusion

NetEase Cloud Music, as the biggest three Chinese music app, provides users, freemium business model, the best music community, and the real emotion express. It accumulates over 100 million users just in few years. However, this company is having a competitive game in the Chinese Market with other Chinese apps including KuGou and QQ music. To improve the quality of the app and attract more potential users, getting more copyrights is the way for NetEase Cloud to be the best music app in China.

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