Labels eye online social networks as retailers
Fans could help sell their favorite songs from personal Web pages

DENVER - Record labels big and small are working toward the goal of turning every social network profile, blog and fan site into a digital music storefront.

Their ultimate objective is an environment where music fans could stream their favorite music from their personal Web pages and post a "buy" button next to each track.

If every site's visitor could, with the click of a button, place that same buy button on his or her own site as well, every fan could become a point of purchase and a channel for promotion.

By sidling up to the social networking scene, labels hope to goose a digital download market that is not yet making up for falling CD sales. But despite their popularity, it's hard to say whether social networks can translate their promotional prowess into sales.

At first blush, it seems like a slam-dunk. Social networks are enormously popular, with MySpace counting 70 million active monthly users alone. Adding to their sheer size is their ability to instantly connect like-minded users based on interests, location or real-life associations. These "friends" can virally pass along content quickly and easily by simply sharing a small bit of computer code -- called a widget -- between individual profiles.

For instance, artists on MySpace often allow fans to post a stream of their latest single to their individual profiles. More than 9 million fans have posted Fall Out Boy's "A Little Less 'Sixteen Candles,' a Little More 'Touch Me'" to their respective sites.

Virtual vending machines
Leading the charge is Snocap. The company's MyStore service enables artists to sell tracks from their MySpace pages, and the new Spread the Word feature allows fans to copy the store to their own blog sites, Web pages and virtually any other Internet presence. CEO Rusty Rueff compares it to a distribution network of vending machines.

The system has been adopted by major labels Warner Music Group (WMG) and EMI Music, enabling their acts to sell music directly from their Web sites and MySpace pages, and for fans to do the same.

The model is a far cry from the traditional digital retail model, where fans must visit dedicated online retailers like iTunes to find and purchase digital music.

"It just completely decentralizes it," EMI head of digital Barney Wragg said. "Obviously you can place a 'buy' button (on) iTunes and any other retailer. But this is a real easy way for us to do something specifically for that artist."

The model is not without challenges. For starters, social networks have not yet proved themselves as significant retail outlets. Even MySpace president Tom Anderson thinks members are more likely to merely hang out on such online communities than shop for music.

"The music-buying experience is different from what you do on MySpace," he told South by Southwest music conference attendees during a panel in March. "We're not investing a ton of energy in that. It's not a big part of our business."
Instead, social networks likely will be limited to impulse purchases -- a source of incremental revenue, but hardly likely to give iTunes a run for its money.

**Technical incompatibility**

Which brings up obstacle No. 2: the access issues associated with digital rights management (DRM). Any digital music file incompatible with the iPod will be difficult to sell, regardless of who's selling it. At launch, the MyStore program focused on indie and unsigned artists who have no qualms about selling their music without technical protection. Earlier this month, EMI became the first major label to adopt the platform as part of its ongoing DRM-free campaign.

But the only other major label participating in the MyStore program -- WMG -- has insisted on using Microsoft's WMA technology, which even Snocap's Rueff said will hinder adoption. "Your sales will follow where your content can be played," he said. "If it plays on an iPod, it's got a better chance of selling. And the only way to do that is with MP3s."

Yet early results show promise. While the company declined to provide specific numbers, Snocap said the number of consumers registering for MyStore accounts -- necessary to buy tracks via the service -- has increased 50 percent month over month since the service went live in December, and the number of a la carte downloads is rising by 40 percent per month.

And Snocap is hardly alone. In addition to a la carte downloads, there are efforts under way to monetize streaming music online from such social networks as Last.fm and Imeem. Beyond social networks are blog services like TypePad, BlogSpot and Wordpress.

"Social networks are the (peer-to-peer) networks of the future," Rueff said. "They're this generation's MTV. If you want to be at a point of sale at the highest point of desire and consumption, be where the fan is."

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