

YouTube subscription music service to go for mobile dollars

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As YouTube prepares to launch its subscription music service by the end of the year, the digital music giant is seeking to capitalize on music fans' desire to have access to their favorite songs everywhere they go.

The company's free online video site already is the most popular on-demand [music](#) service in the world and has surpassed radio as the leading way teens and young adults listen to songs.

The new service, designed to give paying subscribers commercial-free access to music videos on their portable devices - as well as the ability to store videos and playlists on these gadgets - underscores the importance of smartphones and tablets to YouTube's future.

"Mobile is becoming absolutely enormous for YouTube," said Forrester Research analyst James McQuivey. "The fact is that music has always been a medium that most people are going to want to carry with them and have available at all times. When ... you add the visual component of the music video, you're simply sweetening a pot."

YouTube executives have said about 40 percent of its viewing already happens on mobile devices. Indeed, more than 50.5 million Americans watched videos each month on their cellphones in the second quarter of the year, according to measurement firm Nielsen.

Music videos are among the most sought-after content for YouTube's 1 billion global users, with a popular song like Miley Cyrus' "Wrecking Ball" or Robin Thicke's "Blurred Lines" attracting hundreds of millions of views.

This has made YouTube the dominant online music site, dwarfing its few competitors.

"YouTube is the No. 1 music search directory in the world. The vast majority of the most-viewed videos on YouTube are music," said Richard Greenfield, a BTIG media analyst. "It's a natural evolution to figure out a way to generate increased engagement around music."

YouTube's mobile application lets smartphone or tablet users watch an unlimited number of music videos on these devices, so long as they are connected to the Internet. In some cases, this free mobile access is limited to the official version of the [music video](#). The proposed subscription service, which could launch as soon as December, would allow the user to store, or "cache," these videos or an entire playlist on their devices and watch without the need of a wireless connection.

"Caching is what's critical to mobile," said longtime label executive Ted

Cohen, who runs a digital media consulting firm. "Music services are easier to use in St. Louis than they are in New York City because they still haven't wired the subways with Wi-Fi."

A spokesman for YouTube said the Google Inc. unit had no news to announce, but added, "We're always working on new and better ways for people to enjoy YouTube content across all screens, and on giving partners more opportunities to reach their fans."

YouTube's entry in the music subscription business will raise the competitive stakes for such players as Spotify.

"This is a big game-changer for Spotify," Cohen said.

Subscription services are a modest but fast-growing segment of the music business, which in the United States derives more than half of its income from digital sources.

Revenue from subscription services such as Rhapsody and paid versions of Spotify, streaming radio services like Pandora and non-subscription streaming through YouTube and Vevo accounted for about \$1 billion in 2012, or about 15 percent of domestic music sales of \$7.1 billion, according to the Recording Industry Association of America.

The YouTube subscription service also would integrate with Google Play Music All Access, which for \$10 a month affords subscribers unlimited access to its music catalog, the ability to create personalized radio stations and recommendations based on an individual's taste, according to people with knowledge of the situation who were not authorized to speak publicly.

David Bakula, senior vice president of analytics for Nielsen, said the service would leverage YouTube's strength in [digital music](#).

"Obviously YouTube understands the importance of the music consumer to their site," Bakula said. "The volume that we see coming from music streams on YouTube, that kind of volume comes with great potential, great potential for monetization, great potential for serving their viewers."

A premium [music service](#) would provide a source of recurring revenue for the music companies, which also receive proceeds from advertising associated with music videos on the site.

Evidence of YouTube's growing clout in the music industry will be on display at the inaugural YouTube Music Awards, to be held Nov. 3 in New York. The show is scheduled to feature appearances by such major acts as Avicii, M.I.A., Eminem and Lady Gaga.

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