weTune

SOCIAL MUSIC APP FOR THE MILLENIAL GENERATION

Business Plan

Prepared for: Various Potential Investors/Partners

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November 8, 2017

Review in confidentiality

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EXECUTIVE SUMMARY

Objective

The aim of WeTune is to become the app of choice for music management and reproduction in both personal and social use cases, connecting people, music media, and streaming services through a simple, elegant and customizable interface. Our service lets people handle their music libraries and connect their streaming services while letting their friends and followers sync with the music they´re playing. The primary music services we are targeting are Spotify Premium, Apple Music, and YouTube Red. The mid-term objective is to defragmantate music streaming services as much as possible with the use of their API´s, and making the app available for Android, iOS, Web, Mac or PC. The revenue model mainly consists in giving a small taste of the app for free, and charge for the full version on a yearly basis. We can therefore assess that the business has three core revenue channels: big data, mobile advertising, and annual subscriptions.

Goals

There are various short term and longer-term goals within the agenda. The first phase is to launch the Web, Android, and iPhone versions of the app within three months, start getting feedback to refine the revenue model, and pivot if needed. In this first phase, it´s essential to generate strategic commercial alliances to enhance word-of-mouth and take advantage of the social nature of the app. The other primary goal is to obtain Spotify´s commercialization approval within the next three months and become Apple Music affiliates. To achieve these objectives, we need to take firmly into account their terms of use and be sure we are following them carefully to partner. We hope to acquire at least 50,000 users within the first six months in the App Store, Google Play, Aptoide, and Amazon´s App Store. A longer-term goal is to develop the PC and Mac versions with exclusive features so DJ´s can join the social experience.

Solution

The solutions to the previously described developments require a Tech team that can handle: front-end mobile & web design, Android App development, iOS App Development, Web Development, Cloud Functions, and Data Bases. On the other hand, the solutions require the use of specialized frameworks and software interfaces.

Software Interfaces:

The apps are supported mainly by **five** software interfaces:

- *Spotify API*
- *Echonest´s API*
- *Electron API*
- *Finísima Music API (Azure, .NET)*
- *Firebase Authentication, Database & Cloud Functions*

Development Frameworks & Tools

The selected development frameworks go as follows:

Web:	- Angular JS 4
Android:	- Android Studio
iOS:	- Xcode 9 & Swift 3
Additional tools:	- Paint Code 3
	- Foundation 6
	- Foundation for Emails

The app for PC and Mac to consolidate within the DJ´s and Audiofiles, more passionate market, shall be created within the first year of operation of the mobile and web apps.

Project Outline

We shall break up the entire project outline into different sections that will focus on market, investment and returns:

- **Market:** shall show the tendencies within the Occidental markets of the music industry, specifically streaming usage, the amount of money spent in the industry, the presence of other apps that depend on other streaming services along with the current competitive landscape among similar music apps.
- **Investment:** shall demonstrate the financial planning of the monthly phases of investment including, operations, development, software licenses, financial modeling and reporting along with exit strategies.
- **Forecasts:** shall be exhibited by gross profit optimization among markets with registered interest from the millennial generation. Forecasts shall provide investors with scenarios of user acquisition, sales, revenue, and profit.

Market

The market of WeTune is composed of males and females, between 13 and 45 years old, who meet at least one of the following:

- Own a digital music library
- Use Spotify or YouTube to play music
- Are subscribed to Apple Music, Spotify Premium or YouTube Red

- Meet with friends and listen to music at venues or social gatherings

Market Size

Even though WeTune will work initially just with Spotify Premium as a streaming service, in future upgrades the connection with Apple Music for Apple products is a priority. To be conservative quantifying the size of the market, we will consider just the number of subscribers of Spotify Premium and Apple Music.

- Spotify Premium has over 50 million subscribers[1].

- Apple Music: 27 million subscribers[2] with 2 years since launch.

- More than 60% of streaming users in Mexico are tuning into Spotify[3].
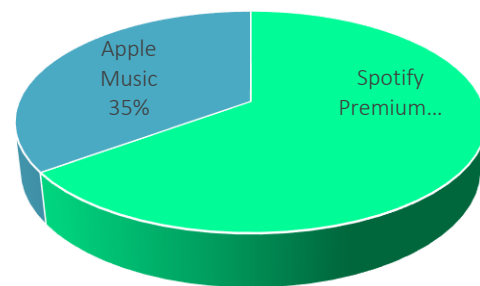
Graphic 1: Spotify Premium and Apple Music Subscribers

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[1] Elder, R. *Business Insider,* 2017.
[2] McIntyre, H. *Forbes, 2017*.

[3] eMarketer, 2016.

Key Regions

Since Apple Music and Spotify Premium availability and presence are strongly linked to the first versions of the app, the launching marketing needs to be focused in areas with heavy Spotify use first and for Apple Music afterward. Google Trends estimates that Mexico is the 8th country worldwide that has shown the most interest in Spotify; Mexico City the 4th city worldwide, and the 1st city in Latin America in the last five years. According to a survey made in Q2 2015 by the Global Web Index, Mexico was ranked second, regarding Spotify User penetration just behind Sweden. For these reasons, Mexico is a strategic region to gain early adopters and launch the apps.

For the midterm objectives, having in mind the global music market, several metropolia have shown significant consumer loyalty for both Spotify and Apple Music. The following map demonstrates the cities that for the last five years have shown the most interest in Spotify:

1	Stockholm	100
2	Helsinki	60
3	Quezon City	56
4	Mexico City	49
5	Barcelona	45
6	Amsterdam	44
7	Santiago	43
8	Hamburg	43
9	Berlin	38
10	London	37
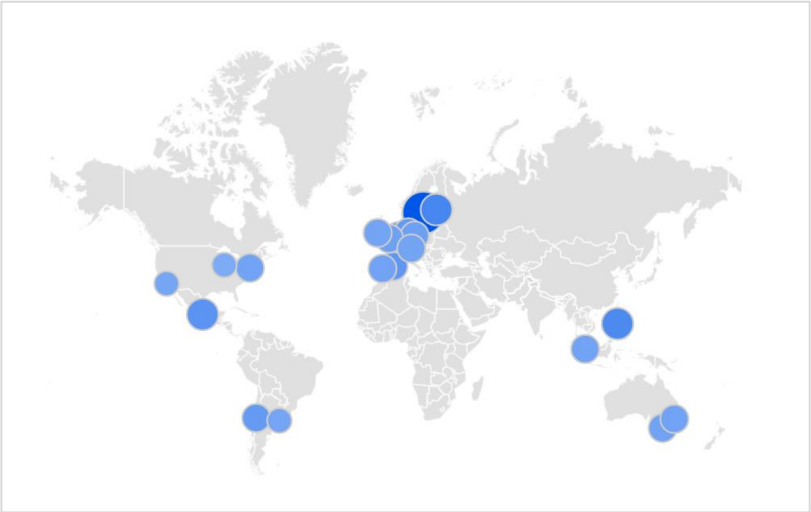
Graphic 2: Interest in Spotify by City (Source: Google Trends, 2017)

On the other hand, these are the cities which show the same consumer trend for Apple Music:

1	Calgary	100
2	Melbourne	89
3	Toronto	89
4	Los Angeles	88
5	San Francisco	83
6	Sydney	83
7	London	82
8	New York	80
9	Brisbane	80
10	Washington	76
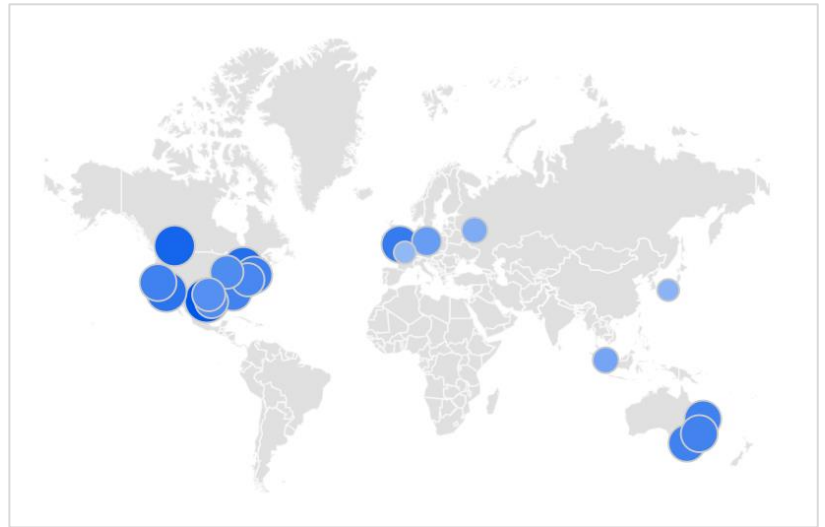
Graphic 3: Interest in Apple Music by City (Source: Google Trends, 2017)

Finally, a comparison was made to determine the relative popularity of both streaming services in relation to one another. The following graphic marks which service is more popular by country:
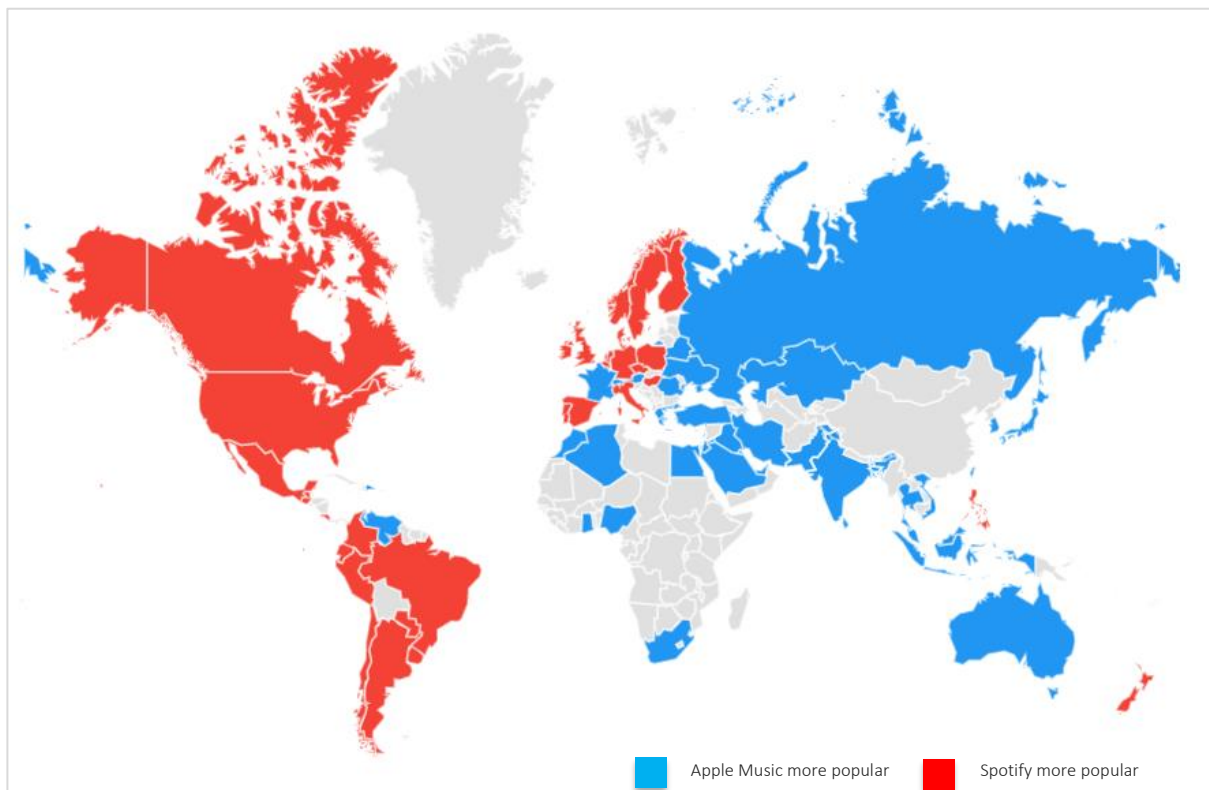
Graphic 4: Apple Music VS Spotify Worldwide (Source: Google Trends, 2017)

Market Growth

Streaming has revolutionized the way people listen to music everywhere. According to the International Federation of Phonographic Industry (IFPI), 112 million users of paid streaming subscriptions driving streaming revenue growth of 60.4% in 2016. Taking these numbers into account, Apple Music and Spotify account between 43 - 68% of the international streaming subscriptions.

Streaming Revenue in the U.S.

According to the Recording Industry Association of America (RIAA), streaming services generated more than 50% of all the U.S. music industry revenue in 2016 [4]. The Graphic at the right shows how streaming is becoming the preferred way of music listening in the U.S.

Graphic 5: Music Revenue in the U.S.

Premium Subscribers Worldwide
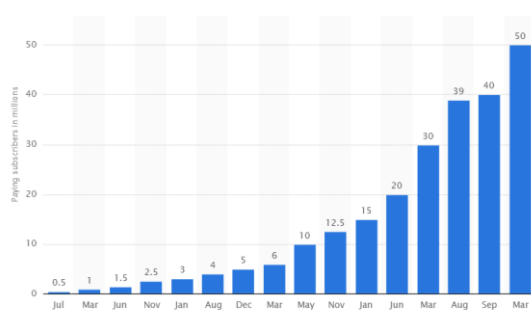
Graphic 6: Spotify Premium subscribers worldwide

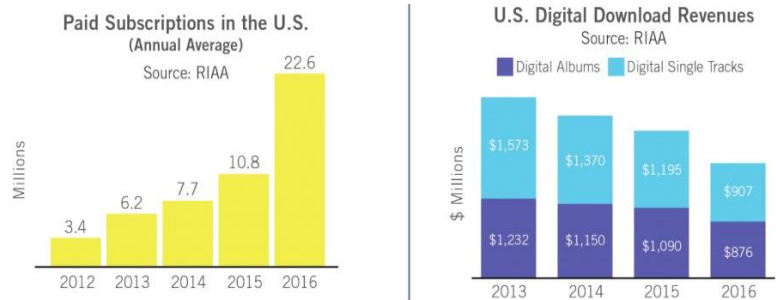As shown in Graphic 6, a study made by Statista highlights how Spotify Premium Subscriptions have increased about 100 times in the last seven years [5]. Also, projections made by eMarketer, report that Spotify Premium Subscribers have an estimated reach of 100 million by 2020 [6].

Apple Music on the other hand, on the last 6 months subscriptions to their services increased by 35% and acquired more than 27 million subscribers in just 2 years.

If trends continue behaving the way they´ve been acting in the last decade, market growth will continue to be steady for music streaming subscriptions worldwide.

Graphic 7: Apple Music subscribers worldwide

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[4] Roettgers, J. *Variety*, 2017.
[5] Statista, 2017.
[6] Wauterd, R. *Business Insider, 2016*.

Competitive Landscape

The competitive landscape in Android, iOS, Mac and PC as far as playlist democracy, social music, music sync between smartphones, and DJ streaming software in America, Europe, and Oceania, comprises just a few choices with little to non-market presence. From the technical point of view, the most advanced apps respecting development are:

- Outloud DJ
- Algoriddim DJ

From the marketing point of view, other two apps have appeared on the radar of social music apps, being:

- Flo Music
- Ourdio

Competitive Advantage

WeTune differs from the existing solutions in several ways. First of all, WeTune´s primary focus is to enhance the individual hosting experience by allowing a single person to host and direct a musical queue, rather than playlist democracy. Second, guests get the chance to make requests, but the host or co-hosts get the final word. Finally, hosts can receive feedback about the music and gain a reputation as DJ´s or curators positively stimulating social interaction.

Furthermore, WeTune is prepared for scaling and diversifying its features to continue innovating the way people stream, listen, and experience music. WeTune´s API is developed in a way that enables users to create remote streams so anyone could create a kind of "radio station" or "streams" where people can get in sync, give feedback, and suggest music to the station. After consolidating WeTune´s MVP, features like "democratic" radio can be aggregated to the core. WeTune´s objective is to overcome existing competitors with our unique approach that brings together a social network, DJ's, venues, and music lovers for the first time.

Marketing and Growth Strategies

Marketing strategies shall be strongly linked to the key regions previously analyzed to get the best conversion rates possible through targeted advertising within specific niches. Accelerating word-of-mouth through strategic alliances and microinfluencers shall be considered among marketing campaigns to spread the word effectively.

Mexico City is one of the best places to trigger word-of-mouth through the Latin American Market, particularly within Spotify Premium users. On the other hand, Los Angeles may be one of the best places to provoke adoption from Apple Music subscribers due to the popularity of the service in L.A., its cultural diversity and presence in the Music industry. Targeted advertising to potential users shall be used to get direct downloads across divers advertising channels as well.

To accelerate growth, offering a freemium app is imminent. If there are no initial payment barriers, user acquisition and adoption can thrive at a greater scale. Most users like to get a taste of something before actually paying.

Additionally, Finísima Music will offer WeTune´s users a variety of hand-crafted playlists to help host users picking the right tunes for any occasion. WeTune´s playlists shall be part of the brand identity and aggregated value of the apps. Likewise, encouraging WeTune´s users to generate a reputation as DJ's or curators is crucial to get people´s ego involved with the social experience.

Investment

Fixed Costs

Table 1: Fixed Costs

Fixed Monthly Costs

#	Description	%	Monthly Budget
1	Directive Roster	9%	$ 675.00
2	Development	61%	$ 4,340.00
3	Operations	2%	$ 172.39
4	Marketing	16%	$ 1,160.00
5	Administrative Costs	11%	$ 812.00
	Monthly Total	**100%**	**$ 7,159.39**

The previous table roughly outlines the fixed costs in U.S. dollars that will be accounted for the first year of operations. Directive Roster encompasses the Project Leader responsible for project management, reviewing legal requirements, generate marketing and go-to-market strategies for the apps to be launched.

Development entails the investment into building the apps that shall be internally owned and eventually marketed by the company. The minimum required human capital to accomplish the development objectives across Android, iOS, Web, Mac and PC, are three full-time developers, with a proposed salary of $1000 U.S. dollars a month, considering the development team will be based in Mexico. Additionally, a monthly budget of $500 plus taxes have been taken into consideration for user interface, user experience, and general design requirements.

Operation Costs is defined by operating expenses that are non-interest. Operating liabilities result from accounts payable and accrued expenses, specifically fees for software licenses, hosting, and databases. Finísima Music is currently a partner of Microsoft BizSpark's program for Startups. The company benefits with Microsoft include development licenses and $150 U.S. dollars monthly credit in Azure services until November '19, enough to cover at least the first 6th months of operations.

Marketing costs involve the total cost associated with delivering the app to potential customers including but not limited to advertising, marketing videos, campaigns, and social networks. For the first year of operations

and estimating acquisition forecasts, the company will consider a maximum investment of $2000 U.S. dollars per month, continuously focusing on the campaigns with the best performance relating each other. After the first year of operations, or upon a capitalization event, the marketing budget shall be reviewed to achieve wider growth and market reach.

Administrative Costs include the expenses for necessary administrative requirements of the organization as a whole. This include back office, legal fees, office space and essential services charged on a monthly basis. Home Office is a recurrent form to reduce these expenses, and it shall be used with moderation and supervision with the development team to maintain low Administrative Costs.

Capital Expenditure

Table 2: CapEX

CAPEX (Capital Expenditure)

#	Description	Qty.	Unit Net Cost	Unit Gross Cost	Net Cost
1	Computers	3	$ 1,699.00	$ 1,970.84	$ 5,913
2	Smartphones	2	$ 899.00	$ 1,042.84	$ 2,086
3	Tablets	1	$ 569.00	$ 660.04	$ 660
4	Headphones	3	$ 119.00	$ 138.04	$ 414
Total (with Taxes)					**$ 9,072.36**

Capital expenditure, or CapEx, are funds used by the company to acquire or upgrade physical assets such as property and equipment. The list above covers the minimum required equipment to develop, test, and improve the apps through the first year of operations. These assets will be depreciated and amortized to 5 years with a depreciation rate of 5%.

Forecasts

Relevant Permissions

To achieve monetization, Spotify commercialization permission and being accepted in Apple Music´s affiliate program are top priorities. There are other ways non-dependent of third-parties that lead to monetization, however, as shown in the Market section, streaming music is becoming the mainstream choice for music listening among the majority of the people worldwide.

Spotify´s Commercialization Approval
To complete this objective, the team shall review proper documentation of both Spotify and Apple Music, including but not limited to: Spotify Developer´s Terms of Use, Spotify´s Terms of Use, Spotify Design Resources and Identity Guidelines.

Apple Music Affiliate Program

Affiliate partners can earn a one-time affiliate bounty when referrals result in a conversion from the trial period to the first paid month for Apple Music. To achieve this goal, the company has applied to Apple Music Affiliate program.

Business Model

The Business Model will be a hybrid between **big data, mobile advertising, yearly subscriptions and in-app purchases.** On the other hand, the same Business Model doesn´t behave the same way in different countries, so it shall be adjusted for different target markets, mainly differed between each other by region.

Big Data

Big Data is a significant factor to gain leverage in valuations or potential exits. Generating valuable information through the apps has a tremendous potential, since people listen to music an important part of the day, but don´t give feedback at all in most of the situations. If we manage to capture people´s reactions when listening to music, WeTune could contribute to the analysis of music trends worldwide recording which songs people are requesting the most by region among other interesting data.

Mobile Advertising

Since one of the fundamental objectives of the app is to connect listeners with the source of music giving the listener the opportunity to identify and grab songs immediately, sponsorships and specialized advertising can be introduced to cause impressions among WeTune´s freemium users. To achieve a considerable revenue stream from advertising, user acquisition, positioning and growth are top priorities to offer quality impressions to companies interested in reaching WeTune´s Market.

Yearly Subscriptions

The subscription economy is revolutionizing the way business is done around the globe. Two key factors of making a subscription model highly profitable are the stickiness and quality of the product. Although the freemium versions of the app will provoke growth more than monetization, a premium service needs to surpass the expectations of the most demanding consumers. The proposed standard price for an individual subscription would be $11.99 USD per year.

User Acquisition

To calculate projections, a set of industry benchmarks related to the primary indicators of interest were used for the advertising channels in consideration.

Costs to acquire users in Latin America are considerably lower than in North America and Europe. Investing advertising in Latin America at an initial phase helps to gain users at lower fees while the app improves its search rankings making more cost-effective advertising in Europe and North America.
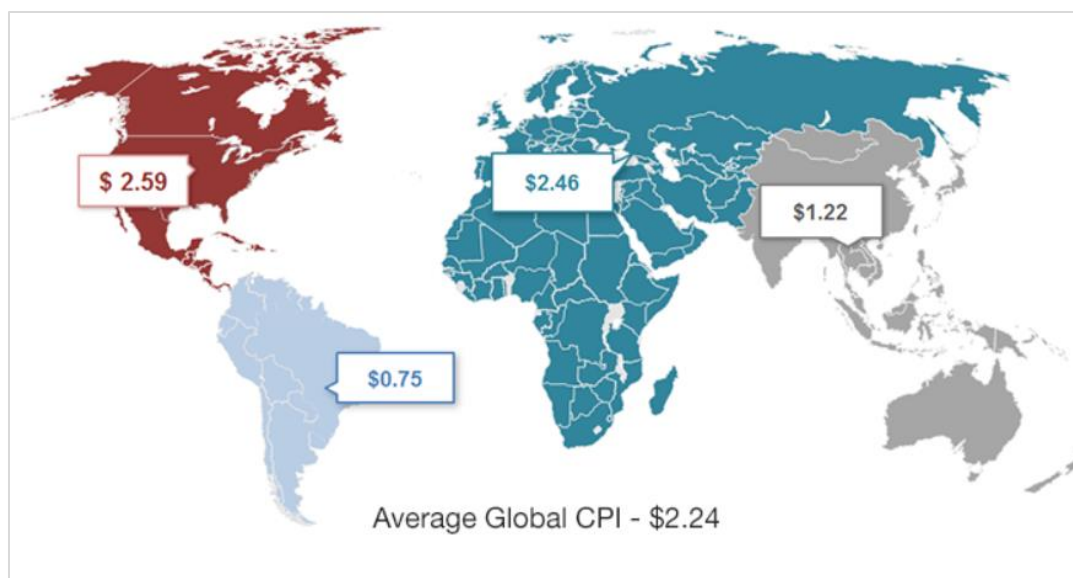
Graphic 8: CPI by territory. (Jampp, 2013)

Industry Benchmarks:

	Pessimist	Conservative	Optimist
Google Ads CTR	1.5%	2%[7]	2.5%
Facebook Ads CTR	0.5%	1%[8]	1.5%
App Store Average Conversion Rate for Music Apps	20%	35%[9]	50%

To calculate the number of potential monthly downloads, an average Cost Per Install of $0.48 USD resulted from the combination of company data obtained in ad trials and industry benchmarks in conservative scenarios. Afterwards, it was rounded up to $0.50 USD for the following calculations in the conservative forecast.
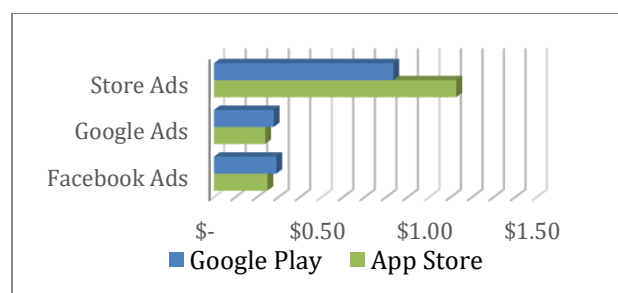
Graphic 9: CPI App Store VS Google Play, Conservative Scenario

	Pessimist	Conservative	Optimist
Average CPI (all channels)	$ 1.09	$ 0.48	$ 0.24

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[7] Irvine, M. WordStream, 2017.
[8] Irvine, M. WordStream, 2017.
[9] Pratskevich, A. SplitMetrics, 2016.
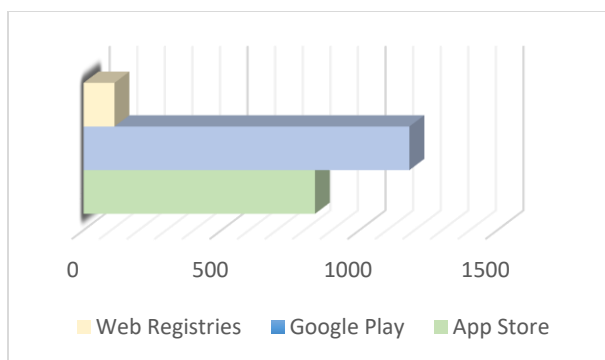
Graphic 10: Monthly Projections for Acquired Users   All Platforms

With the previous industry benchmarks taken into account, user acquisition was estimated considering 20% of the landing page conversions would be Web Registries, 30% iOS downloads, and 50% Android downloads. The advertising budget was distributed equally between 4 channels: Facebook Ads, Google Ads (SN), Google Play Ads, and App Store Ads.

Word-of-mouth Assumptions

To consider moderate network effects in calculations, the number of acquired users by advertising was separated between premium subscribers and freemium users. Afterward, two iterations were made assuming that each premium subscriber would generate in his lifetime an average of ten app downloads through word-of-mouth and social use, and every freemium user would provoke, similarly, two app downloads.

Revenue Forecasts

Two sources of income were used to project the revenue for five years: subscriptions and ad revenue. Although Big Data is part of the business model, Big Data was not taken into consideration in forecasts. To calculate the number of yearly subscribers and ad revenue the following assumptions were considered:

|	Pessimist	Conservative	Optimist
Installs / Subscriptions	1%	3%[10]	5%
Engagement Rate	30%	40%[11]	50%
Pro Subscription Price	$ 11.99	$ 11.99	$ 11.99
Renewal Rate	50%	70%	90%
CPM for Advertisers	$ 5.99	$ 5.99	$ 5.99
Average Monthly Ad Impressions per Freemium User	5	10	15
Annual Growth	30%	40%	50%

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[10] The State of Apps Engagement, 2016.
[11] The State of Apps Engagement, 2016.

Key Performance Indicators

*Table 3: Key Performance Indicators, Conservative Forecast*

Year	Downloads	Engaged Users	Accumulated Loyal Users	Ad Impressions	New Subscriptions	Recurring Subscriptions	Ad Revenue		Total Revenue
2018	121,710	48,684	48,684	2,917,586	5,463	0	$ 17,476.34	$	77,515.07
2019	183,860	73,544	122,228	10,375,556	8,253	3,831	$ 62,149.58	$	194,949.09
2020	246,009	98,404	220,632	20,816,715	11,042	9,613	$ 124,692.12	$	351,693.89
2021	308,159	123,264	343,895	34,241,062	13,832	17,349	$ 205,103.96	$	547,782.44
2022	370,309	148,124	492,019	50,648,597	16,622	27,037	$ 303,385.10	$	783,192.78
Total	**1,230,047**	**492,019**	**1,227,458**	**118,999,517**	**55,212**	**57,830**	**$ 712,807.11**	**$**	**1,955,133.27**
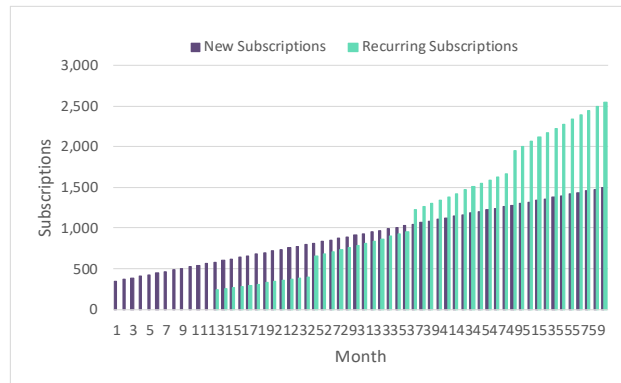
Graphic 11: New Subscriptions VS Recurrent Subscriptions
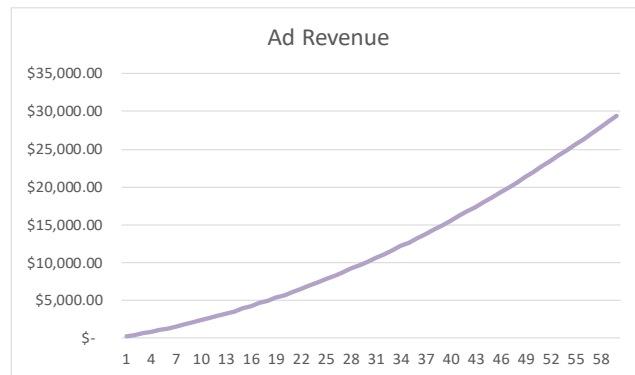

Graphic 12: Monthly Ad Revenue Projections
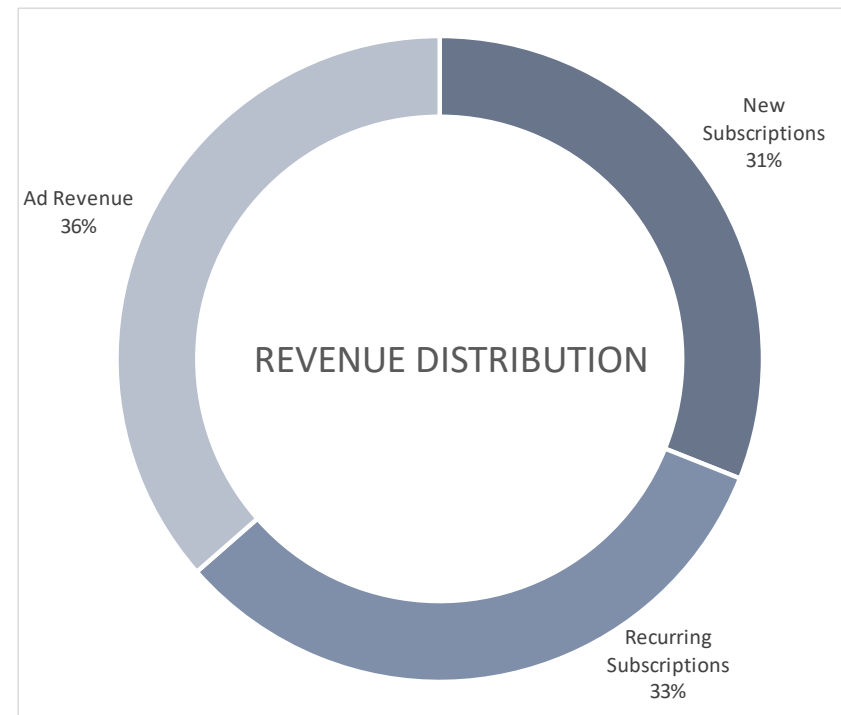
*Graphic 13: Monthly Projections for Acquired Users*

Financial Statements

Table 4: Projected Annual Financial Statements, Conservative Forecast

|	2018	2019	2020	2021	2022
Total Income	$ 77,515.07	$ 194,949.09	$ 351,693.89	$ 547,782.44	$ 762,072.16
Income Total Costs	$ (7,751.51)	$ (19,494.91)	$ (35,169.39)	$ (54,778.24)	$ (76,207.22)
Initial Development	$ -	$ -	$ -	$ -	$ -
Third-Party Commissions*	$ (7,751.51)	$ (19,494.91)	$ (35,169.39)	$ (54,778.24)	$ (76,207.22)
Distribution Costs	$ -	$ -	$ -	$ -	$ -
Gross Profit	69,764	175,454	316,524	493,004	685,865
Total Outcome	$ 115,834.55	$ 155,139.87	$ 213,388.62	$ 218,172.74	$ 222,984.65
Total Fixed Costs	$ (99,010.69)	$ (135,644.96)	$ (178,219.23)	$ (217,823.51)	$ (254,127.43)
Management	$ (6,750.00)	$ (8,370.00)	$ (14,580.00)	$ (17,820.00)	$ (20,790.00)
Development	$ (43,875.00)	$ (73,710.00)	$ (94,770.00)	$ (115,830.00)	$ (135,135.00)
Marketing	$ (23,200.00)	$ (38,976.00)	$ (50,112.00)	$ (61,248.00)	$ (71,456.00)
Administrative Costs	$ (8,352.00)	$ (11,692.80)	$ (15,033.60)	$ (18,374.40)	$ (21,436.80)
Operations	$ (2,068.69)	$ (2,896.16)	$ (3,723.63)	$ (4,551.11)	$ (5,309.63)
EBITDA	$ (29,247.12)	$ 39,809.22	$ 138,305.26	$ 275,180.69	$ 431,737.51
Depreciation and Amortization	$ (453.62)	$ (453.62)	$ (453.62)	$ (453.62)	$ (453.62)
EBIT	$ (29,700.74)	$ 39,355.60	$ 137,851.65	$ 274,727.07	$ 431,283.90
Interests and Taxes	$ -	$ 10,449.37	$ 48,248.08	$ 96,154.48	$ 150,949.36
Net Profit	$ (29,700.74)	$ 53,215.32	$ 186,099.72	$ 370,881.55	$ 582,233.26
Acumulated Profit / Investment Return	$ (29,700.74)	$ 23,514.58	$ 209,614.31	$ 580,495.85	$ 1,162,729.11
ROI	-25%	17%	86%	181%	290%
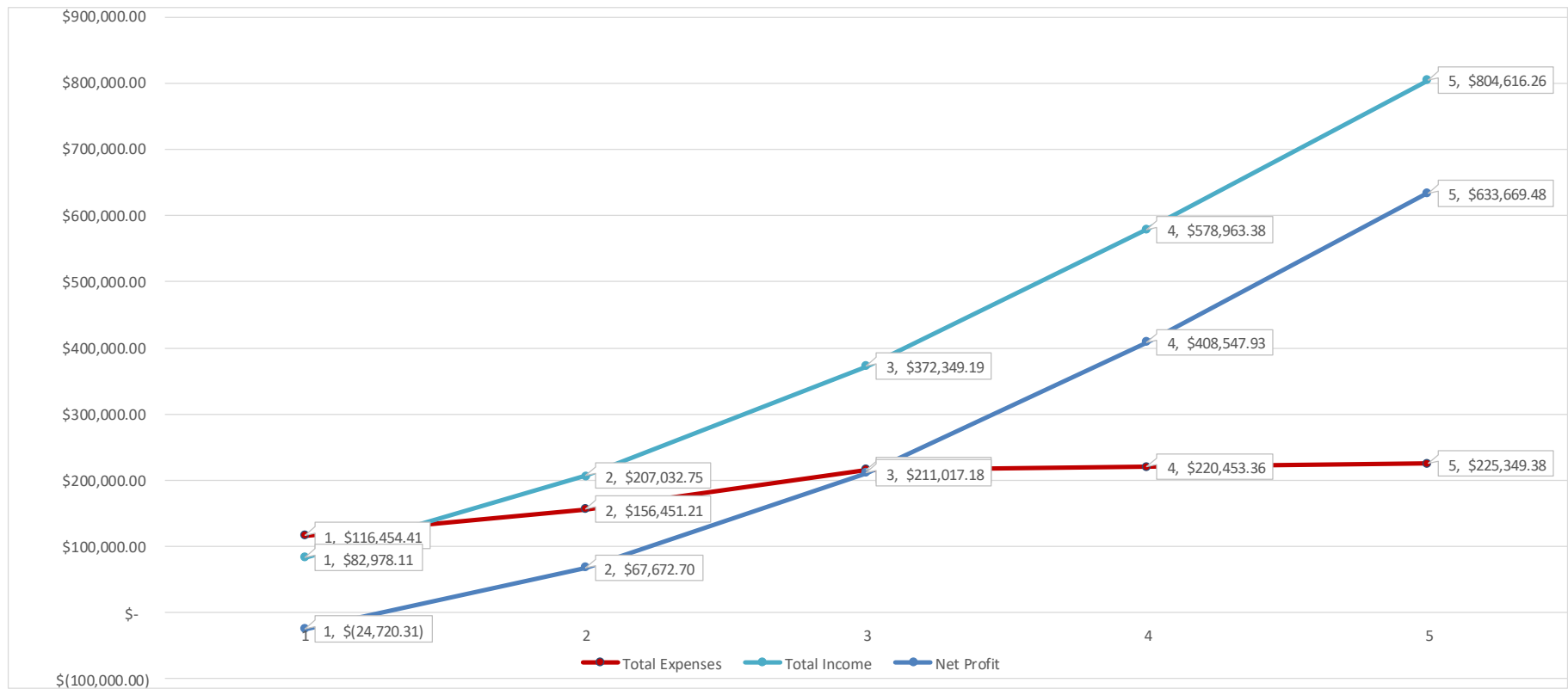
Graphic 14: Projected Annual Financial Statements, Conservative Forecast.
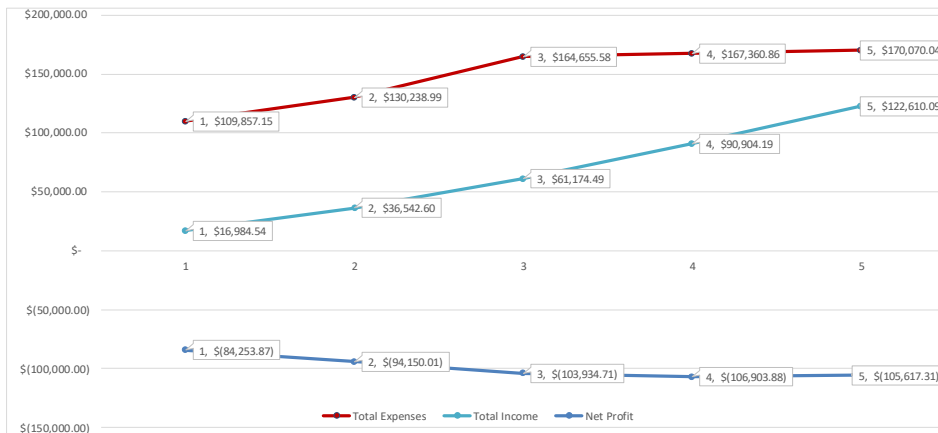
Graphic 15: Projected Annual Financial Statements, Pessimist Forecast.
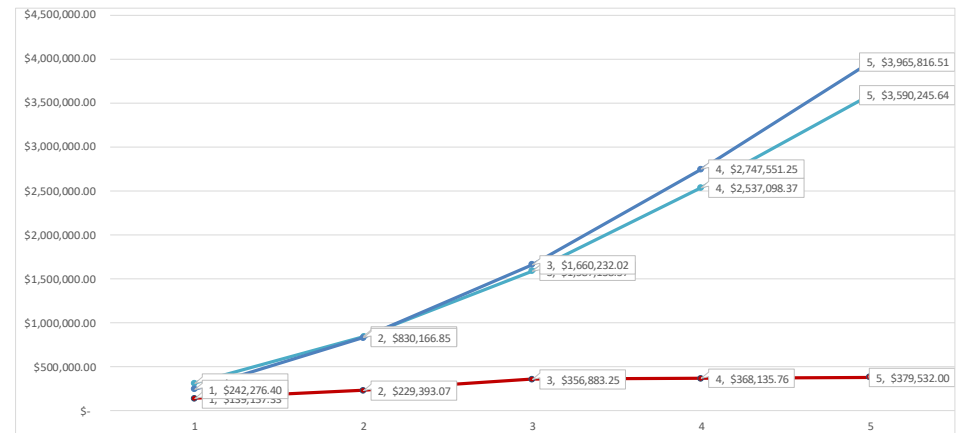
Graphic 16: Projected Annual Financial Statements, Optimist Forecast

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11. The State of Apps Engagement, 2016. Engagement Benchmarks for App Marketers. Retrieved from https://www.appsflyer.com/resources/the-state-of-app-engagement-h2-2016/