

Differentiated Breakthrough: An Effectiveness Study of NetEase Cloud Music’s “Music + Social + Original Content” Ecosystem Positioning — Based on User Retention and Paid Conversion

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Abstract

NetEase Cloud Music launched its app in 2013 and quickly emerged as a dark horse competitor within just a few years. Today, it has grown into one of China's leading music streaming platforms. In China's fiercely competitive music streaming market, NetEase Cloud Music has carved out a niche through its differentiated strategy centered on “Music + Social + Original Content.” This single-case study examines the synergistic mechanism between ecological niche competition and differentiated development, verifying its impact on user engagement, emotional stickiness, retention rates, and payment rates. Findings reveal that the emotional connections fostered by “playlist UGC + music comment socialization” and the original content ecosystem supported by the “Stone Project” collectively offset the platform's copyright disadvantage. This synergy effectively enhances metrics such as the daily active users to monthly active users ratio (DAU/MAU) and paid subscription rates. This research fills a gap in studying macro-level ecological niche competition among music streaming platforms, providing practical insights for industry differentiation strategies.

Keywords

music streaming industry, NetEase cloud music, Niche competition, differentiated development

1. Introduction

1.1 Research Background

With the rapid development of China's music industry, NetEase Cloud Music, as the country's leading music streaming platform, has attracted significant scholarly attention. Founded in 2013, NetEase Cloud Music adopted a differentiated strategy but lagged in securing copyrights, losing out to the well-funded offerings from Tencent and Alibaba. It emerged as virtually the sole underperformer in this race. In recent years, NetEase Cloud Music has been striving to overcome the constraints imposed by copyright limitations [1]. Against this backdrop, NetEase Cloud Music must avoid confrontation with rivals like Tencent Music over music copyrights. Instead, it must pursue a differentiated development strategy and forge its own unique path. After years of development, NetEase Cloud Music has demonstrated a distinct advantage in user

experience in recent years. This is reflected in the platform's professionalism, brand clarity, product positioning, and interface usability, attracting a loyal user base of music enthusiasts [2]. Yudi Zhang pointed out that a monopolistic landscape is currently emerging in China, with Tencent Music Platform as the dominant player and NetEase Cloud Music as a strong contender, making the music market structure increasingly clear [3]. The above demonstrates that NetEase Cloud Music's strategy has yielded significant results and substantial achievements. NetEase Cloud Music's differentiated competitive advantage primarily lies in its community. According to a research report by Southwest Securities, the company's development has undergone three distinct phases: operating an online music platform (2013-2015), deepening its personalized content community (2016-2017), and expanding into diversified music-related businesses (2018 to present) [4]. However, in recent years, most research on NetEase Cloud Music has focused on micro-level analyses of its marketing strategies and brand influence, with few studies examining how it competes for ecological niches and pursues differentiated development at the macro level to successfully break through in the music streaming market. This paper aims to fill this gap by analyzing NetEase Cloud Music's differentiation strategy. It explores how the platform leverages its competitive advantage—built through a three-pronged differentiation strategy of “music + social + original content”—to significantly outperform traditional copyright-driven models in user retention and monetization, thereby maintaining its leading position in the market.

1.2 Literature Review

1.2.1 Corporate Niche Competition

Niche competition originated as an ecological concept, referring to interactions among organisms vying for similar ecological resources such as food, space, and light. Due to its striking similarity to scenarios in business competition, the term was later extended to the commercial sphere, describing how different companies compete for limited resources within the same market. Competition serves to select the best and eliminate the worst, thereby enhancing the efficiency of market activities. It is an inherent feature of a market economy [5]. Niche competition is an inevitable aspect of a market economy and represents the fundamental logic underlying market metabolism. Reasonable and fair niche competition is inherently beneficial to the market.

1.2.2 Differentiated Development

The core of the online music ecosystem must inevitably be the users. Currently, major music platforms in the market are quietly exerting their efforts, engaged in a battle for users that extends from copyrights to user acquisition. This not only benefits the maintenance of their respective small ecosystems but also promotes the growth of the entire online music ecosystem [6]. Differentiated development represents a crucial growth model. Under a uniform development approach, the inevitable outcome is large-scale capital devouring smaller players. Only by exploring distinct business models and cultivating unique characteristics can enterprises break this cycle. The diversity fostered by differentiated development not only expands market scope and broadens business survival margins but also enhances user experience, enabling consumers to access distinctive features and services.

2. The “Music + Social + Original Content” Model's Effect in Building a Moat

The “Music + Social + Original Content” model demonstrates remarkable effectiveness in building a competitive moat, as evidenced by its consolidation of user engagement and emotional loyalty, alongside enhanced user retention and paid conversion rates.

2.1 User Engagement Enhancement

Music, as humanity's precious shared spiritual treasure, is an indispensable form of artistic appreciation and an inevitable topic of conversation. In today's fast-paced modern society, music apps have even integrated into people's lives as a new form of digital social interaction [7]. Differentiation strategies have spurred users to transition from passive consumption to active production by lowering content creation barriers (e.g., UGC tools) and enhancing social incentives (e.g., the “hug” feature). This fosters a closed-loop cycle of “creation-interaction-feedback,” significantly boosting engagement.

2.1.1 UGC Content Growth

NetEase Cloud Music excels in the scale, engagement, and user retention of its user-generated content (UGC), such as playlists and comments, thanks to its highly interactive music community (Cloud Village). This represents a key competitive advantage that enables the platform to differentiate itself, enhance user retention, and boost willingness to pay.

2.1.2 Functional Innovation Drives

In terms of feature innovation, NetEase Cloud Music has optimized its functionalities to enhance user engagement. The optimized innovations are primarily reflected in the following aspects.

Functional Innovation and User Feedback. Taking “Personal DJ” as an example, this feature officially launched in July 2023 and is officially defined as “the first AI music recommendation assistant.” Its core innovation lies in replacing traditional playlists with AI voice interaction, simulating a radio DJ to deliver personalized recommendations and commentary. This aims to achieve precise content delivery and boost user retention. User reviews on the App Store and other platforms have overwhelmingly praised the feature for being “fresh,” “fun,” and “like having a friend listen along,” demonstrating its success in enhancing engagement and user experience.

Functional Innovation and Internal Feedback. In its 2023 and 2024 financial reports, NetEase Cloud Music repeatedly emphasized that “technological innovations (such as AI) have enhanced user experience and engagement,” explicitly noting that this has boosted membership retention and increased listening duration. At the corporate strategy level, the company affirmed the contribution of AI features—including “Personal DJ”—to improving user stickiness (including user interaction).

2.2 Enhanced User Emotional Stickiness

As one of China's largest social music platforms, NetEase Cloud Music provides a channel for the public to express emotions and share perspectives, creating a space for emotional connection. Through emotional marketing, it has repeatedly sparked widespread social resonance [8]. Through user-generated content accumulation (such as music reviews) and KOL-led initiatives, NetEase Cloud Music has built a unique “emotional community.” This fosters a sense of belonging among users through shared musical tastes and community culture, resulting in stickiness that surpasses traditional copyright-driven “tool-based” platforms.

2.2.1 Fostering a Community Atmosphere

According to the NetEase Cloud Music Review Report (2022), as of the first half of 2022, nearly 300,000 comments on the platform had garnered over 100 replies, while high-quality comments with 999+ likes had accumulated into the millions. The platform's monthly active users for online music services reached 182 million, with nearly half of users viewing the comment section while listening to songs [9]. Xiyang Chen and Yifei Huang argue that at the micro level, interactions within virtual communities can provide emotional energy to individuals within the community; at the macro level, online social interactions also influence real-life interactions [10].

2.2.2 Emotional Connection Design

NetEase Cloud Music places significant emphasis on designing emotional connections within its platform, focusing on building its emotional functional modules. Features such as its intelligent music recommendation system, the “Listen Together” function, and its emphasis on high-quality comments all demonstrate the platform's attention to and prioritization of users' emotional needs. This approach enables users to feel understood by the platform, fostering a sense of dependence and belonging to it [11].

2.2.3 External Active Cooperation

In 2025, renowned creators including Peter Lo collaborated with NetEase Cloud Music in various formats as heavyweight “Music Neighbors” and “Exclusive Podcast Creators.” This marked a significant initiative by NetEase Cloud Music to strengthen its content development. Taking Peter Lo as an example, he participated in the “Music Neighbors Program” and launched the exclusive podcast series “Chatting About 18 with Peter Lo.” This aligns with NetEase Cloud Music's ongoing strategy to build a differentiated ecosystem by

investing heavily in premium audio content like podcasts and audiobooks in recent years. Bringing in KOLs (Key Opinion Leaders) like Luo Dayou, who holds godfather-like status, aims to solidify NetEase Cloud Music's reputation and goodwill among music fans. This, in turn, boosts the platform's NPS (Net Promoter Score, also known as “word-of-mouth”) and ultimately strengthens users' emotional attachment.

2.3 User Retention Advantages

Traditional platforms primarily attract users through their music copyright holdings, resulting in low user migration costs. However, NetEase Cloud Music has charted a distinct course. Its music portfolio is nothing short of expansive, encompassing not only copyrights secured through its own initiatives supporting independent artists (such as the “Stone Project” and “Cloud Ladder Project”), but also rights obtained through sublicensing agreements with music giants like Tencent Music and Xiaomi Music. Additionally, it holds copyrights acquired through partnerships with major record labels including Sony Music and HIM International [12]. Additionally, social relationship chains (such as “fan clubs”) collectively form “barriers to migration,” as users are more inclined to remain long-term due to emotional and social investments. Moreover, the copyright constraints that have long troubled NetEase Cloud Music have been skillfully mitigated through these measures. While still at a disadvantage compared to Tencent Music and others, the situation has significantly improved from before. This clever strategy of “playing to strengths and avoiding weaknesses” deserves widespread study.

2.3.1 Number of Active Users

According to NetEase Cloud Music's 2024 annual report, it continues to maintain strong user stickiness as a leading music-derived community, with its daily active users to monthly active users (DAU/MAU) ratio consistently exceeding 30% [13]. This is a commonly used metric for measuring user stickiness, indicating that a significant proportion of users open the app for about 10 days each month, which is considered a healthy level.

2.3.2 Member Retention Rate

In its 2024 annual report, NetEase Cloud Music explicitly stated that membership retention rates, listening duration, and user activity have increased year over year [13]. It clearly conveys the following message:

First, the trend is clear. Membership retention rates are on a sustained upward trajectory.

Second, the health is strong. Retention rates have improved in tandem with two key behavioral metrics—“listening duration” and “activity levels”—indicating that paid users' loyalty is built on deep engagement and genuine appreciation, which is highly healthy.

Finally, strategic outcomes. This is seen as a direct result of its focus on enhancing core user experience and member value.

2.4 User-Pay Advantages

To enhance the appeal of their products, paid music platforms must continuously refine their databases, expand the capacity and quality of digital music offerings, and cater to users' diverse and personalized needs. They should also continually improve their product supply service models, building upon the foundation of music product delivery to provide diverse interactive experiences [14]. NetEase Cloud Music's differentiation strategy elevates paid membership from “feature unlocking” to “identity affirmation” and “emotional fulfillment.” For instance, users pay to support original artists or gain exclusive community privileges—not merely for music streaming. This shift in perceived value drives significantly higher conversion rates.

2.4.1 Payment Rate

In recent years, major music platforms have gradually developed a tacit collaboration: through meticulous operations, they segment users into distinct tiers and employ a sophisticated paid conversion system to guide users from free to paid subscriptions, and from basic paid tiers to higher-tier subscriptions [15]. NetEase Cloud Music's paid user ratio serves as a key metric for assessing its core profitability. Specifically, it refers

to the proportion of paid users relative to the total number of monthly active users within a specific timeframe (typically quarterly or annually). According to available data, the most recent explicit annual figure is 21.4% as of the end of 2023 [16].

2.4.2 Paying Users

According to a report by Yicai, it is estimated that NetEase Cloud Music's paid user base will surpass 65 million in 2024, representing a 42% year-on-year increase [17]. According to the 2024 annual report, total revenue reached RMB 7.95 billion, with online music services contributing RMB 5.35 billion. Notably, subscription service revenue surged to RMB 4.45 billion. This achievement stems from NetEase Cloud Music's enhanced membership offerings and content, alongside an increase in monthly paying users for online music services [13]. The above data indicates that NetEase Cloud Music's user payment situation is quite substantial.

3. Conclusion

This study validates that NetEase Cloud Music's competitive advantage, built through its differentiated strategy of “music + social + original content,” significantly outperforms traditional copyright-driven models in user retention and paid conversion rates. By creating a composite “music + social” niche through “playlist UGC + high-quality music reviews + social scenarios,” and building a differentiated content ecosystem via initiatives like the “Stone Project” to support original musicians, NetEase Cloud Music has successfully enhanced user engagement, emotional attachment, and long-term retention. This approach also yields advantages in paid conversion, strengthening the platform's bargaining power and user loyalty. This strategic model offers new insights and reference points for the development of online music platforms. In a market environment characterized by intense competition for mainstream copyright resources, platforms can achieve differentiated competition and enhance their core competitiveness by building unique ecological niches and content ecosystems. Moving forward, NetEase Cloud Music should continue to deepen its strategic layout of “music + social + original content,” continuously innovating and optimizing the user experience to maintain its leading position in the online music market.

This study systematically elucidates how NetEase Cloud Music engaged in niche competition, achieved latecomer success through differentiated development, and ultimately expanded its market presence, confirming the critical importance of differentiation. Differentiated development represents a vital survival strategy for enterprises. It is sincerely hoped that this paper may guide the development of Chinese enterprises, encouraging them to persist in innovation and continuous growth, thereby contributing to market prosperity and China's macroeconomic expansion. Furthermore, it is anticipated that the government will provide supportive economic policies.

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