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# The Future of Music & Media

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## About me

- 4 Basel, Switzerland (18 years in the U.S.)
- 4 Musician & Producer (Berklee College of Music / Boston, 1987)
- 4 Music Business Entrepreneur: LicenseMusic.com, MusicMind.net
- 4 Founder and former CEO of LicenseMusic.com (San Francisco, USA, 1997-2002), Online Licensing for Film, TV, Advertising, Games...
- 4 Lecturer and Speaker: 'Music Futurist': [www.thefutureof.net](http://www.thefutureof.net)  
[www.musicfuturist.com](http://www.musicfuturist.com) (soon)
- 4 Co-author of the book 'The Future of Music' (early 2004)
- 4 *"I cannot teach anybody anything, I can only make them think."* Socrates

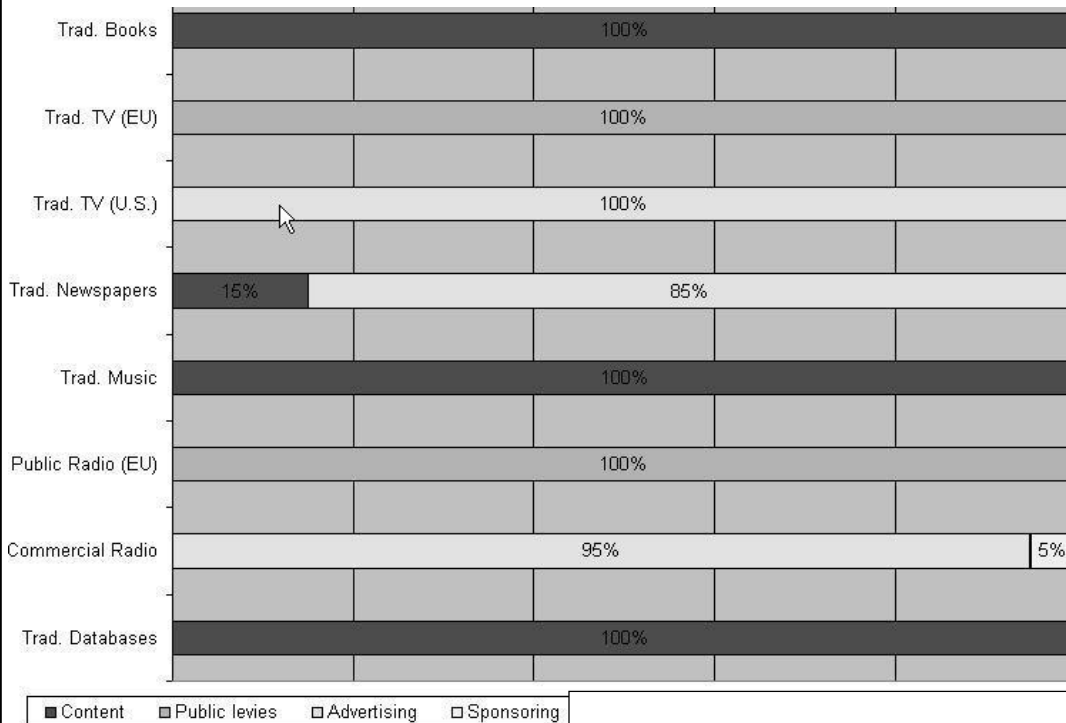
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# Context: phases in society & phases in media



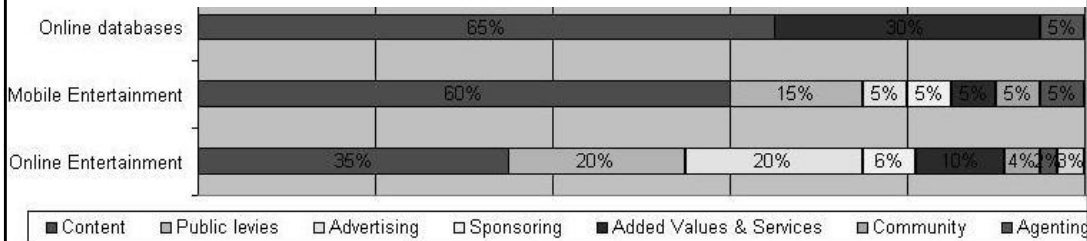
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## Revenue Models in Media / Content: the way it used to be



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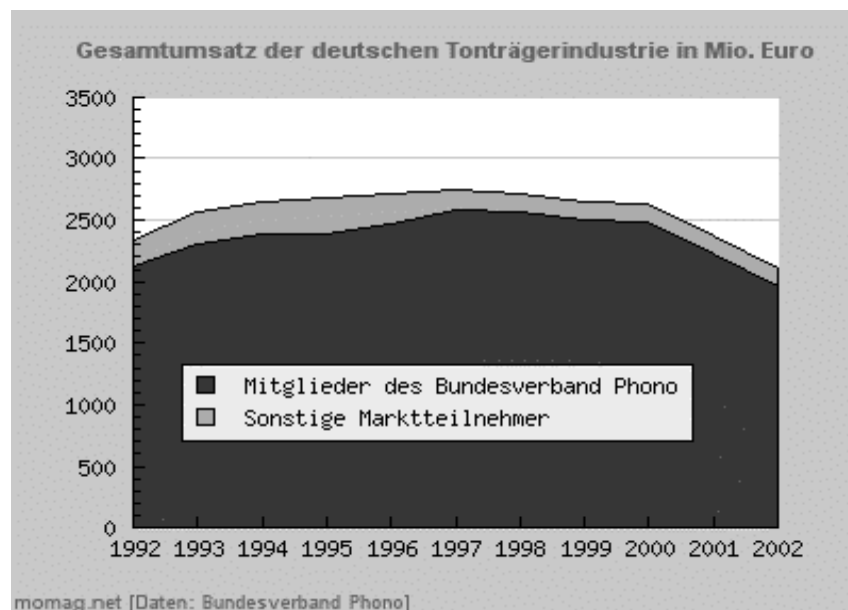
## Revenue Models for Media / Content on the digital networks (example)



- [ Content on its own will bring in a lesser % of the total revenue (... of a larger pie, though!)
- [ Public levies will likely be introduced for networks that deliver content (along with compulsory licensing schemes)
  - [ Added value services will increase in importance
  - [ Community features will be crucial to retain customers
- [ Smart agenting and recommendation features will deal with 'media and information overload' issues

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## Example: decreasing CD sales in Germany



Check out [www.momag.net](http://www.momag.net)

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Yes, *CD sales* are dropping fast, but **MUSIC** is more popular than ever before, and used in more products than ever before...

- Sales for music-generated licensed properties topped \$1.5 Billion in 2002 (Source: Billboard, 2003)
- Between 1996 and 2000, broadcast-related revenues grew at an average of 11% (Source: NMPA, 2002)
- Internet radio now has over 100 million listeners (Source: Reuters, 2003)
- U.S. Satellite radio subscribers growing at over 40% - currently at over 1,000,000 (Source: XM and Sirius, 2003)

Ø **The RECORD industry is suffering, but the MUSIC BUSINESS is booming!** \* "It's not all file-sharing," said Andy Gershon, the president of V2 Records, home to the recording artists Moby and the White Stripes. "I do think that right now, the business is sick but music is great"

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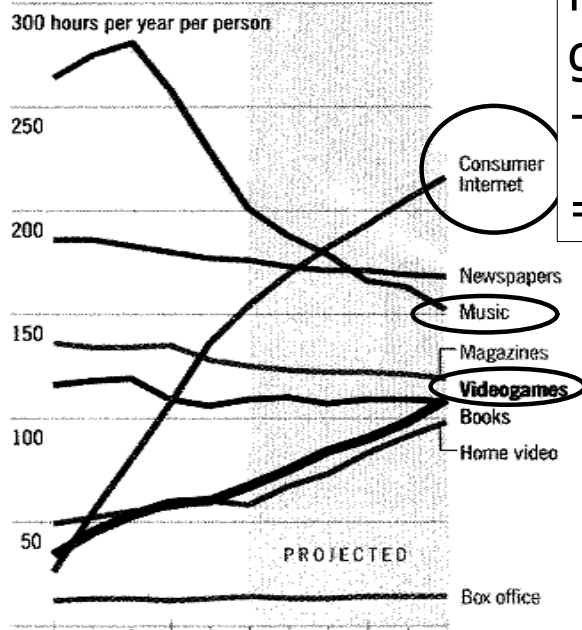
The top 3 REAL reasons why CD sales have dropped:

- The CD replacement cycle is finally over (exaggerated expectations and bloated marketing schemes from 'the fat years')
- Stiff competition by other entertainment, media and communication offerings (cell phone, games, video, Internet, DVD, movies, concerts...)
- The price of music is too high - *if compared* to these other offerings



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*Videogames aren't just eating into entertainment dollars; they're taking up increasingly more of the time Americans once spent listening to music or at the movies.*



A trend?

More video, more games, more 'net, + cell phone

= less music?

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## The competition (2002: U.S. / Europe)

DVD Sales + 75%

Sales of Video Games + 7%

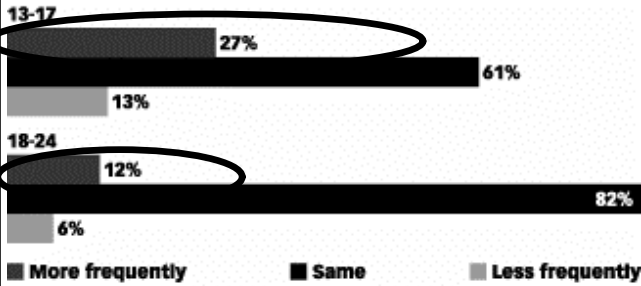
Movie Attendance + 6%

Internet Use Estimated: +118%/yr

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## Downloading: Polarized consumers. But overall, MORE INTEREST!

### Impact of Movie Downloads on Movie Attendance among Youth in the US, 2003 (as a % of respondents)

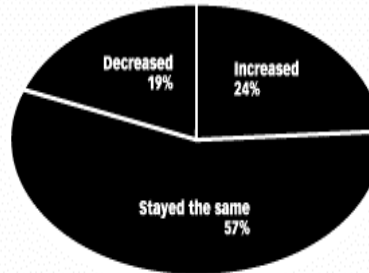


Source: Yankee Group, June 2003

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### Effects of Downloading Music Off the Internet on US Downloaders' Compact Disk Purchases, 2002 (as a % of respondents\*)



Note: \*n=834

Source: Ipsos-Reid, February 2002

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## The Internet Generation

### Entertainment Medium US Kids Would Choose If They Could Only Have One, 2002 (as a % of respondents)

	Children 8-17	Boys 8-17	Girls 8-17
Internet	33%	38%	28%
Television	26%	34%	17%
Telephone	21%	12%	31%
Radio	15%	12%	17%

Source: Knowledge Networks/Statistical Research, April 2002

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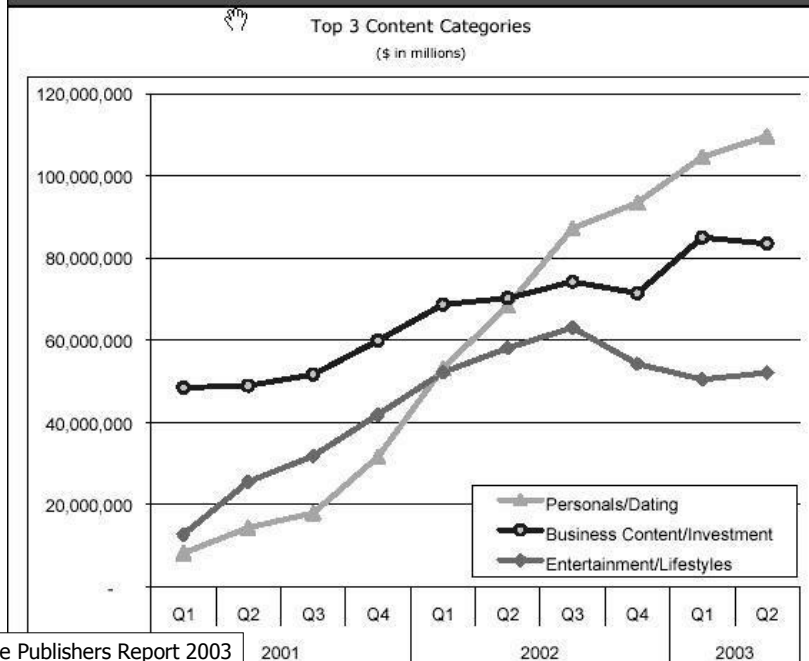
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**Today, digital networks are simply a part of the lifestyle!**

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## A crucial trend: more 'willingness to pay' for content online

**Figure 5: Online Content Spending by Category of Content**



Source: Online Publishers Report 2003

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## The 'endless loop': content needs connectivity needs content needs...

### Top 10 Countries Worldwide Ranked by DSL Subscribers, as of 31 March 2003

1. Japan	7,023,000
2. US	6,990,300
3. South Korea	6,705,200
4. Germany	3,640,000
5. China	2,900,000
6. Taiwan	2,170,000
7. France	1,778,600
8. Canada	1,738,200
9. Italy	1,156,000
10. Spain	1,142,000

Source: Point-Topic, June 2003

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Within 24 months, expect a major breakthrough in this 'chicken and the egg' problem, and watch both segment take off exponentially

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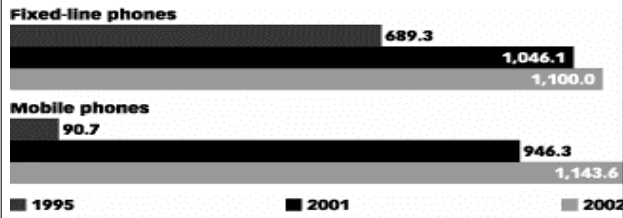
## Mobile music will be the counterpart to Online Music

Alex Slawsby (an analyst in IDC's Mobile Devices program):

**The number of mobile phone users will approach 1.4 billion worldwide in 2004**

- 4 Already more cell phones than landlines!
- 4 Wireless networks are 'build for business', from the start (unlike the Net)
- 4 The cell phone is morphing into the central *mobile* entertainment device
- 4 Wireless carriers *need* 'content' to prosper
- 4 People actually pay – today!

**Fixed-Line vs. Mobile Phone Subscribers Worldwide, 1995, 2001 & 2002 (in millions)**



Source: International Telecommunication Union (ITU), 2002 & 2003

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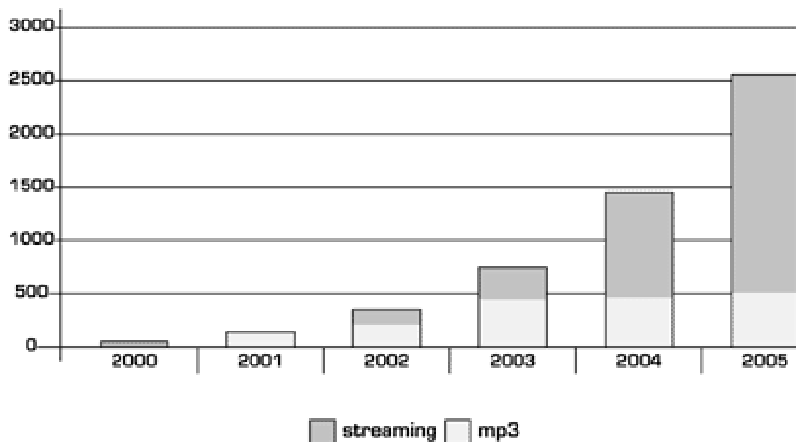
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## Streaming instead of downloading – Access replaces ownership?!

**World Broadband Music Internet Revenues \$2.5bn 2005**



<http://www.theinquirer.net/?article=9380>

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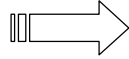


## The transformation of the music (and 'content?') industries

Past & Present

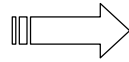
Present & Future

Rights sold



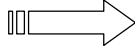
Rights leased

Record deals



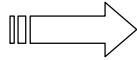
Agency deals

'Nobody will know'



'Now, the future will find you out'

Work for hire



*Hired to work*

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## Music Megatrends: more money, less hassles

General trend to "*Content Like Water*" (Music is first)

Forget the 'Internet' – think '**Digital Content Networks**':

Net, Cell, WiFi, Digital TV, IM, P2P, E-Home...

Collaborating, sharing, and getting recommendations is essential (once again)

The future of music is mobile and wireless

Peer2Peer (P2P) is the new radio

Pricing schemes switch from 'fixed' to 'liquid'

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## So what IS Content as a service ? - the 'water' paradigm

- 4 Basic service for very little cash – everyone can afford it
- 4 Many ways to upsell – cross-sell... (tap water vs Pellegrino)
- 4 Few restrictions on usage (but still monitored)
- 4 Fair use doctrine prevails
- 4 It flows where it wants to
- 4 Total ubiquity
- 4 Easy and integrated billing



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## ...and the revenue pyramid is flipping

- 4 Synchronization (i.e. the audio-visual use of music) explodes
- 4 Performing royalties explode
- 4 Publishing income is expanding
- 4 Music will be *everywhere*

### Rich Media Ads as a Percent of Total Online Ads Worldwide, Q1 2002-Q4 2002



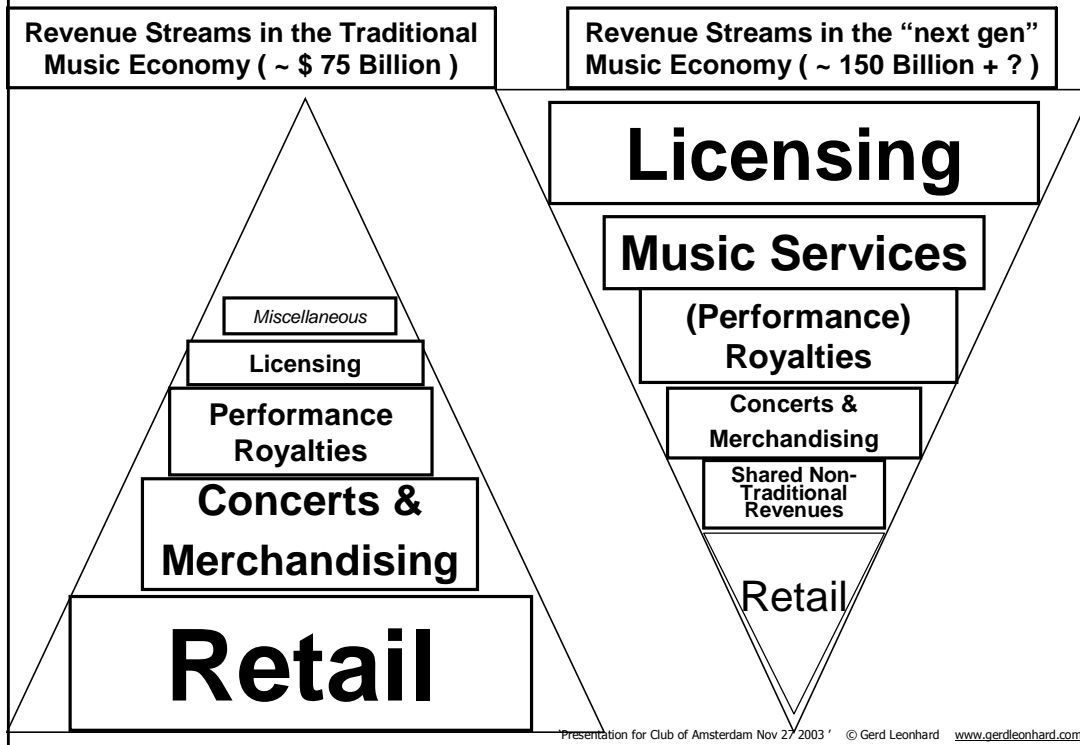
Note: results based on 630 billion ads generated by DoubleClick clients  
Source: DoubleClick, January 2003

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## Revenue Streams: today and tomorrow



## About the PRICING of content in a digital world

### The future of Digital Music (and other digital media?)

- 4 \$: **'No-choice' payments** – levies, compulsories
- 4 \$: **'Little choice' payments:** flat fees, bundles, subscriptions
- 4 \$: **Choice payments:** voluntary contributions, memberships...
- 4 Revenue will flow from many areas apart from direct cash for content: the mantra is UP-SELL, CROSS-SELL, RE-SELL...
- 4 The pie will be 2-3 x as large!

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## How about retail?

- No more 'records' - no more record stores.  
Instead: MUSIC stores: music and everything around it: digital download stations, custom CD / DVD stations, select fixed media products, music devices, music software, music agents, tickets, books, magazines, merchandising, advise and PEOPLE
- **Lifestyle Zones:** retail locations will likely focus on specific niches, and supply everything within that domain
- It's about SERVICE and TRUST, and everyone enjoys **real contact with real people**
- Retail will flourish, once again, if new concepts can be realized quickly

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## Crucial factors in Online content distribution

- 4 Shareability (powers viral velocity!)
- 4 Portability and no-frills Compatibility (hard- and software)
- 4 Recommendation, Filtering and Collaboration Engines
- 4 Easy and flexible payment modes
- 4 A 'Killer' price-to-value ratio is required
- 4 The customer must rule, no buts and ifs
- 4 Viral marketing is essential to economic success

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