

The Profit Pattern and Financial Impact of NetEase Cloud Music's Marketing Strategy

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Abstract: With the rise of short video platforms and the onset of the post-copyright era, the digital music industry is undergoing significant transformations. The competition within the industry has intensified, while user growth and conversion to paying users have encountered obstacles. As a leader in China's digital music industry, it is worth exploring how to overcome these challenges and identify new areas for growth. This paper employs literature research, case analysis, data analysis, and other research methods. Firstly, it analyzes NetEase Cloud Music's profit model based on subscription payments, advertising revenue, and sales of virtual items outlined in its prospectus. Secondly, it utilizes authoritative industry research reports to analyze NetEase Cloud Music's user positioning, consumer profile, and partnerships, simultaneously examining their marketing strategy through a case study involving Hangzhou Metro's collaboration with NetEase Cloud Music, known as "Reviews Train." By analyzing structural changes in financial data disclosed in annual performance announcements, this paper examines the impact of marketing strategies on revenue growth, cost control measures, and profitability, as well as explores how adopting diversified market strategies can enhance risk management capabilities and improve financial stability. Finally, this paper presents corresponding countermeasures and suggestions based on identified issues from previous analyses along with future prospects.

Keywords: NetEase Cloud Music, Marketing strategy, Business model, Financial analysis

1. Introduction

On the one hand, Music streaming services have become increasingly popular with the rapid development of internet and mobile networking technologies. They have changed the way consumers access music and have had major effects on the music industry [1] [2]. On the other hand, the rise of short video platforms, such as TikTok, AAuto Quicker, and WeChat Channels, is also robbing people's free time and squeezing the living space of online music platforms. In order to foster the healthy development of the online music sector, the Chinese government has implemented various policies aimed at establishing a fair and conducive environment for growth. Industrial policies such as "Promoting the Development of Digital Music in China and Encouraging Competition in Copyright Collective Management," "Notice on Further Standardizing Communication Practices for Online Audio-Visual Programs," and "Guidance on Promoting Innovation and Development in the Digital Cultural Industry" have provided extensive market prospects for the online music industry's advancement, as well as a favorable operational landscape for enterprises. Consequently, amidst

rapid changes within the industry's internal environment and emerging challenges from external short video platforms, seizing opportunities while aligning with policy directives becomes pivotal in breaking free from traditional constraints faced by digital music industries post-copyright era. This study focuses on NetEase Cloud Music—an exemplary domestic online music platform—to examine its unique position. By analyzing its profit model, interpreting marketing strategies along with their financial implications, and conducting comparative analysis between NetEase Cloud Music brand and QQ Music brand, this research aims to address key issues: (1) How does NetEase Cloud Music transform crises into opportunities when confronted by both old and new competitors? (2) How can NetEase Cloud reshape its core competitiveness during this post-copyright era?

2. The Analysis of the Profit Model of NetEase Cloud Music

2.1. Subscription-based Payment Model

2.1.1. Membership Packages and Benefits

Table 1: Payment Standards and Privileges for Various NetEase Cloud Music Membership Tiers in 2023.

Type of payment	Standard of payment	Privileges of Membership
Unlimited Listening Membership	8 ¥ / month, 45 ¥ / half a year, 88 ¥ / year	Engaging in nondestructive quality auditions, accessing an exclusive music library, and subscribing to music downloads (300/month).
Vinyl VIP	18 ¥ / month, ¥ yuan / season, 178 ¥ / year	In addition to the original rights and benefits of Unlimited Listening Membership, a total of 20+ privileges have been added, such as welfare coupons, historical daily push, personalised skin, shared song list, personal homepage background, start-up screen, radio discounts, ticketing privileges, mall discounts, and so on.
Vinyl SVIP	40 ¥ / month, 88 ¥ / season, 348 ¥ / year	In addition to the original VIP privileges, there are additional benefits such as access to a wider selection of digital albums (excluding certain copyright restrictions), exclusive rights to paid audiobook membership, multi-device access privileges, as well as accelerated upgrades and exclusive customization options.

2.1.2. The Trend of Subscriber Growth

Table 2: Number of subscribers and amount of money spent on NetEase Cloud Music's online music services and social entertainment services in 2020, 2021 and 2022.

	For the year ended 31 December		
	2022	2021	2020
Monthly active users of online music services (million)	189.4	182.6	180.5
Monthly paying users (thousand)			
Online music service	38,267.1	28,940.4	15,961.5
Social entertainment services	1,332.3	683.3	327.1
Monthly income per paid user (¥)			

Table 2: (continued).

Online music service	6.6	6.7	8.4
Social entertainment services	326.0	448.1	573.8

The number of monthly active users of NetEase Cloud Music's online music services has been slowly increasing year after year. The total number of monthly paying subscribers is increasing every year, with the number of paying subscribers for social entertainment services increasing at the fastest rate. However, the monthly revenue per paying user is decreasing, both in online music services and social entertainment services. This means that as the number of active users increases, the rate at which NetEase Cloud Music converts free users into paying users remains low. NetEase Cloud Music needs to take a more freemium approach in attracting customers [3][4].

2.2. The Advertising Revenue Model

2.2.1. The Advertising Type and Delivery Platform

According to the classification of AD positions, Netease Cloud Music advertising can be categorized into the following three types:

Banner Advertising: This is the most common form of advertisement on NetEase Cloud Music. It is positioned above the player and provides a visually appealing display. Advertisers have the option to set up targeted CTA (call to action) to promote user interaction. The home page of NetEase Cloud Music has 9 banner advertising spaces, out of which 7 are dedicated to promoting new albums and online concerts by its original musicians, while the remaining 2 are available for sale to advertisers [5].

Commercial Breaks: A commercial break consists of a 30- or 15-second advertisement that plays after a song finishes and before the next one starts. Additionally, NetEase Cloud Music offers a "skip" button for users who do not wish to watch the ad.

Programmatic Marketing Advertising: Programmatic marketing advertising (RTB) involves displaying ads through programmatically purchasing ad space, allowing for automatic targeting of specific audiences and selection of optimal ad placements. This type of advertising is suitable for advertisers who require extensive delivery and prefer more flexible marketing decision-making.

2.2.2. Analysis of the Contribution of Advertising Revenue

Table 3: Amount of revenue from NetEase Cloud Music's advertising services and its share of online music service revenue for 2018, 2019 and 2020[6].

	For the year ended 31 December					
	2018		2019		2020	
	¥000	%	¥000	%	¥000	%
Online music service						
-Advertising services	290,744	28.3%	414,401	23.3%	465,880	17.8%

The aforementioned analysis indicates that while the absolute value of advertisement service revenue may increase, the proportion of online music service income is gradually diminishing. This observation highlights a significant disparity in the growth rates between NetEase Cloud Music's

advertising service revenue and overall online music service revenue, suggesting a relatively minor contribution from advertising services with ample room for future development.

2.3. The Sales Model of Virtual Goods

In addition to subscriptions to membership packages, some artists' digital albums often require an additional fee, and consumers can listen to the songs on these digital albums after purchasing them. Some famous examples are Adele-"30", Taylor Swift-"*Lover*", Ariana Grande-"*Thank U, next*", BTS-"*Dynamite (Daytime Version)*", and so on. Even though each album costs from 15-25 yuan, users cannot buy it directly. Under the IOS system, NetEase Cloud Music asks users to top up money to its platform at first, and the amount of money must be an integer like 10-yuan, 20 yuan, or 30 yuan. Thus, every time, people will top up about 30 yuan to NetEase Cloud music, spend 25 yuan on an album, and leave about 5 yuan 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 [7].

3. The Marketing Strategy of NetEase Cloud Music

3.1. The Refinement of User Positioning and Consumer Profiling

3.1.1. The Marketing Segmentation of Users

Before Netease Cloud Music, the common characteristic among music software giants was their focus on library-type products. These products primarily allowed users to search for specific songs they wanted to listen to rather than emphasizing the discovery of new music. Popular music was not prominently featured in these platforms; instead, it emerged from other sources and then reached users through these platforms [8]. Additionally, NetEase Cloud Music conducted an analysis of its competitors in the same category and discovered that Kugou and QQ Music had been operating for a long time, accumulating significant resources and attracting a large user base. However, their user demographics were generally young with evolving personal music preferences. Therefore, despite the vastness of the digital music market, there still existed opportunities within certain segments that catered to individuals interested in exploring new genres or niche styles of music. This segment mainly consisted of college students, white-collar workers, literary youth, and IT elites who preferred a younger age range [9]. Due to its product characteristics and brand positioning aligning well with this target audience's preferences, NetEase Cloud Music easily resonated with them and established user loyalty. The success has proven that differentiated positioning has given NetEase Cloud Music an advantageous position within the music industry.

3.1.2. User Profile

According to iResearch Consulting and IResearch Data network, the majority of NetEase Cloud Music users fall within the age range of 18 to 35, constituting 80.5% of the user base. Among them, males account for 54.3%, while females make up 45.7%. The primary user demographic of Netease cloud music is from second-tier cities, accounting for 66.8%. Furthermore, a significant proportion of Netease cloud music users possess higher levels of education and income; specifically, 58.9% have obtained a bachelor's degree or above and earn a monthly income exceeding ¥5000 RMB. The user profile of NetEase Cloud Music can be summarized by four distinct characteristics: (1) A passion for music with refined taste and an inclination towards exploring fresh and profound musical content; (2) An inclination towards personalization, expressing their thoughts and emotions independently without conforming to mainstream trends; (3) A preference for social interaction through sharing and exchanging musical experiences with like-minded individuals in order to find companionship; (4)

Creativity-driven individuals who possess musical talent or are interested in music production, willingly contributing their own works or participating in related activities.

3.2. The Dynamics of Partner Relationships

3.2.1. Collaboration among Singers and Copyright Policy

As an increasing number of young users join and the demand for music becomes more diverse and personalized, NetEase Cloud Music offers users a wider range of comprehensive content. By December 2022, the content library of NetEase Cloud Music will include over 116 million music repertoires, encompassing renowned brand names, independent musicians, and homemade songs. NetEase Cloud Music has also successfully signed copyright agreements with top labels such as Fu Mau, SM Entertainment, YG Entertainment, and HYBE Entertainment. These collaborations have brought numerous hit songs by influential artists and groups to the platform, including but not limited to Girls' Generation, EXO, BIG BANG, BLACKPINK BTS and Flower Village. This further enhances the content offerings of NetEase Cloud Music.

3.2.2. The Impact of Independent Musicians and the Provision of Exclusive Content.

NetEase Cloud Music actively fosters and incentivizes independent musicians. According to the 2022 annual results announcement, disclosed figures reveal that as of December 31, 2022, NetEase Cloud Music has catered to over 611,000 registered independent musicians. Its content repository encompasses a staggering collection of 2.6 million music tracks from these talented individuals [3]. By nurturing musical creators, NetEase Cloud Music enhances their visibility and facilitates the realization of their commercial potential, thereby fostering mutually beneficial outcomes.

3.3. The Utilization of Social Media and Word-of-mouth Marketing

3.3.1. The Strategy for Social Media Operations

Net ease Cloud Music Community is a creative production community. UGC's production model has enabled community members to create song lists, foreign language lyrics, comments, and DJ-made programs [10]. The comment section serves as a crucial reflection of the social functionality of NetEase Cloud Music. One of the most successful features of this platform is its provision for users to express their thoughts and opinions on songs while allowing other users to engage through replies or likes. These comments predominantly consist of poignant personal stories and sentiments, often evoking emotional resonance [11]. Consequently, it has been observed that people tend to associate midnight with using Internet cloud music as an outlet for their feelings of depression. During times when individuals experience heartbreak or unhappiness but struggle to articulate these emotions or find an avenue for release, they turn to NetEase Cloud Music instead. Here, they seek solace in melancholic melodies, peruse the accompanying comments, and ultimately unburden themselves by sharing their own sorrowful experiences.

3.3.2. The Influence of Word-of-mouth Communication on User Acquisition

The rapid development of NetEase Cloud Music's user scale can be attributed to its excellent products and services, as well as a series of word-of-mouth marketing activities such as the "music review train," "Music plane," cross-border activities, micro-blog topic activities, and H5 mini-games, which have effectively garnered popularity [12]. NetEase Cloud Copywriting has been spread among the broad audience with the concepts of touching and empathy and has formed a wide communication network quickly [13]. By seamlessly integrating online and offline platforms,

NetEase Cloud collaborated with Hangzhou Metro to create a themed "music review train" that showcases the power of music through phrases like "I wish you happiness is false; I wish you happiness is true." According to iResearch's 2023 China Online Audio Industry Research Report, 49.6% of online audio users prefer listening to audio content while commuting on buses and subways [14]. Moreover, subway riders predominantly consist of young people who align with the target audience of NetEase Cloud Music, thereby facilitating the acquisition of potential users for the platform. Although the reviews exhibit a high level of literary prowess, the writing style exudes an exquisite elegance; however, it lacks practical utility. Consequently, these commentaries fail to stimulate critical thinking or facilitate knowledge acquisition, which has garnered widespread disdain among many individuals. Therefore, when filtering comments on cloud music platforms, it would be prudent to prioritize valuable discussions pertaining to pertinent social issues. In contemporary times, an increasing number of musicians are inclined towards creating songs that serve as reflections of societal realities. Some compositions delve into themes such as gender equality while others shed light on the challenges faced by individuals in various professions both personally and professionally. By selectively highlighting opinions concerning these significant social matters, network-based music platforms can enlighten their users and inspire them to pay greater attention to these pressing concerns while also potentially offering assistance to marginalized groups within society. In this manner, the comments section can truly harbor content that holds intrinsic value.

4. The Impact of NetEase Cloud Music on Financial Market Marketing Strategy

4.1. Revenue Growth and Profitability

The main profits of NetEase Cloud Music are derived from four key aspects: advertising revenue, membership business, product payment, and live audio broadcasting [15]. Its profit model is not overly complex; it primarily focuses on attracting users through various means to acquire user traffic and ultimately achieve monetization. These means include but are not limited to: (1) achieving comprehensive coverage of user groups and enhancing user independent engagement; (2) further enhancing liquidity through functional innovation, product innovation, and service innovation such as the "listen together" feature and live audio content, thereby increasing the conversion rate for NetEase Cloud Music's online music service and social entertainment service; (3) improving the quality of music content while optimizing related costs; (4) expanding the social system by enriching platform entertainment content and optimizing associated expenses; (5) maximizing operating leverage. Additionally, the growing awareness of copyright protection, along with a shift in behavioral attitudes towards paying for copyrighted material, have contributed to an expanded profit potential within the digital music industry.

4.2. Cost Control and Profit Optimization

The core competitiveness of a music platform lies in its abundant, high-quality and exclusive music resources. Therefore, in order to maintain strong competitiveness, it is challenging to significantly reduce content costs. Currently, not only NetEase Cloud Music but also other online music platforms are facing difficulties caused by high content costs. According to the annual performance announcement for 2022, the content service costs of NetEase Cloud were RMB 4,787,497 (1000), RMB 5,960,862 (1000), and RMB 6,711,646 (1000) in 2020, 2021 and 2022, respectively. These costs accounted for approximately 97.78%, 85.18%, and 74.64% of the revenue, respectively [3][4]. The aforementioned figures represent only the proportion of content costs relative to revenue. When considering the coverage rate of paid subscription revenue against content costs, it was found that this rate was approximately 33.50%, 39.15%, and 45.25%, respectively [3][4]. Although NetEase Cloud

Music has been increasing its coverage rate year by year through paid subscription revenues, there still exists a significant gap compared to Spotify - the leading standard music platform - where paid subscription revenues can cover up to around % of their content costs, indicating substantial room for development.

4.3. Financial Risk Stability and Risk Management

4.3.1. The Impact of Implementing Diversified Marketing Strategies on the Diversification of Risks

Diversified marketing strategies play a crucial role in mitigating risks for NetEase Cloud Music. By adopting a variety of approaches, the platform can explore different market segments and reduce reliance on a single strategy. For instance, NetEase Cloud Music engages in content collaborations, collaborates with artists to release exclusive versions, and provides personalized playlists to cater to diverse user preferences. Furthermore, by exploring multiple promotion channels such as social media platforms, influencer endorsements, and offline activities, the platform can further expand its influence. These diversified marketing initiatives not only attract a wider range of users but also minimize the impact of anyone marketing channel's failure. In case a marketing campaign fails to achieve the expected results, it will have minimal effect on the overall performance of NetEase Cloud Music due to the existence of other successful strategies. Additionally, diversification enables NetEase Cloud Music to adapt to changing market dynamics and consumer behavior by closely monitoring the music industry and audience preferences. This allows the platform to proactively adjust its marketing strategy in order to maintain relevance and user engagement. In summary, NetEase Cloud Music implements diversified marketing strategies that help disperse risks by effectively dealing with uncertain factors while maintaining strong market influence unaffected by potential setbacks from individual marketing measures.

4.3.2. The Impact of Marketing Strategies on Financial Stability

The marketing strategy implemented by NetEase Cloud Music has a significant impact on its financial stability. Considering that premium is the only in-app purchase choice, it is hence more closely related to customers. Therefore, the partial goal of NetEase Cloud Music to use emotional marketing and increase customer stickiness may ultimately boost its revenue, in the way of pursuing more customers to purchase the premium unintentionally [16]. Meanwhile, through effective marketing initiatives, NetEase Cloud Music can enhance brand awareness and loyalty, ultimately expanding its user base and driving growth in subscriptions and advertising revenue. Moreover, a well-executed marketing strategy can also help NetEase Cloud Music differentiate itself in the highly competitive music streaming industry, leading to a stronger market position and increased pricing power that further contributes to the company's financial stability. However, it is crucial to strike a balance between marketing expenditure and profitability, as excessive investment in marketing activities may result in higher costs that could potentially affect overall profitability. Therefore, evaluating the effectiveness of the marketing strategy is essential for NetEase Cloud Music; this can be achieved through key performance indicators (KPIs) such as customer acquisition cost, customer lifetime value, and customer retention rate analysis. By analyzing these indicators thoroughly, one can gain comprehensive insights into how the company's marketing efforts contribute to its financial health. In summary, the marketing strategy of NetEase Cloud Music plays an integral role in ensuring its financial stability. By effectively managing their investments while understanding their target audience and tailoring their campaigns accordingly, companies can drive user growth, engagement levels, and revenue generation, all of which are vital for long-term financial success.

5. Conclusion

To summarize, the NetEase Cloud Music brand possesses the following advantages: (1) Leveraging the robust user engagement generated by the comment section, it provides a loyal user base for NetEase Cloud Music; (2) Cultivating a large number of independent musicians helps reduce content costs from the source; (3) Implementing diversified marketing strategies and actively exploring new business forms such as live broadcasting and radio drama effectively respond to external shocks. However, this study has certain limitations: (1) It only focuses on NetEase Cloud Music without conducting detailed comparisons and discussions with other similar digital music brands; (2) This paper is an exploratory study, and further verification of research conclusions is required. Additionally, with the improvement of anti-monopoly laws and increased awareness of copyright protection in society, we are entering a post-copyright era. Therefore, this paper suggests that NetEase Cloud Music can collaborate with short video platforms to establish a "music + short video" pattern implementation scenario in order to expand its reach and extend its brand functions. Furthermore, NetEase Cloud Music should continue delving into niche fields related to personalization and art while firmly grasping core resources and loyal customers to develop commercial value.

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