

The Strategy for Netease Cloud Music to Enlarge the Market.

Tianyue Gong*

Qibao Dwight High School, Shanghai, China

*Corresponding author: tygong_annabel@qibaodwight.org

Abstract. Under the context of development of social media in China, this article tried to solve NCM's use of marketing strategies corresponding to its features to enlarge the market. This research investigated the market of streaming music, and how NetEase stands out from the drastic competition. The marketing mix is the main theory to conduct the whole analysis, while SWOT analysis is also used to investigate NCM's case. By analyzing the SWOT of NetEase Cloud Music (NCM), research revealed how the business successfully used marketing mix strategies. The results showed that NCM has great advantages in its special culture of "Net depression Cloud" whilst it lacks copyrights in the competition. The implications were made depending on analysis, which indicated NCM should maintain its strength in the company's corporate image and personalized services. At the same time, NCM should try its best to fit into globalization trend.

Keywords: NCM, Marketing Mix Theory, SWOT.

1. Introduction

1.1 Research Background

Step into the 2010's age, streaming music gradually replaced recorded music. There is hardly any other industry that has undergone more transformation and has suffered more challenges in recent decades. The biggest factor that leads to the change is technological progress. Because of the rise of the internet, the business model of the music industry has changed from selling recording music such as CD and cassettes in retail stores to online distribution of music. The business started to spend their money on online music forms, instead of the production of CD. The market for music products has changed completely. The development of decentralized, non-physical music storage and distribution has also been referred to as the "democratization of music" [1]. The data reveals that sales for physical recording music decreases to 50% of the music industry whilst streaming music rose to 39% of the global revenue China [2]. As the rising developing country around the world, also takes a role in this global trend. QQ Music, NCM, and Kuwo music are top streaming music apps in China.

With the technological developments in China, local IT companies such as Tencent, have invented music streaming platforms such as QQ music. Those digital platforms are exploring to create distinctive market positioning [3].

1.2 Research Gap

NCM (NCM) is one of the most popular streaming music platforms in China, and it is one of the representatives of the Chinese streaming music industry. However, NCM has lost the competition because of its late publication (appear in the market in 2013, later than Tencent). In this case, it has lost a mass of copyrights. For online music platforms, owning more copyrights of songs means enjoying more market share. ("NetEase Music and Universal Music Enter into Licensing Agreement") Therefore, it is surprising that NCM has grown this big even after losing copyrights at the beginning. There is some research about the beginning of the streaming music industry. For example, researchers explored the co-evolutionary way toward the sustainability of the music industry by combining streaming music and live music [4]. However, many researchers ignore the drastic competition among music streaming apps while this industry becoming mature. Therefore, the gap appears. NCM has survived in drastic competition with many disadvantages. Thus, it is a great example for us to research how music streaming apps enlarge their markets.

1.3 Fill the Gap

The research question is how NCM's unique feature helps it to enlarge the market. NetEase, like a streaming music platform, have some unique feature that makes it attractive to different segments of markets. For NetEase company, it's important to explore this area because NCM is at disadvantage in competing copyrights with other music companies. Using its unique feature and brand recognition to enlarge the market is an important factor for NCM to win the competition. For the business study, it is important to research how NetEase music uses clever strategy for developing products along with the change in markets. The following article will explore NetEase features and strategies by introducing the methodology of marketing mix theory, analyzing NetEase marketing mix, and giving appropriate anticipation toward NCM.

2. Literature Review

2.1 Marketing Mix Theory

Marketing mix means the product, distribution, promotion, and pricing strategies to produce and carry out exchanges and achieve the target markets [5]. The first series of discussions are about to generate in 1953, introduced by Neil Borden and his presidential address to AMA, while researchers raised this theory by the single P (price) in 7Ps [6]. A marketing mix is more like a conceptual framework as the tool to help businesses to achieve long-term objectives or short-term tactics. Develops in 2011, a Marketing mix is defined as the set of controllable marketing tools that a company uses to create a desired response in the targeted market. (Set of these tools is generally referred to as 4P's of Marketing, being Product, Price, Promotion, and Place [5]. Jonathan and Ivy pointed out in 2014 that the marketing mix needs to be a better distribution and the use of proper communication tactics are complemented with the right product at an affordable price, and they function in concert in the eyes of customers. Till today, 4Ps have improved to 7Ps, which added people, process, and physical evidence.

2.2 Important Result 4P

Marketing mix is an important concept since it makes marketing easy to handle and successful marketing could put business in competitive advantage. Successfully dividing marketing mix is the basis to allocate available resources [7]. Philip Kotler "Marketing Mix is the set of controllable variables that the firm can use to influence the buyer's response" 8].

2.2.1 Product

A product or service-oriented to customer needs and wants is the key to bringing the product to the customer's attention. What's more, businesses need to identify effective strategies to achieve their marketing goals [8]. A good product that satisfies customers' needs and wants will attract customers' interest to buy it. Joseph D. Brown has mentioned the quality of product matters in his research about four market principles for music directors. "Marketing concept" is among those principles, which is defined as an organization directing its efforts at achieving the maximum customer satisfaction possible. That is, a product meeting customers' needs and wants would interest its public [9]. Providing products with a reputable brand and appealing packaging increases sales and consumer happiness [10]. In the research done by Joseph Brown, there are two types of orientation, product-oriented and market-oriented. Product-oriented feels that the most important responsibility it has is to put out items that it believes would benefit the public or its members [9]. While market-oriented first meet the need of the public and then invent the product. Nevertheless, both orientations suggest product not only depends on consumer purchase intention and affect consumers' decision.

2.2.2 Price

Price mix refers to an instrument that mainly fixes the size and way of payment exchanged for goods and services. In purchasing, consumers need to consider the price advantage apart from product

quality. Simultaneously, suppliers need a premium price to earn the profit for business survival and development [7]. Penetration pricing, which involves setting a relatively low price to aid in the establishment of a new product in the market; mark-up pricing, which involves adding a percentage or predefined amount of profit to the cost per unit of output to determine the selling price [11]. These strategies are businesses used to attract buyers. It reveals relatively low prices or prices with add values could affect customer's purchasing intention.

2.2.3 Place

Place refers to managerial decisions on where customers should be provided with services and it may include electronic/physical distribution channels [12]. Different distribution channels are provided for customers to approach products with convenience after comprehensive market research. Place take a great effect on customers' purchasing. For example, Amazon one of the most well-known businesses around the world has a large customer base because of its distribution channel. Buyers may simply purchase products and leave the store, with their credit cards being instantly charged from their Amazon account [13]. Since place (distribution) is the bridge between product and consumers, the extent of customers' willingness to buy from the distribution channel could hugely affect the purchasing intention of customers

2.2.4 Promotion

A promotion mix responds to the method of communicating messages to the market, by showing the intention of selling the firm's product and displaying the uniqueness of the product [11]. Reminder promotion is one promotional strategy used to retain customer awareness of, and interest in an established product [11]. Promotion is an important component of the marketing mix since it relates to the act of informing, persuading, and influencing a customer to make a purchase decision [14]. Businesses usually use strategies such as advertising, publicity, and sales promotion to transfer the message of products' uniqueness to customers to persuade buyers to choose the business' products. Thus, promotion effect consumers' purchasing intention by showing its specialty and arouses potential consumers' interest in the product, comparing it with competitors, and make their choice [14].

2.3 Summary

In general, customers purchasing intention is influenced by marketing mix 4Ps. For product, only if the product has high quality and satisfies customers' needs and wants, will it attract customers' interests. A price displayed could also make difference by setting pricing strategies that generally decrease the price to attract customers. The convenience of product distribution affects the willingness of consumers to buy this product, while good promotional strategies could persuade customers to buy its product by showing the uniqueness and advantage of the product.

3. Methodology

3.1 Research Design

This article focuses on NCM, to discuss what specialty NCM has to help it survive under drastic competition in the streaming music market. The article will SWOT analysis, which is analyzing the internal strength and weaknesses of NCM and the external opportunities and threats that influence NCM. As Barney states, "The history of strategic management research can be understood as an attempt to 'fill in the blanks' created by the SWOT framework" [15]. Using internal strengths to exploit environmental opportunities and neutralize environmental threats while avoiding internal weaknesses, this traditional logic suggests that firms that use their internal strengths to exploit environmental opportunities and neutralize environmental threats are more likely to gain competitive advantages than other types of firms [15].

3.2 Research Object information - NCM

NCM is owned and developed by NetEase, Inc., which is one of the huge tech companies in China. NetEase owned a lot of products and services but the majority of them take place online. For instance, NetEase dictionary, NetEase e-commerce platforms, and NetEase video games. The streaming music service has launched to the public in 2013. According to the data in 2017, it has 300 million users, while the database consists of over 10 million songs [16]. In the same year, this platform was valued at 1.14 billion dollars and obtained 750 million CNY for series A Financing [16]. At the first of NCM's launch stage, it was always beaten by QQ music published by Tencent. However, NetEase music has obtained a reputation because of its "therapy" after 2017 and gradually became the market leader in China streaming music industry (See figure 1). The network, which has over 800 million members as of April 2020, considers the comments section to be one of its most powerful aspects [17]. As part of an ad campaign in 2017, the firm covered the walls and floors of Hangzhou metro line 1 with 85 million comments on the site, which is the representation of stepping into the row of market leaders and occupying the younger market in China [17]. However, NetEase company is not satisfied at all. When NCM announced the debut of its "Cloud Healing Center", users went online and started a heated dispute. The Healing Cloud is part of a drive to modify the platform's reputation in user comments for loneliness and sadness [17]. Healing Cloud has built a strong image for NCM and therefore helps NCM grows in the market. However, with the increased use of the comments function, young people are increasingly expressing personal sadness, loss, anxieties, and day-to-day struggles [17]. As a result, "Healing Cloud" gradually become "Depression Cloud". This change interferes with NCM development because of the importance and specialty of NCM's corporate image.

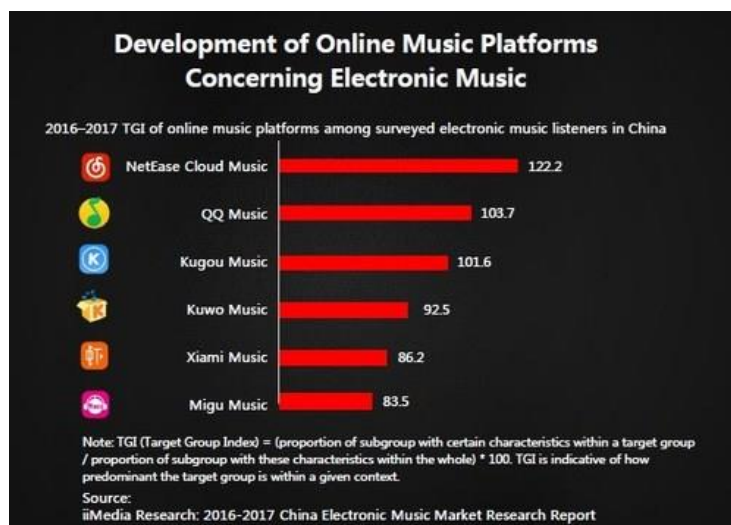


Figure 1. Development of Chinese Streaming Music [16]

NCM was born in the drastic streaming music market, even established later than Tencent Music platforms. However, it still grew rapidly and even become the market leader. The growth of NCM must be due to its strengths and its behavior to fit into external changes. As the biggest music streaming app in China, NCM's unique selling points and its perfect fit with the market attract researchers to explore how NCM understands the market and what makes NCM's business model so unique. What makes NetEase gain a competitive advantage in drastic competition? SWOT analysis as the strategic management tool might perfectly answer this question.

3.3 SWOT Analysis

3.3.1 Strength

The biggest internal strength, which is NCM's unique feature that makes it stand out from competitors (Unique Selling Point), is NCM's strong corporate image which even leads to one of the

major mandarin cultures. NetEase first raised the concept of “Healing Cloud” which makes use of the comments area under music and provides listeners with a space to obtain emotional values. This Unique Selling Point (USP) has attracted a lot of customers. Simultaneously, the emotional values that listeners have increased NCM customer loyalty, which also assures NCM’s huge customer base in the market.

Virtual Community. NetEase makes another USP on its interaction function. There are online live rooms, music blogs, and other social modes that provide customers with a chance to enjoy social while listening to music. As Chen quotes, “The openness and interaction of virtual community make the relationship between the communicator and the audience present a trend of integration and decentralization” [3]. NCM community has become a more mature music social closed-loop, which also attracts customers.

Personalized Services. NetEase has designed a very personalized service that can satisfy customers’ needs and wants and therefore trigger customer’s intention for purchasing. For instance, there are different sound effects for subscribers to choose from. By adding the sound effects, a single song can have several versions. Also, subscribers can have their recommendations in personal radio. These personalized services have enabled a lot of users to subscribe.

Content Production. NCM always encourages individual artists, even without popularity, to share their songs on NCM platforms. For example, the author’s self-cognition of the modern mass consciousness is represented through musicians uploading music, handmade programs, song reviews, and translations. The spontaneity and freedom to produce music attract customers’ interests to subscribe to enjoy better service.

Those four internal strengths all reveal how the uniqueness of the product could attract customers’ purchasing intention. NCM has correctly oriented the market and analyzed the marketing mix, therefore successfully creating products that satisfy customers’ needs and wants.

3.3.2 Weaknesses

Copyrights. Because of the release of the “Strict Copyright Order” in 2015, the Chinese digital music market has stepped into the legalization era. However, NCM, which was just established in 2013, has been a step slower in copyright snapping, losing to the well-capitalized Tencent and Alibaba products, almost becoming the only loser [18].

Limitation for globalized. Most of the content on the platform is Chinese, and playable in China. Nevertheless, the app is not available in Google Play Store. Although the app can be seen on the Apple app store, the English version is currently not published. **Sound resolution.** As mentioned in Strengths, NetEase has developed some sound effects for more personalized services. However, some customers found that not all sound effects can perfectly fit into different songs. Some matches will lower the quality of sound. As this generation relies on the internet more than real life, NCM consumers express more negative emotions including anxiety, and loneliness in comments, resulting in a change of corporate image from “Healing cloud” to “Depression Cloud”. Because the comments area has become so depressing, NetEase has decided to censor the emotional content on its site, but some users believe this will eliminate the therapeutic purpose of the section [17].

This limitation all shows product quality’s significance to customers purchasing intention. Consumers care about their feeling about using the product. The limitations on copyrights and sound will lead to a bad user experience if customers’ favorable songs are not available or with bad sound quality. The inconvenience for foreigners to use NCM also decreases the platform’s customer base.

3.3.3 Opportunities

Improvements in people’s music interaction and socialization. Stepping into the new generation, people are more familiar with using social media platforms while social became a necessary part of human life. As the CEO of NetEase music has suggested, the mission of NCM is “to listen to music at any time and share music with others at any time.” Thus, user experience and social sharing make NetEase gradually out stand among all the music streaming platforms.

Technology. Since computers, mobile phones, and earphones become more usual in society today. It is convenient for people to use streaming music apps anytime and anywhere. Therefore, NCM could take the advantage of the place, which means there is a convenient distribution channel for consumers to enjoy NCM services due to the widespread of electronic devices.

An easier way of digital trade. Technology has made online purchasing much easier. For instance, listeners could buy digital albums on the platform. NetEase has the opportunity for customers to buy online listening rights without data consumption [18]. The digital trade revenue increased 25% from 2020 to 2020 achieving 33 billion CNY. The data reveals the extent that which consumers would like to trade with NCM is very significant. Therefore, the convenience of place brings higher attraction to consumers and so the digital trade revenue increases drastically.

The growing culture of “EMO” in China society. Humans get used to paying more attention to negative emotions rather than positive emotions today. That is the development of “EMO culture”. Music has been an important part of this culture among teenagers. Emo music is defined by a focus on emotional or personal turmoil, as well as behaviors, attitudes, and ideals. Despair, depression, heartbreak, and self-loathing are among the themes [19]. At this point, NetEase “Depression Cloud” will have a positive effect because of the popular subculture among teenagers. This helps build an even stronger corporate image because the nickname is a pun in Mandarin where the character for depression has the same pronunciation (yi) as the character for “ease” used in the company’s name [17]. Also, pronunciation (yi) as the character for “ease” used in the company’s name [17].

3.3.4 Threats

Competition. The biggest competitor of NCM is QQ music. The mother company of the QQ music platform is Tencent. Tencent is more pervasive in both China and western countries. Tencent almost takes the markets of social media platforms in China and therefore consumers prefer Tencent because of its social media distribution channels.

Laws restriction. China has posted a lot of policies in recent years about restrictions on teenage users. NetEase has published “Anti-addiction Mode” due to the change in-laws. This could hurt teenagers’ experiences while they are using NetEase products. The consequence is the loss of large potential customers. The inconvenience made by the place will lead to the loss of consumers.

Globalization. It is the general trend of world business. If NetEase wants to grow larger, it must expand the market overseas. However, promoting a new brand overseas is a big challenge to promotion, especially under strong competitors such as Spotify. NetEase needs to spend huge cost on overseas market research and above-the-line promotion on foreign social media platforms.

4. Result and Discussion

In general, the advantage of NCM is their product mix in marketing because NCM products have strong unique selling points and therefore trigger consumers’ purchasing intention. What is more, NCM could also take the advantage of external benefits brought to the place mix. The distribution channels are more convenient because of the widespread of E-devices and digital trade. Consumers are more willing to use NCM when their way to purchasing and enjoying the services is much easier. Nevertheless, the drawbacks reveal on promotion mix. It is hard to promote the product under the globalization trend. Plus, negative influences are triggered because of the overuse of comments, which turns the “healing cloud” into a “NetEase depression cloud”.

NetEase should maintain its strengths and opportunities on satisfying customers’ needs. The uniqueness and convenience of using NCM lead to customer loyalty and a stable customer base. The personalized services that highly meet consumers’ needs and wants largely increase buyers’ intention on NCM. To maintain consumers’ satisfaction, NCM should 1) Product development to the focus on “Social”. Social is a significant factor in today’s society. Corresponding to NetEase music’s mission, it can explore all fronts of audio-plus-social. For instance, designing a Clubhouse-like chat room app and even a music-based dating app. Therefore, NetEase could use its interaction mode better by combining with social culture and trends. 2) Using “NetEase Depression Cloud” as a unique selling

point for promotion. NetEase Depression Cloud is the most special corporate image of NCM, by promoting the uniqueness of the business and fitting with social “emo culture” at the same time, consumers are more willing to try NCM products.

NCM has similar marketing mix predictions with the general theory of 4Ps in marketing mix theory illustrated in the Literature Review. For NCM, product quality and their great design to satisfy consumers’ needs and wants could impact consumers purchasing intention. Meanwhile, the convenience of the distribution channel (place) also influences customers’ decisions in choosing the product. However, there are some differences between theory and real cases. Promotion and Price seem to have contradictions. Since music streaming only has slight profits from subscriptions but a huge cost on buying copyrights. The company could not set a high price for subscriptions to keep its competitive advantage. But the slight profits cannot meet the demand for promotion, especially overseas.

5. Conclusion

To conclude the full paper, the research finds about NCM’s specialty that is related to its corporate image, which is “Net Depression/healing Cloud”. A large range of customers is attracted because of this culture. Plus, NetEase also contains deeply personalized services that maintain customer loyalty. The culture, values, and services provided to consumers are NCM’s unique selling points that make it stands out from the drastic streaming music market. However, the disadvantages both externally and internally are found that prohibit NetEase’s market growth. Copyrights limitation and the inability to fit into globalization are drawbacks that NCM needs to overcome. The findings below presented NetEase’s features that help it enlarge the market, while also analyzing the features that prohibit it to enlarge the market. By identifying the advantages and challenges, NCM business could have better anticipation and planned strategies for future development. Nevertheless, there are some concerns about this research paper. First of all, it only analyzes from a different perspective. But the research didn’t consider the relationship between these perspectives. The real situation is much more complicated than analyzing a single perspective. People need to be careful if adding this research paper to real-life examples. What is more, all the analysis come from second-handed data, which means lacking data under the time this research is conducted. The evidence given by other research listed in reference cannot be representative of the market at this moment. Plus, the market is always changing, this research didn’t measure the risks and changes possible in the future. In the very end, this research is important because it scopes on NCM, which is the representative product of the digital music era. Simultaneously, it is a great example of successful marketing strategies that help businesses to stands out among competitors.

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