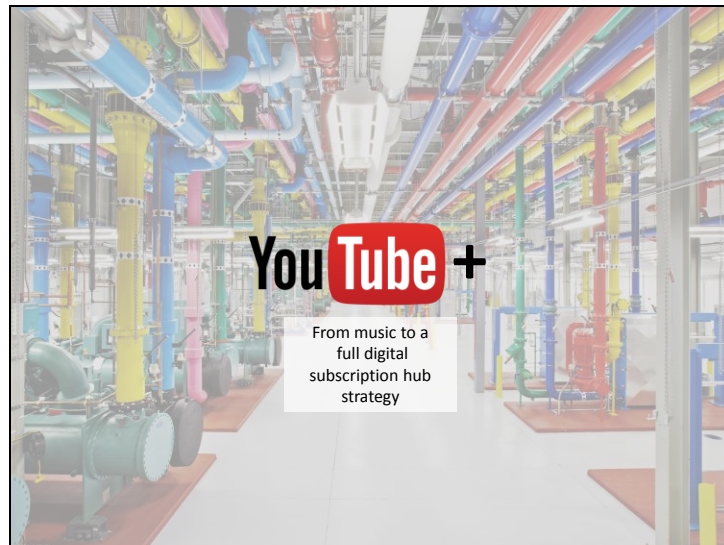
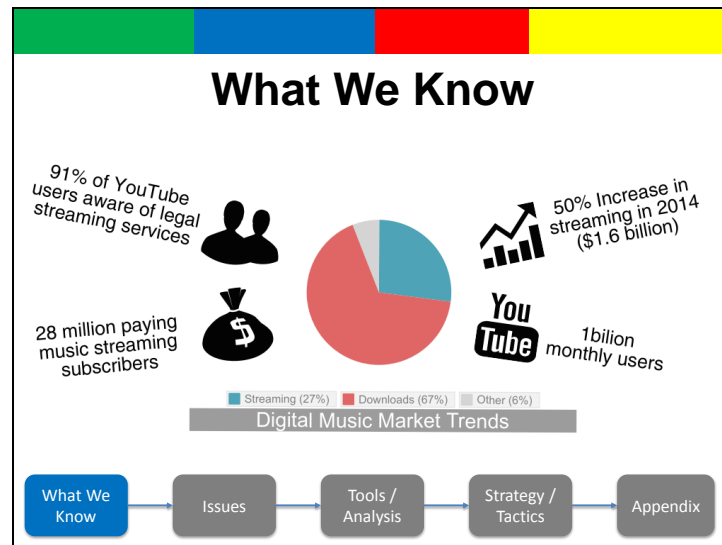


Slide 1

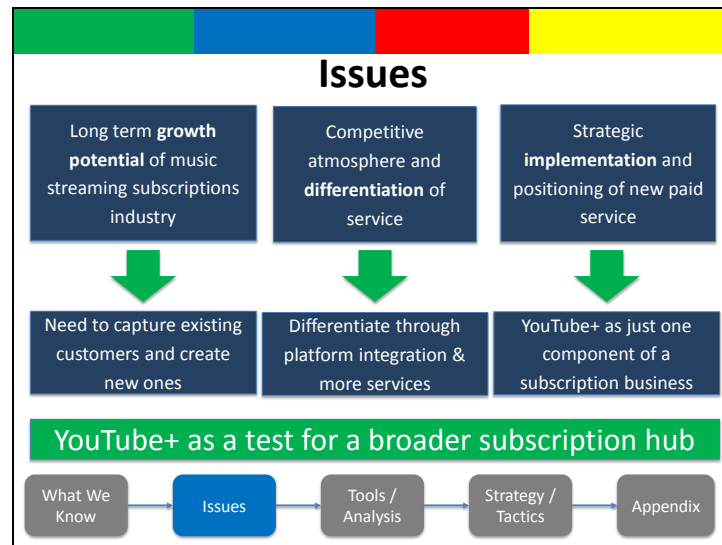


## Slide 2



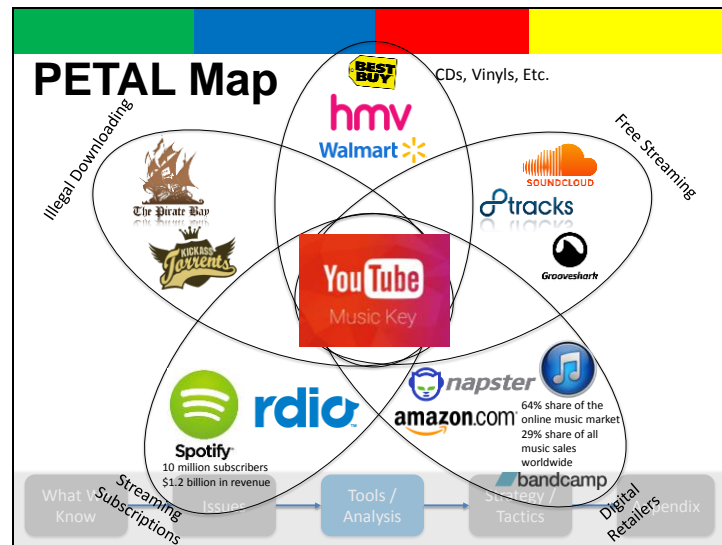
Today we want to bring to your attention a very interesting case. Youtube set to launch paid music service – Youtube Music Key, which we believe will be the “Magic Key” to success with our integrative strategic plan.

First, there is an overview of current trends and facts in the Digital Music market. -> slide 2. Analyzing the issues, we first considered 3 strategic questions: Why? What? and How? Such as, is the market attractive for the new launch? How do we differentiate from other streaming services? And what do we need to do or have in order to make this successful? And finally, how do we get there? Or how do we actually launch?



So, the first issue is a long term growth potential of music streaming subscriptions industry. Questioning whether will it be profitable. With millions users out there not many realize music is not for free. Second issue relates to the competitive atmosphere and differentiation of service. With many companies entering this new market, the streaming digital music space is becoming quite crowded. From the differentiation standpoint, companies in this industry offer quite similar if not the same services, pricing, functionality, which makes it hard for consumers to make decision on provider's choice. This mainly results in so called brand wars, and in companies wanting to win on brand preference. Third issue is a strategic implementation and positioning of new paid music service. Youtube Music Key has the potential to be the best music subscription in the world, having all its unique assets. But it is not there yet due to lack of innovation and differentiation in its current strategy.

Slide 4



Before we entered any new territory, we wanted to understand who we would encounter and impact around us

CDs, Vinyls, etc. → physical copies or hardware of music files

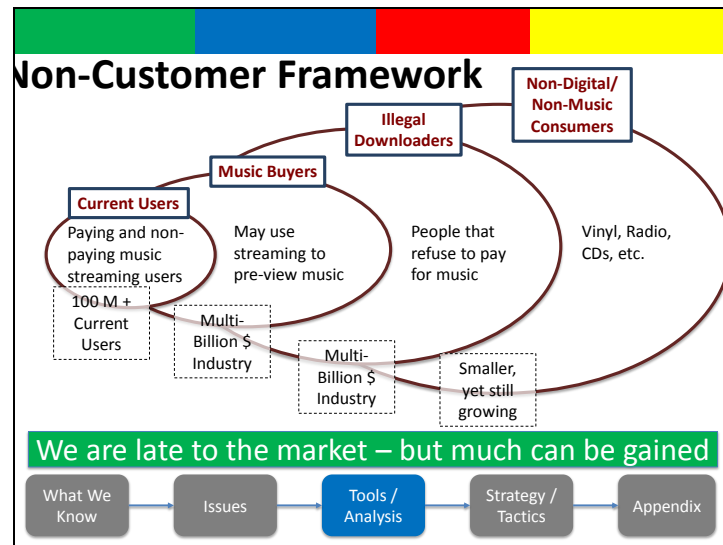
Free streaming sites that have account based system but offer few services

Digital retailers are currently the conventional means of music consumption where listeners pay a one time fee and receive ownership of the music file

Streaming subscription services is the most direct arena of competition for Music Key

The business model of monthly payments for unlimited online access to all partnered artists and some offline capabilities

Illegal downloading encompasses all the music consumers who opt not to or outright refuse to pay for music that is otherwise available online



We have identified our current industry to encompass all streaming music users both paying and non-paying

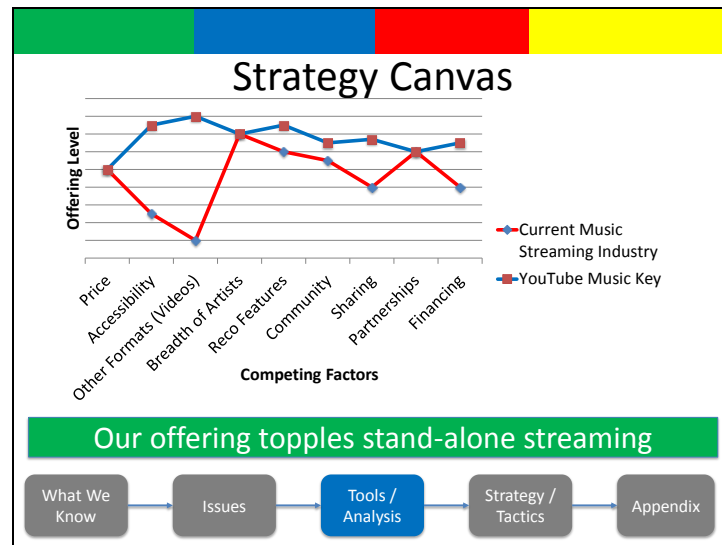
Within tier 1 “soon-to-be” customers would include those who are still purchasing their music digitally and may only use streaming to preview or explore artists

Tier 2 “refusing” noncustomers would be those that download all their music illegally and are behind tier 1 in that they do not pay for their digital files

Tier 3 “unexplored” noncustomers we have identified to be those that do not listen to music digitally but rather rely on live music or older technologies such as radio, CDs, or vinyl

Our short term strategies aim to capture a majority of the current market and successfully expand into tier 1

Looking forward into the long run, we can predict the widespread adoption and further development of the online music streaming industry will reduce illegal downloading capabilities and consequently convert tier 2 noncustomers



### Current music streaming industry vs. YouTube Music Key

**Price:** the same - the development of the streaming industry was the blue ocean strategy to the music industry (price is lower compared to music purchasing).

**Accessability:** Higher for YMK e due to existing Google channels – e.g. already have Google Play on all androids,

**Other Formats:** YMK allows subscribers to view music videos, which has yet to be captured by competitors.

**Breadth of Artists:** Same due to late entry.

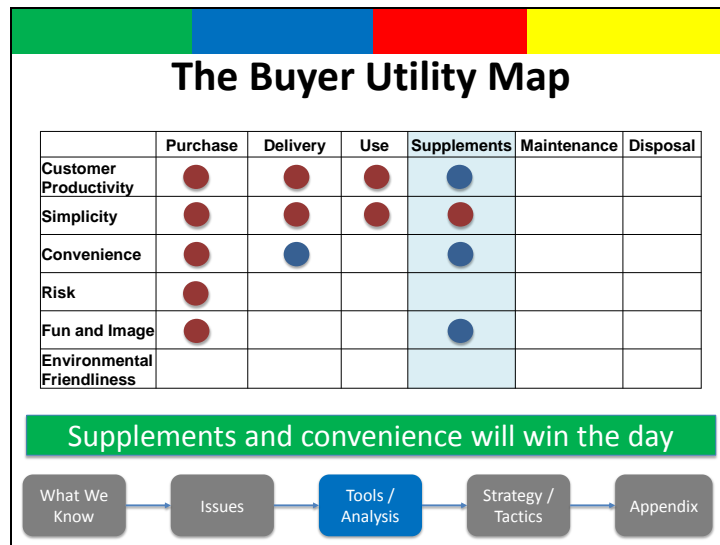
**Reco Features:** We believe YMK has a slight advantage due to existing Google analytical tools – definitely something that has a lot of potential.

**Community:** YMK has slight advantage in creating a community feel due to its available supplements e.g. Google+ or Android OS deals.

**Sharing:** Potential for sharing is higher with YMK, due to the multiple sharing platforms that Google provides and can tap into.

**Partnerships:** About the same – YMK is late entering the market, and although it has a lot of power with YouTube backing, not likely to have significantly greater number of partners.

**Financing:** YMK has higher funds than current industry due to backing of YouTube and Google.



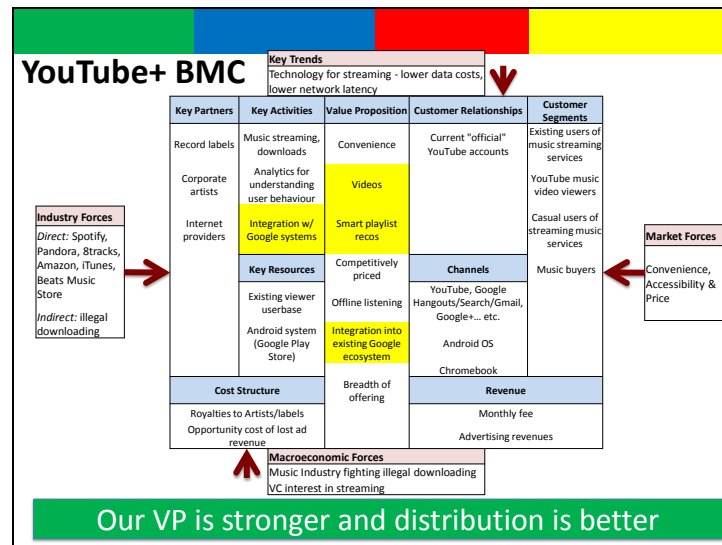
### Existing Streaming Market (Red Ocean)

- Essentially created to capture the simplicity of purchase, delivery, and use.
- Risk exists for all given online payment method

### YMK (Blue Ocean)

- Focus in on the supplements
- Customer productivity – can use its existing Google channels to make sharing and listening easier.
- Convenience – YMK can provide shortcuts through supplements
- Fun & Image – YMK can use existing channels (e.g. Google +) and other supplements (e.g. android os) to make it more interactive and community orientated.

Slide 8



YouTube Music Key's value proposition of being able to offer different formats as well as use personalized information that they store for their users to create better recommendations will create a major differing factor in a highly competitive market.

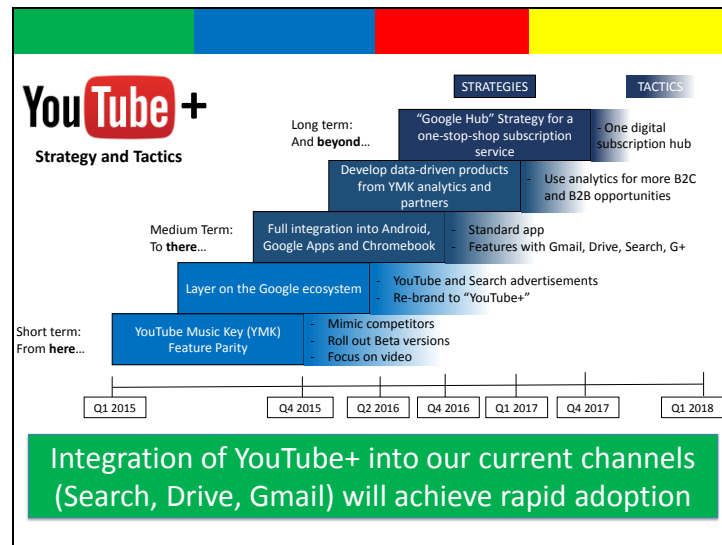
Their integration into the larger Google services will be key for the new streaming service. This will be a top attraction for existing users.

As a result, this incorporation has been highlighted as a key activity that needs to be held in high importance. Constant efforts will be needed to make create seamless assimilation.

An important customer segment will be current YouTube users who are only active just to listen to music but do not want the advertisements. These customers may value the content over the experience.

Key partnerships that have been identified are the record companies, both major names and independent, who will "supply" the content. Ensuring these relationships are cohesively working together will ensure that users get access to the latest and premier quality music.



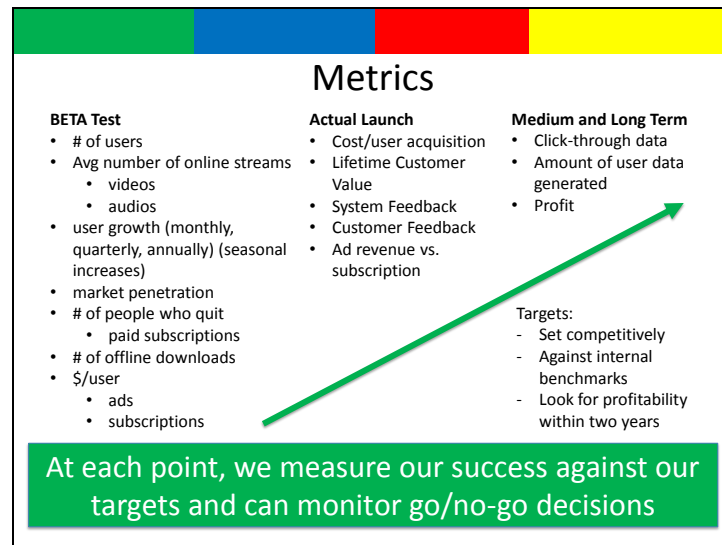


### Strategy and Tactics:

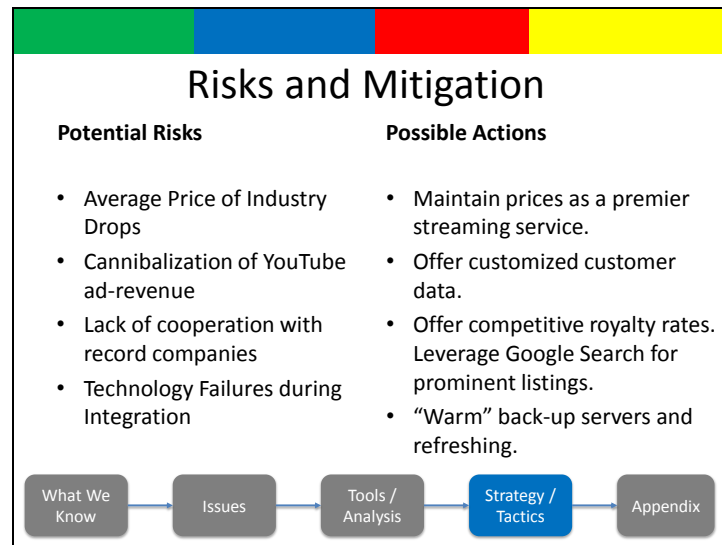
- Our strategy is split into three phases
  - 1. Feature parity with our top competitors: Soundcloud, Rdio etc. We want to understand what makes people use these services, how easy it is to download songs and what their customer segments are looking for. Using our resources, we can find feature parity by the end of our beta phase. Before we launch out of Beta, we should also look to layer on top the Google ecosystem. What we mean is specifically having YouTube MK embedded in YouTube in terms of advertisements in both Search and Drive as well. Eventually we should even have advanced sharing: you can share clips of songs or videos through Google+ and Gmail in order to make it a cohesive experience
  - 2. In the second phase is full integration with the Android OS (as a standard app) as well as part of the main Google apps you see in the Drive. To bolster user growth, we should offer 30 days of free trials to all users, and up to three months for Android users. We strongly believe that Google has the financial capability to do so as well as this is a smart move to reduce the barriers of people trying out the service. Knowing that Google is fundamentally a data and advertising company, getting more people to use the service and analyze their use feeds our ultimate revenue stream of better targeting
  - 3. The Google "Hub" strategy: Google's mission is to organize the world's information. The same should be true for high quality, curated information from not only music but TV, Video and research. The YouTube+ should be monitored closely in tandem

with other subscription models and services to see if we are able to bundle these together – creating a competitive advantage as a one-stop shop for everything subscription related.

Ultimately, we believe this to be a 3 year plan. The industry is moving incredibly fast and we can not afford to be behind on this curve.



Our Metrics will help us constantly assess whether or not we are on target. The main objective of our metrics is to ensure we have proper user growth, because anything short of a few dozen million subscribers by the end of the 2<sup>nd</sup> year doesn't mean it is a big enough opportunity for us. Google can sacrifice short term profitability to gain these users – and that should be the focus.

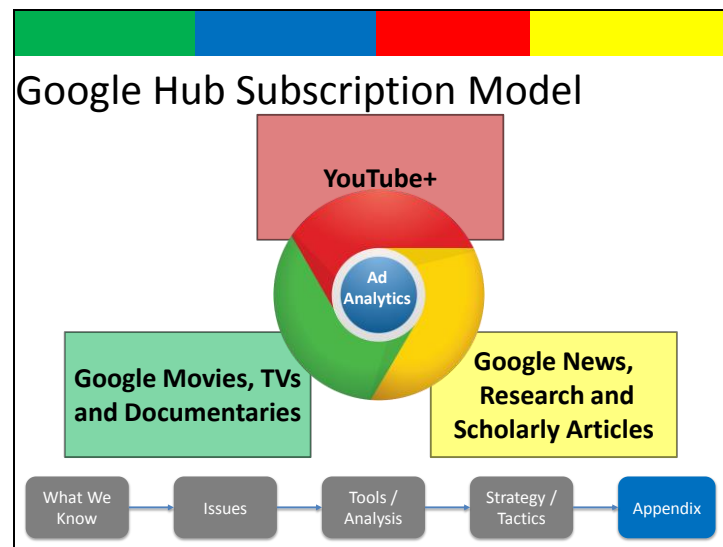


We believe that the major risks are mitigated by our outlined mitigations. The largest one is not having the relationships with the music industry – but being able to leverage our name and our ability to deliver on creatives (proven track record) will help us execute.

A major risk that could be encountered is technology failure during integration of YouTube Music Key into the larger Google ecosystem. Having regular "warm" back-up servers on hold and refreshing back to a reliable state will allow users to continue using the services as well as provide a way to repair to the problems.

Another potential issue that could arise is the cannibalization of YouTube ad-revenue due to the paid ad-free service. A way to counter this would be offer customized consumer data to the advertisers. This would help them to target their desired viewers.





Prototype for the Google Subscription Hub: with YouTube+ being the first formal foray into the industry.