

## Chunghwa Telecom KKBOX Digital Music Service



### EXECUTIVE SUMMARY

#### COMPANY PROFILE

Chunghwa Telecom is the largest telecommunication company in Taiwan. The company actively develops enterprise markets through its telecommunication solutions, as well as residential markets with integrated value-added services, targeting overseas Chinese enterprises and communities.

#### COMPANY HISTORY

Chunghwa Telecom was officially established on July 1, 1996 as part of the Republic of China government's privatization efforts. In August 2005, Chunghwa Telecom became a privatized company.

### Challenge/Opportunity

In October 2007, Chunghwa Telecom took a 30 percent stake in KKBOX (for an undisclosed sum). Chunghwa is now the main telco service provider for KKBOX. Digital music services are a tough proposition to develop and make money from, and in Ovum's view, operators are generally better off partnering than trying to build their own service from the bottom up. Chunghwa has done well to develop a music service on the back of an established service of the caliber of KKBOX. The deal was also deemed to be beneficial for KKBOX, allowing it to expand its services from the PC onto mobile devices (phones, portable media players, etc.). This new business model did, however, pose some significant challenges:

- Solve the technical and commercial challenges associated with cross-platform delivery.
- Establish the right tariff to help ensure profitability, but not be too expensive for subscribers (some Asian markets expect free content, which limits the size of subscriber base who are willing to pay).
- Determine how to replicate the business model in other markets/regions.
- Compete against overseas and local competitors, and combat music piracy on the Internet.

The focus of many telecom operators is shifting from voice to data services, and content will be key to future developments in Taiwan (and elsewhere). The most popular data services in Taiwan are gaming, video, and music. A 2008 survey by Insight Xplorer, a market research company in Taiwan, found that in 2007, 44.7 percent of the respondents said that they will be using a music function at least once a week, which ranked the top of all functions. An Ovum forecast projects that retail and trade revenues for digital music downloads in Taiwan will grow rapidly to US\$251 million and \$146 million, respectively, by 2014.

## Alliances/Partnerships

KKBOX formed partnerships with handset vendors HTC, Nokia, and Sony Ericsson.

- Promotion example: “KKBOX Walkman Music eXpress” launched by Chunghwa Telecom, KKBOX, and Nokia (promotion time: from February through June 2008).
- Targeted at the holders of the designated Nokia 3G Chunghwa Telecom mobile phone users.
- The offer included a special price of NT\$99 per month for the service (a discount of more than 30 percent).
- Almost 20 Nokia 3G mobile phones were suitable for this service, and users could download and install the application software on their mobile phones. Moreover, the Nokia 5610 XpressMusic model includes an exclusive built-in audio chip, which enhances the music-listening experience.

KKBOX has formed partnerships with many major and local music labels and publishers. KKBOX offers 1.5 million tracks from 397 global and local Chinese music labels and music publishers.

KKBOX has developed popular social media partners such as Facebook, MSN, Twitter, and Yahoo! Subscribers can opt in to get instant music/news updates via various device platforms at over 100 popular websites.

KKBOX is also collaborating with popular press partners (including Apple Daily, Next Media, CNA News, and Focus Media, et al.) to enrich its core offer. The company has its own editorial staff of about 30 editors, who interview Chinese pop stars and have their columns/articles featured in partner publications. KKBOX even hosts its own music awards show.

“KKBOX is unique in a way that it is not only a software that finds you music, it is also an entertainment newspaper, a pop-music magazine, and a community for music lovers. The essence of a successful subscription service is to let your members feel privileged. You will find that element throughout our service.”

— Lambert Chien, Chairman, KKBOX

[See quote source](#)

## Strategy

Chunghwa Telecom and KKBOX offer the following value proposition for their customers:

- Unlimited access to the largest database of Chinese music. Subscribers can choose from more than 1.5 million tracks of music including Mandarin, Taiwanese, Cantonese, and English titles.
- Premium service subscribers have unlimited legitimate access to the music database and other services, and they can cache songs for offline access.
- KKBOX users can create their own music blogs, share their playlists, and make new friends based on their interests in KKBOX (online communities).
- With a single monthly subscription fee, users can stream and download music across multiple platforms (e.g., PC/Mac, smart phones, feature phones, IPTV/Internet radio, etc.).

- KKBOX offers “running lyrics/karaoke,” a unique and popular feature that enables users to watch the music lyrics move along as the song is playing, and join in karaoke-style (hugely popular in Asia).
- Users can back up their music playlist on KKBOX servers, so their playlists can be easily retrieved if they are ever lost or damaged.

### Success Factors/Metrics/Monetization

- Chunghwa Telecom gains direct revenues from access and bandwidth charges associated with music downloads. Indirectly, the company has benefited from improved customer loyalty thanks to KKBOX.
- Chunghwa does not provide specific figures regarding revenue contributions from KKBOX, but the acquisition has clearly helped Chunghwa's Internet business. Revenue increased by 2.7 percent year-over-year to NT\$23.7 billion in 2009. The telco has stated that online music services were a significant contributor to this growth.
- KKBOX is now the most popular music service in Taiwan and the largest music subscription service in the Greater China region. In Chunghwa's home market (Taiwan), KKBOX has over 4.5 million users and 340,000 premium service subscribers. These figures represent success for KKBOX given Taiwan's total Internet population of 13 million (and the high rate of digital piracy in the region).
- KKBOX generates revenues from content-related service charges. Although there is no public data about KKBOX's specific financial status, founder and COO, Chris Lin has publicly stated that the company is now profitable.

### Company Backgrounds

- Read [Chunghwa Telecom overview](#)
- Read [KKBOX overview](#)

“They’re here because this is a fun music destination. We’ve grown into a very popular media outlet, outside of selling music.”

— Chris Lin, Co-Founder, KKBOX

[See quote source](#)



Americas Headquarters  
Cisco Systems, Inc.  
San Jose, CA

Asia Pacific Headquarters  
Cisco Systems (USA) Pte. Ltd.  
Singapore

Europe Headquarters  
Cisco Systems International BV Amsterdam,  
The Netherlands

Cisco has more than 200 offices worldwide. Addresses, phone numbers, and fax numbers are listed on the Cisco Website at [www.cisco.com/go/offices](http://www.cisco.com/go/offices).

Cisco and the Cisco logo are trademarks or registered trademarks of Cisco and/or its affiliates in the U.S. and other countries. To view a list of Cisco trademarks, go to this URL: [www.cisco.com/go/trademarks](http://www.cisco.com/go/trademarks). Third party trademarks mentioned are the property of their respective owners. The use of the word partner does not imply a partnership relationship between Cisco and any other company. (1110R)