

As music products become music services, access replaces ownership, and the customer drives the business – will it all mean a bigger pie for everyone?

By Gerd Leonhard

The music industry is in a very exciting if somewhat stressful transition phase – and one through which the other so-called ‘content industries’ (film, television and publishing) will also have to pass. Seven years after the first digital music ‘revolution’ and the subsequent burst of the .com bubble, the ‘creatives’ (musicians, producers, writers, composers...) are finally starting to get a glimpse of what a ‘second generation music business’ may ultimately have in store for them: less hassle and more cash.

At the same time, forced by the incessant decline in CD sales, the industry’s leaders are finally starting to follow where the consumer has been leading all along the inevitable transition from content as a service, rather than a product. The winners: the creatives, and you and me - the ‘users’ (formerly known as consumers). An interesting side-effect: an industry that was once (in)famous for its ‘top-down’ style learns how to embrace a ‘bottom-up’ paradigm.

Digital technologies - though still cumbersome and not quite user-friendly enough - have become an unobtrusive and omnipresent part of our lives. The way that the entertainment, media and ‘content’ industries must conduct their business has therefore changed forever. The digital tide cannot be reversed; digital technologies have simply become part of our lifestyle. Our habits have changed, and our own inventions are starting to challenge our old assumptions. A lot of changes are coming, bringing with them much uncertainty, but also an ocean of opportunities.

In 2004, we will see a second, more mature coming of digital media ventures, and thankfully, “the rising tide will float all boats”. Savvy independent players will have a major role on this new digital music era, simply because they can be more agile, often have a much shorter decision-making process, and can more quickly embrace change.

Ready for serious business

The music business has made the transition from wax records to vinyl, from the Walkman to the CD and the DVD, in a very short time, and has only recently arrived at the broad acceptance of ‘disembodied’ digital downloading. Broadband Internet is quickly becoming the standard, and as greater connectivity heightens the

desire for more content (and vice versa!) we are now finally ready for some serious business. We already have more wireless phones than landlines, worldwide, and it seems very likely indeed that mobile music will become bigger, in an even shorter time, than ‘online music’ has ever been. All of this is a boon for the consumer, promising more value, less restrictions, total transparency, endless choices, and lower prices.

From service to product and back again

Interestingly music has already been transformed from a service to a product, and back to a service: from the pre-electricity era of the agricultural society to the industrial society (the gramophone and the CD) to the information society, and digital music. Before there were any music ‘products’ that could be purchased just like a box of soap or a can of beans, music was controlled ‘by foot’, i.e. the artists had to be physically present to perform, and equally the listener had to be present at the place and time of the performance. Music was simply a service (as it still is in many developing countries) and artists enjoyed great influence and appreciation. The productizing and, to use one of those good old Silicon Valley buzzwords, monetizing of music brought us the music industry, the few and seemingly almighty gate keepers, the arduous and self-serving legal frameworks, and the often criticized ‘content oligopolies’ that many cutting-edge music fans and Peer-to-Peer file-sharers loath so vehemently.

Those special moments

Just above the horizon is the ‘experience society’ in which not just the steady and abundant flow of information, data, communication and ‘content’ reigns supreme, but also the actual entertainment experience of each individual. Remember that ‘special moment’ when you first heard a song that would stay with you for the rest of your life, what it felt like, and all the things that it stood for? These experiences will become the music industry’s most valuable assets and purveying those ‘special moments’ for people is a lot easier in an interactive, customizable format than with a static media product - the tremendous power of digital media is all in those ‘special moments’.

The "New" Way and the "Old" Way in the Music Business

"Back Then"

Seller Controls	<> Buyer Controls
Music is a Product	<> Content is a Service
Selling ownership	<> Renting access
Control all distribution	<> Facilitate trading
Territorial rights	<> Global businesses
Split services	<> One-stop service
Trad. Sales Channels	<> New revenue streams
Limiting availability	<> Ubiquity

"Today-Tomorrow"

Read-only, pre-configured, physical > Digital & customizable

So, let's take a look at what 'the Future of Music' holds in store for us – the fan & user, the artist, and the industry professionals.

Forget the Internet – think digital content networks. It's no longer about 'Online' or 'Offline', and it's certainly no longer about the Internet. The Net is no longer a big deal in its own right, just like having a cell phone is no longer worth mentioning, just like having a fax machine does not make you a 'fax-business'. New technologies that utilize the Internet (and almost all of them do, one way or the other) are now being seen as regular work tools. This happened in the travel industry and in banking, and it is happening in the music business. A message to all those 'fat-years' digital music pioneers that have been hunkering down for the past two to three years: you weren't wrong – you were just way too early!

Technology has always created larger, more vibrant markets and the consumer has always benefited from it. Already, the Internet is merely one step in the digital food chain, just one pipeline for the stream of zeros and ones. Very soon, we will find mobile phone networks, WiFi, Bluetooth, E-Home networks, satellite radio and the good-old 'Net seamlessly inter-connected, giving us access to massive depositories of data and audio-visual content. This is the ultimate challenge for the music business – the days of the lauded 'Internet Music Revolution' were just a mere testing ground, like the first baby kicks during pregnancy.

Getting digital attention

Tomorrow's music companies (yes, let's forget about record companies) must figure out how they will get their tracks into any and all of these channels, and just how exactly they will get the user to pay attention to their artists rather than the latest Grand Theft Auto videogame, a hot Terminator-37 preview, the latest streaming footage from the Paris-Dakar rally, or some breaking news from the stock-market. The question is not IF the industry needs to make their catalogues available, nor how much a track should

cost, but just HOW the world's consumers will find them, and how artists and their modern-day representatives can get the attention of that perfectly-matched customer. Once this all-important attention is secured, the way into the wallet is cleared. This leads us to the next point.

Exposure and discovery always leads to revenues.

Exposure and discovery are the main milestones on the digital highway of the future: if an artist can get exposure, then 90% of the battle is won. After all, the Net (and any other digital network) may be seen as a giant funnel for data and information. And what is its purpose if not to bring exposure to that 'information'? The issue is not how much the 'user' should pay before he gets to discover an artist but how much it will cost the music company to effect that exposure in the first place.

Money talks

Simply put, once pretty much all music is available on the digital networks (and that development is 100% certain) multiple value-and-payment models will doubtlessly become available to fit an individual user's needs, whether it be an a-la-carte deal, a custom-made, on-demand product, streams, samples, or bulk deals. Simply because there will be truckloads of new money on the table, these issues will be solved across the industries – with the new money being used to break the log-jam. This development will inadvertently be catalysed by the presence of even more powerful P2P content networks, which will soon be available to pretty much any computer user in any territory, regardless of the recent RIAA witch hunts. At that point the question will simply be if the industry takes the new money that is on the table, and gets on with it, or whether it foregoes the opportunity in order to spend yet more money fighting the 'digital villains' that rocked their boat on behalf of the consumer.

The war on filesharing

Like the 'war on drugs', the 'war on downloaders' is only skimming the obvious and most blatant (but not smartest) offenders off the top, while the savvy (and important) ones take refuge in the twilights zones of society, in this case, in private, member-only 'darknets'. The recent criminalization tactics have brought us no reprieve.

The old Peter Tosh song 'Legalize it' would actually make a good strategy mantra for the recording industry! Imagine the enormous power of exposure and discovery that legal, well-run Peer-to-Peer services could summon. Marketing costs would shrink to a mere increment of what they are today, niche markets could explode, the consumer would feel

empowered and would return the favour- in the form of more money.

The end of sacrifices

The music industry has had the amazing luxury of earning tens of billions of euros every year despite the fact that consumers have had to constantly sacrifice their own needs and desires - simply to get anything from the industry at all. To name a few of those 'quietly accepted sacrifices': the impossibility of getting only a certain track by your favourite artist, without having to buy the entire album; the impossibility to get any product from lesser-known artists if you do not live in the territory it is being distributed in; and the impossibility to get a copy of any recording that is out of print.

Until the 'Net came along, music consumers were forced to sacrifice their needs simply to get anything from the industry. But digital networks are putting a quick end to many customer sacrifices, in just about every industry. Often the entrepreneurs that spot the unnecessary sacrifices are the ones that can exploit this opportunity better than the incumbents, who usually rely on those tacit sacrifices in the first place.

While much of this is already apparent today, tomorrow it will be the norm. Any information about any artist and their work will be available instantly, while downloads and streams become accessible anywhere and anytime. One need only look at the popularity of Ebay, Etrade, Amazon, Mapquest, Google, Expedia and Easyjet to realise how much of a boon this new approach will be for us - the users and consumers.

This trend is becoming so all-encompassing that, in the music business, we will see even more consumers refusing to accept the old limitations, and no longer sacrificing their needs on the altar of ancient industry rules and traditions. A huge change but also a huge opportunity awaits - witness the tremendous success of companies like EBay, build entirely on customer empowerment rather than sacrifice. Music Ebay, anyone?

Music like water

The digitization of music has released music from its product shackles. It may already move freely from an artist to the desktop of a manager or agent to the editing suite of a film production company, but once this flow is truly organized and much more user-friendly, watch the use of music go up another notch. Until just recently, it was virtually impossible to get a quick and affordable deal for a license to use a song for a flash video on your homepage, now there are a myriad of companies offering that service, among them the latest professional offering by Apple. When the gates are finally wide open, and channelling liquidity is the official mantra, music will become truly ubiquitous, and revenues will start to flow from previously little-known sources.

Music Like Water ?

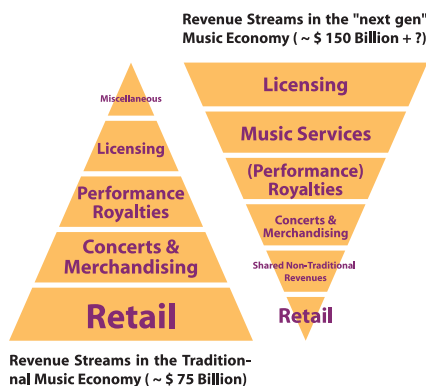
- > Basic service for very little cash - everyone can afford it
- > Many ways to upsell - cross-sell... (tab water vs Pellegrino)
- > Few restrictions on usage (but still monitored)
- > Fair use doctrine prevails
- > Total ubiquity
- > Easy and integrated billing

Photos

Music will be everywhere, and music will be contained in just about everything that used to be 'images - only', from online advertising to interactive slideshows to automobile software to digital photography and personal rich media projects. So audio-visual use of music will soar and Business-to-Business licensing income will become a major cash cow.

The entire revenue pyramid will gradually flip: instead of 90% of the cash being earned by selling products (CDs) to consumers, as much as 50% of the revenues may ultimately stem from content licensing deals for digital content networks, whether Business-to-Business or Business-to-Consumer.

Revenue Streams : today and tomorrow



New pricing schemes

Today's pricing schemes will be made obsolete by the deep habit changes within the music world, and the ever-increasing competition from other entertainment products. People that have figured out how to get music 'like water' from the seemingly bottomless digital wells - legal or not - will unlikely be persuaded

to continue paying for the 'Evian' that is the CD. The current pricing will be replaced by a very potent 'liquid' pricing system that incorporates subscriptions, bundles of various media types, multi-access deals, and added-value services. And yes, it will uphold the fair use provisions that the customer is used to, such as the right to share, and the right to resell. After all, it has proven to be impossible to make significant technological leaps, and yet take backward steps as far as user rights are concerned.

We will likely see additional 'no-choice payment' schemes, i.e. relatively small payments that all consumers must make in order to get some basic service. This can be compared to the fees for public television and radio that most European residents already pay every year. Similar levies, taxes or bundled-in fees are likely to be established for basic content services that will be available on digital networks, such as for wireless carriers, WiFi providers, and ISPs that may yet end up paying a flat fee for some basic content services for their customers (see the UK's PlayLouder MSP), with the understanding that they are likely to be very incremental and thus not an obvious burden to the individual user. Imagine if all of the 1.4 billion cell phone users around the world would pay only 1 euro each, per month, to get access to a basic music service – this would already amount to half the value of annual worldwide CD sales. Not realistic today perhaps, but very likely tomorrow.

Beyond this, we will have 'little choice payments', where the consumer can choose from a variety of good-value deals but cannot alter or customize them; and 'choice payments' such as premium subscriptions, memberships, donations and pay-per-view offerings.

All in all, once the pricing models have changed and music can flow freely, we may see up to 80% of the population in the leading markets revert to active music consumers. Compare this with the today's average 10-15 percent that actually buys music, on physical media, and you can sense the potential of this fundamental shift.

Radio must be personal

Terrestrial radio as we know it will become largely irrelevant because people will have access to carefully programmed and custom-catalogued music anywhere anytime – digital music in its perfection is as good as the best radio ever was. Therefore, radio will have to compete head-to-head with digital music services that deliver music via satellite or via wireless networks, just as terrestrial television broadcasters are competing against pay-per-view services and digital TV providers. One powerful attraction which will remain in radio's favour is the 'people component'. If radio is to survive it must embrace digital technologies, but retain the personal approach to presenting music and news, while adapting to the certain role of being just one of the options for people that are 'on the road'.

Access will replace ownership

In three to five years, consumers will have access to 'their' music anytime anywhere and the physical possession of it will in fact be more of a handicap, or a pastime for collectors. Music will feel (and act) like water, and music providers will become utilities.

Mobile multi-access

Multi-access to music will be the default setting, allowing consumers to 'fill-up' their music devices at gas stations, train stations and in coffee shops, using wireless as well as fixed-media applications. Mobile phones as we know them today will be replaced by much more powerful 'mobile communication and entertainment solutions' that network seamlessly. Mobile music players will connect to digital music services using GPRS, UMTS, Bluetooth, and WiFi connections, and will be able to stream or download music content, in addition to serving as mobile phones, PDAs, mobile gaming stations, 'social software' and interactive networking platforms such as match.com, Friendster or LinkedIn. Mobile music systems will support interactivity between users such as playlist sharing and collaborative filtering, and storage power will be virtually unlimited, with devices sporting up to 1 terabyte of storage within the next 5 years. Flat-fee access deals, cheap international roaming and 'content & connectivity' bundles will make mobile music offers virtually irresistible. Tie that in with new, web-based music offerings and you have the model for the future – Music Like Water.

Cell phones and other wireless devices will utilize and suck up more content than any other small consumer device. Polyphonic ring-tone offerings, Multi-Media SMS (MMS), java-based games, wireless streaming of audio and video, I-Mode type applications (such as location-based multi-player gaming) and other cell-phone based offerings will proliferate, at first in Europe and Asia, followed by the U.S. What else can the wireless carriers sell to their existing customers? Calls will always get cheaper while content services will always use more and more data.

The real thing is even more real

'Making music' is taking on a new meaning. For quite some time now, people have been creating new music by using hard- and software tools that allow them to freely use existing snippets of music and create entirely new versions. This 'cut & paste' culture will surge, and eventually a lot of music will no longer be defined by melody and / or harmony, but by the overall aural 'image' or 'print' that is being created. At the same time, more people will be encouraged to learn 'real' instruments precisely because they have experimented with software and hardware tools that have captivated their interest. Virtual experiences always want to be completed in 'real-life' scenarios – as we can see in the concert

business, which has not suffered from any loss of revenues during the past few years, as opposed to CD retailers. People will always want 'the real thing'!

Hired to work, not work for hire

Work-for-hire turns into 'hired to work' as the tables turn on the music industry oligopoly. While in 'the old days', artists sold their rights to the record companies, and in the U.S. their performances and recordings were often deemed 'work for hire', the next generation of up-and-coming artists will hire their managers and agents to do the work for them. What a seismic shift, and what great opportunity for smart entrepreneurs who know how to address these markets: artist marketing services, agenting and recommendation technologies, business networking tools, small enterprise solutions and agile application service providers.

Think 'Service' – a future-manual for music companies

Are you in the music business? Here now are some simple guidelines to sink your teeth in:

Use technology to re-ignite your music business.

Technology has always driven the music business, and it will drive it this time too. Think back to the birth of amplification, the advent of radio, the invention of the player-piano, the gramophone, the Walkman, the CD... Every time a significant step was made in a technology which impacted the music business, legal struggles ensued and lawyers had their field days. Ultimately though every customer-approved technology was adopted, everyone moved on to exploit it, and the market became bigger and bigger and bigger. The music publishers sued the piano roll manufacturers, music companies sued radio, the TV companies sued the cable operators, the film companies sued the VCR manufacturers, and now the RIAA sues people that contribute to the file sharing networks – despite the current uproar, this seems to be just part of the 'natural' chain of events, always with the same result: if technology makes a real difference to a vast number of people it will always prevail, regardless of the hurdles erected and the objections of the 'powers-that-be'.

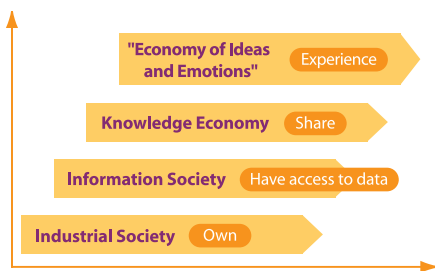
So, stand back, take a deep breath, and allow the 'Deep Music Web' to be created, and that ominous Celestial Jukebox to be built. Put your entire catalogues and all related information online (no, that does not mean giving it all away for free!), both for internal and for external purposes. In the future, 'content' assets will only be truly meaningful if they are available as 1s and 0s.

Look for 'feels like free' distribution models that get some exposure for your content, because exposure

will inevitably bring you revenues. Pursue some secure means of delivery (such as for industry-internal purposes), but in general focus on viral dissemination and on reaching the highest possible rate of exposure. Liquidity is the name of the game!

This includes providing streaming previews, downloadable files, correct meta-tags and detailed content information, history of uses, music-specific data such as genre, mood, lyrics etc, restrictions, permissions – everything. Tedious, yes, but without correct and up-to-date data you will have no business in a digital content world.

Context: phases in society & phases in media



Photos

Transparency wins

Do all your business online. Start by powering A&R with digital tools (and by that I don't mean creating musical landfills like MP3.com), move to using online contract and royalty administration tools, integrate online payment systems for licensees and licensors, create online interfaces for your business partners (such as other record labels, publishers, film and TV companies, ad agencies etc), offer deep information archives for media and marketing purposes, put online syndication tools to good use, apply instant messaging and wireless communication technologies to speed up internal communication, and so on. Yes, these may be expensive investments but they will save you up to 50% of your staff, administration, marketing and accounting budgets, in the long run. And transparency is the name of the game, today and in the future - the more transparent your business activities will be, the more loyal your customers and business partners will be.

Lower the prices and unplug the pirates

Drastically lower the prices for music products and you will see 'piracy' disappear quickly because it cannot compete any longer. How could you make

a profit on a lower sales price? For starters, let's try this math: reduce your costs by 25%, sell the product for 30% less, cut in the artist for 25%-40%, but also get 95% of your catalogue exposed to the perfect target groups, save 50% on your marketing budgets, and take advantage of a much larger market altogether, because now people will be paying attention to music again.

Let's look at new ways to release music. Why is it that every new product must be released on CD, and join the other 3,500 new releases per month in the battle of shelf space and media attention? And why is it, in the age of almost limitless data storage power, that almost 90% of all catalogues is no longer available to anyone? How about reviving the singles format, but in a digital form (releasing new singles on the web, as well as on bundled media products), packaging new tracks into games, phone subscriptions and ad campaigns... and how about providing complete back catalogue series on new audio sound carriers? Abort the old way of thinking 'product' – think SERVICE.

Up-sell, cross-sell and re-sell

Let's unchain the music we already have. Allow your back-catalogue to emerge from obscurity by placing it into the digital networks, under the lowest possible set of rules that you can get away with. This means a solid 'yes' to free music services, feels-like-free online radio and even free media products – make it free if it has to be, and charge for it when, where and how you can. The new game here is UP-SELL (i.e. sell more and more stuff to your ever-loyal customers) CROSS-SELL (i.e. sell more stuff to someone else's loyal customers that were referred to you), and RE-SELL (i.e. sell the same stuff in a different package or bundle) – already common practice in the software world.

Huge back catalogues remain unused, unappreciated, untouched, not generating revenues. How about custom DVDs of entire genre collections and back catalogues, interactive online radio stations featuring back catalogue, and P2P back catalogue subscription services? \$19.99 for 500 MP3s of classic Americana – I'd buy it! Put your back-catalogues back into the food chain and watch the money flow in.

License compulsively

Preclude the formulation of compulsory licensing laws by compulsively licensing to everyone that knocks on your doorsteps. Establish some basic, simple, affordable, transparent yet industry-wide standards that can be met by just about everyone, and let it flow. Stop using the size and weight of your catalogues as leverage to get a better deal than the next content provider, stop pushing for high advances, 'favored nations' and other corporate favors, and you'll see compulsory licensing initiatives evaporate (incidentally, so will piracy!). Here, again, transparency will win the day.

Niches are golden

Look at the high-yield niche markets that are now, finally, reachable, using digital technologies. Promote and pursue diversity, not one-artist-fits-all. Take the emphasis off the good old 'three artists selling 15 Million tracks each' – model, and look at the idea of 100 artists selling 250,000 tracks each. How about custom CDs and DVDs for niche-music markets, dedicated online (and cable) radio services, customizable music subscriptions?

The bottom line So what does the future have in store for us?

The future of music is rooted in giving the consumer what (s)he wants, in utter transparency and sincere collaboration, and with a deep understanding of the need to provide services that are user-friendly and accessible everywhere.

For music fans, consumers and 'users', the future is bright, no ifs and buts. We will finally get the choices we want, at the price we want, when and where we want – and our needs will drive the business.

For the creatives, artists and writers, the immediate future will bring some minor headaches due to the uncertainty and insecurity that will remain for the next two to three years. But once the transition to 'digital music' is in full swing, the creatives will have easier access to their exact target markets, more transparency in business matters, more avenues of exploitation, and a bigger pie with larger pieces. Endure the transition phase and they will enjoy some new windfalls.

For the industry, we will witness a complete change of the guard during the next three years, with a new boom in digital music soon set to compensate for the recent misery caused by the slump in CD sales. The roles and rules will change drastically however. Few of the revered traditions will stay intact, and many of the existing players won't enjoy it anymore. Still, if you can adapt to the new business models, the future will be exciting as well as financially rewarding.

"The future is already here – it's just unevenly distributed." (William Gibson)

Glossary

RIAA: Recording Industry of America. The leading U.S. record industry lobbying group, and leader in the fight against filesharing and music piracy. In Europe, the equivalent is the IFPI (International Federation of Phonographic Industries).

WiFi: The popular name for 802.11b wireless networking, a standard which replaces the cables in an ethernet network. Since the adoption of wireless LAN cards in many notebook PCs, and the fast penetration of WiFi 'Hotspots' in many public places, WiFi is quickly becoming the preferred way for many travelling professionals who want to connect to the Internet.

Liquidity: the name for the uninhibited flow of information between two parties. If a market is 'liquid' it means that communication is taking place, and the members of the marketplace are actively involved, and business is fully enabled.

Celestial Jukebox: that original dream of digital music fans: a 'jukebox in the sky' that contains every song ever recorded, and that can be tapped into as easily as a jukebox in bar.

A&R: Artist and repertoire. The department of a record company that deals with finding and selecting new artists, and handles the relations between the artists and the record company.

Peer-to-Peer / P2P: the technological principle behind file-sharing networks such as Kazaa or Morpheus. Rather than drawing media files from a central server, P2P users open up their hard-drives to each other and allow other users access to the media contained on their own machines, in effect 'trading' music files via a decentralized network of millions of equal users.

Gerd Leonhard presents the introductory panel of the "m4music"-conference on Friday, April 2nd. The motto of the panel is "The Future of the Music Industry: Black Whole or SuperNova? ".

Gerd Leonhard (42) is a MusicFuturist and lives in Basel (CH). He is the co-author of the upcoming book 'The Future of Music' (BerkleePress, Boston), an internationally recognized music business lecturer, speaker and writer, the Founder and CEO of MusicMind.net (a music industry 'business-dating' portal and online collaboration application), the President of the Digital Marketing Organization, and the Founder of the MusicEntrepreneurs Network. In addition to his MusicFuturist-activities Gerd Leonhard acts a strategic and business development adviser to many music companies in Europe, Northamerica and Asia, and helps to incubate and find funding for new ventures in the music industry. During the .com goldrush years, Gerd was the Founder,

President and CEO of LicenseMusic.com, and spend seven tumultuous years in San Francisco. He is also a graduate of Boston's Berklee College of Music (guitar), where he received the acclaimed Quincy Jones Jazz Masters Award (1985).

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