

Amazon's music service plays to a different beat

June 4 2015, by Jay Greene, The Seattle Times

A few dozen people crowded into a meeting room at Amazon.com's Seattle headquarters last month for one of the nice perks of working at the giant online retailer: a free concert.

The emerging indie pop band, Saint Motel, ripped through a four-song acoustic set, including "Cold Cold Man," a tune it performed two weeks earlier on "Jimmy Kimmel Live." Like so many bands, Saint Motel was working overtime to build a following, stopping by Amazon before its sold-out show that night.

In the front row at the Amazon performance sat Steve Boom, the head of Amazon Prime Music. Much like Saint Motel, Boom is trying to gather an audience in a world where there are plenty of alternatives.

It won't be easy. Prime Music, which debuted last June, is competing against entrenched rivals with loyal followings and deeper [music](#) selections. And while Amazon is well-known as a retail site, and is beginning to rival Netflix as a streaming-video service, it lacks the hip credibility that can draw young music fans who are the core audience for streaming music.

The challenge for Amazon is that it's not yet standing out from the crowded field of rival streaming services. According to a random survey of 2,002 Americans conducted in January and February, Edison Research found that only 7 percent used Amazon's [music service](#). Pandora, a free service that includes advertising, led with 45 percent of

the respondents saying they had used the service.

And the 800-pound gorilla of the digital-music business, Apple, is prepping a revamped version of its Beats streaming audio service, perhaps with its iTunes branding, that could come as soon as this month.

What's more, Amazon's biggest audience isn't the hard-core music fan, the 18- to 34-year-old demographic that drives use on Pandora, iTunes and Spotify, said Tom Webster, Edison's vice president of strategy and marketing. The biggest band of Amazon Prime Music users are 35 to 44 years old, Webster said. It's not a demographic that sets music trends.

And that makes sense. Prime Music customers generally come to the service because they are members of Amazon's \$99-a-year Prime service, which offers two-day shipping at no extra cost. Amazon has never disclosed details about those customers, but they are likely to skew older, with disposable income and homes to stash all the stuff they get from Amazon.

"The Prime member demographic is different than other streaming services," Amazon's Boom acknowledges.

That means Prime Music users hew more toward rock and country genres than they do electronic dance and urban hip-hop, Boom said. Prime Music subscribers also tend to listen to more full albums than users of some of the other services.

RETAINING SUBSCRIBERS

For now, Prime Music doesn't need to be hip. The service isn't yet trying to compete with Spotify and Pandora.

"It's more about adding value to the Prime membership so they become

even more loyal Prime members," Boom said.

In addition to the music service and two-day shipping, Prime members get access to Amazon's Netflix-like Prime Instant Video and the opportunity to borrow books from the Kindle Owner's Lending Library. Those benefits have helped lure more than 40 million subscribers, by some analyst estimates, to the service.

They are subscribers that Amazon is keen to retain because they are among the company's most loyal shoppers, frequently buying goods from Amazon's retail site to justify the annual fee. Consumer Intelligence Research Partners, which tracks Prime data, estimates that Prime members spend 2.5 times as much on Amazon as non-Prime members.

That upends the existing business model for streaming music. Pandora hopes to make money through advertising, while Spotify wants to build a huge subscription business, even as it offers an ad-supported model. But Amazon can lose money on [streaming music](#) in the same way that Best Buy, years ago, could sell CDs at significant discounts. Music was simply a way to get customers through the doors to buy other items.

"That loss-leader concept is still very much alive on the Internet," said Casey Rae, an adjunct professor at Georgetown University and chief executive of the Future of Music Coalition, an artist advocacy group.

For Amazon, Prime Music gives it an opportunity to come in contact with customers even more often than any of the other Prime benefits. People listen to music throughout the day, when they're eating breakfast, commuting to work, as background noise in the office and even during their after-work jog. Those frequent "touches" help persuade Prime subscribers to renew membership, said James McQuivey, an analyst with Forrester Research.

"It's a really great way to place some glue between you and your customers," said McQuivey, who has studied Prime Music.

REMAINING RELEVANT

Prime Music, though, isn't just a way to retain Prime members. Amazon is also trying to remain relevant as the music business continues to be roiled by digital disruption. Last year was the first year that the industry's global digital revenue, at \$6.9 billion, matched so-called physical format sales, CDs and vinyl albums, according to the International Federation of the Phonographic Industry.

As those sales continue to slow, Amazon needs to come up with a successful digital music business model to replace it.

That said, Prime Music won't succeed unless the service appeals to music fans. And for now, McQuivey believes that the service feels a bit like an afterthought.

"In the patchwork quilt that is Amazon, this is a patch that hasn't gotten a lot of attention," McQuivey said.

For starters, Prime Music's music selection is skeletal compared to offerings from rivals. That's largely because Amazon hasn't come to terms with Universal Music Group, the world's largest label, whose roster includes Katy Perry, Taylor Swift, Lady Gaga and will.i.am. When Prime Music launched, Billboard reported that Universal balked at the fees Amazon offered.

"We'll add Universal to the service when we think the time is right," Boom said.

Another challenge is that the nascent service doesn't always make it easy

to discover new artists. McQuivey also said it doesn't do a good job of anticipating the next songs a user might want to hear.

McQuivey thinks one of Prime Music's big challenges is that Amazon doesn't have much of a device business to drive music listening. The service was announced a week before the company unveiled its Fire Phone, which, despite the company's hype, bombed with customers.

"Had the phone been a runaway hit, that would have been a great home for Prime Music," McQuivey said.

MUSIC AS A FEATURE

Amazon's Boom acknowledges that Prime Music has been operating "under the radar." But he insists that even with its low profile, "millions" use it each month, making it the second most used on-demand music service after Spotify. (Pandora leads in the ad-supported streaming audio business, in which users can select a type of music, but not specific songs.)

"We're trying to raise its profile now," Boom said.

That means expanding the catalog, improving "discoverability," and bringing the service to more devices, Boom said. Amazon recently added Prime Stations to its Android app, giving subscribers with Android devices the ability to tune in to programmed music in specific styles streamed ad-free.

Boom wants to bring the live performances at Amazon to Prime Music as well. Right now, live gigs at the company by artists such as Brandi Carlile and The Head and the Heart are available only as streaming video on Amazon's Front Row website. The Saint Motel acoustic set should be available for viewing this month.

Even if Prime Music is an unfinished product in a market with entrenched rivals, analysts won't write it off. As it's shown with so many of its businesses, Amazon has plenty of patience to let Prime Music develop a following. By making music a feature of its Prime membership, Amazon may well give itself an advantage over rivals hoping to make money off the music itself.

"If I look five years out, the advantages are going to lie with the companies that have other paths to profit," said Georgetown University's Rae.

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Citation: Amazon's music service plays to a different beat (2015, June 4) retrieved 24 April 2024 from <https://phys.org/news/2015-06-amazon-music.html>

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