MUSIC 2.0

ESSAYS BY GERD LEONHARD

CO-AUTHOR OF THE FUTURE OF MUSIC

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EDIT: David Battino, www.batmosphere.com
DESIGN & LAYOUT: Pihka Media, www.pihka.net
PRINTED AT: Hämeen Offset-Tiimi Oy,
Hämeenlinna, Finland

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INTRODUCTION

Welcome to "Music 2.0"! This book is an edited collection of my best essays on the future of the music industry, and continues the work I presented in my first book, *The Future of Music*, co-written with Dave Kusek. It further describes what I think the next generation of music companies will actually look like – hence the term Music 2.0, a description derived from the now increasingly popular "Web 2.0."

I have been writing and blogging about digital music and the next generation of the music industry for almost four years now – in airplanes, taxis, trains, busses, hotel lobbies, conference halls, and at home. In Internet time (and it certainly feels that way to me), this is almost forever!

In many ways my message and my opinions may have evolved a bit but the bottom lines and visions have not changed a whole lot. I am also excited to see that some of my predictions have indeed come true, such as the major record labels dropping DRM – my crystal ball did okay on many occasions!

Looking back at some 1,000 blog posts and over 20 essays it is evident that by far the most often covered subject is indeed what I (and many other people – I make no claim to having invented this moniker!) have come to call Music 2.0, the new principles that define the next iteration of the music business. All of this is also closely connected with a few other terms that I have co-coined and have come to be associated with: Music Like Water (MLW), the Flat Rate for Music, Feels Like Free (FLF), the Usator, Friction is Fiction, and the People Formerly Known As Consumers.

In this book, I aim to just fine-tune the best of my writings from the past four years, while not altering the content too much, in order to preserve the timeliness and context of when it was actually written. As the reader moves from 2003 to 2007, the evolution of my ideas and expressions can clearly be observed, and this should provide for a good and engaging reading experience, as well – even if jumping back and forth. The original content has therefore not been substantially altered; only grammar and spelling details have been cleaned up. All entries are presented chronologically (i.e., the oldest ones come first); the idea is just to make it a lot easier for my readers to dive into the Music 2.0 topics without having to click on and jump around hundreds of webpages and links.

That, to me, is clearly one of the benefits of printed books – if it's good, it can keep my attention all the way through, and does not give much room to distractions as much as the web does. Yet, I can skip around and still make sense of it when I am done.

I hope that you enjoy this collection of essays, and would be delighted to get your feedback via my blog at www.mediafuturist.com or via email at gleonhard@pobox.com

A final word on the Creative Commons license that I use for this book: My readers are free and certainly encouraged to re-use the content of this book, quote it, remix it, publish parts of it on blogs, etc., provided that it's for non-commercial use, and that attribution is always given.

Music 2.0 – here we go!

Gerd Leonhard
Basel, Switzerland
January 2008

CREDITS AND INFLUENCES

First, thanks to my editor, David Battino, Maria Kekäläinen (design & layout) and my business manager, Kimmo Pekari. A big Thanks also to Lynette Webb and her great Flickr photos (flickr.com/lynetter), and to the other flickr people that have generously allowed me to use their original photos (see each photo for details).

A lot of great people have influenced me over the past ten years of digital music and media explorations. Without them, and without what they have shared with me (in person or otherwise), I wouldn't be writing anything, at all. They include:

- David Bowie and his mention of my favorite tagline, "Music will be like water." I believe it was in this New York Times feature back in 2002: http://tinyurl.com/yt6gm7. (Thankfully, they have now opened up their archives so you can actually read this!)
- Jim "Pool of Money" Griffin – a great mind and good friend
- Richard Branson (and his autobiography)
- Larry Lessig and the Creative Commons people
- Don Tapscott and his books (especially Wikinomics)
- Chris Anderson and his Long Tail book
- Glen Hiemstra at Futurist.com
- John Perry Barlow (you would have guessed ;-), and the EFF
- The combined creative chaos and "wisdom of the masses" that comes via the Pho List

And then there are those people and sites on my blogroll that I read all the time:

- Chris Anderson Long Tail
- Fred Wilson: A VC in NY
- David Galbraith

- David Hornik
- David Porter
- Dennis Harsager
- Digital Lifestyles
- Doc Searls
- Eliot's Listening Post at Wired
- Futurist.com
- Guy Kawasaki
- JD Lassica
- Jeff Jarvis Buzz Machine
- Jeremy Silver
- John Perry Barlow
- Joi Ito
- Larry Lessig
- Marc Schiller's Blog
- Mark Cuban Blogmaverick
- Martin Tobias
- Paid Content
- Paul Saffo
- Robert Scoble
- Scott Karp/Publishing 2.0
- Seth Godin
- Seth Goldstein's Social Media
- Techcrunch
- Techmeme
- William Patry Blog

October 2003:

EIGHT PREDICTIONS FOR THE FUTURE OF MUSIC

This is from an essay originally published for the Club of Amsterdam (and it still holds true ...amazingly enough!)

1. MUSIC LIKE WATER: Music is no longer a product but a service. Music became a product with the advent of recording (records, tapes, CDs) and the formation of an industry that quickly figured out that selling the bottle can make a lot more money than only selling the wine. For the future, think of a "record label" as a "music utility company."

2. A BIGGER PIE, BUT CHEAPER SLICES: Today's music pricing schemes will be completely eroded by digital music services (legal and, mostly, otherwise) and by stiff competition from other entertainment products. A "liquid" pricing system will emerge, involving subscriptions, bundles of various content types, multi-channel/multi-access charges, and countless added-value services. CD prices will end up at around €5–7 per unit. But most important, the overall music consumption and use will steadily increase, and – if the industry can manage the transition to a service-based model – can eventually bring in €50–90 per person per year, with 75% of the population in the leading markets as active consumers – the pie will be three times as large.

3. DIVERSE AND UBIQUITOUS: A wide range of music will be everywhere, and music will be part of everything that used to be "images only": from rich media advertising to interactive slideshows to car software to MMS and digital cameras, to advertising in magazines (!), the audiovisual use of music will soar, and the licensing revenues will explode along with it.

4. ACCESS TO MUSIC WILL REPLACE OWNERSHIP: Soon, 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 knack of collectors. Music will feel (and act) like water.

5. MULTI-POINT ACCESS TO MUSIC WILL BE THE DEFAULT ENVIRONMENT, allowing consumers to fill up their music devices at airports, train stations, and in coffee shops and bars, using all kinds of wireless connections as well as other on-demand and ad-hoc networking technologies.

6. GO DIRECT: Major artists will increasingly rely on their own "brandability" and – via their managers – go direct to the consumers, using their own in-house marketing, branding, and promotion teams.

7. THE SOFTWARE PRO: The (performing) rights organizations (PROs) as we know them will likely fade away. Complete technology solutions comprised of watermarking and fingerprinting, so-called DRM and (better) CRM components, monitoring, admin/accounting, and instant payment solutions will do the job quicker, cheaper, and, of course, with complete transparency.

8. MOBILE MANIA: Cell phones and other wireless devices will eventually utilize and suck up more "content" than any Internet service or P2P client ever has. Real-music ringtone offerings, Multi-Media SMS (MMS), Java-based games, wireless streaming audio and video, i-Mode type applications, and other cell-phone based offerings will proliferate very quickly, at first in Europe and Asia, followed by the U.S.

June 2004:

As music products become music services, access will replace ownership, and the consumers will truly drive the business – but will it all mean a bigger pie for everyone?

Originally published for the conference catalog of m4music 2004 (Zurich, Switzerland); slightly edited in November 2007.

The music industry is in a very exciting if somewhat stressful transition phase – and one that the other so-called "content industries" (film, television, publishing, etc.) will also have to master. Seven years after the first digital music "revolution" and the painful burst of the dot-com bubble, the "Creatives" (i.e., the musicians, producers, writers, composers, etc.) and their representatives are finally starting to get a glimpse of what a second-generation music business may ultimately have in store for them: going direct to the audience, less control but more ways to make money.

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: that inevitable transition to content as a service, rather than a product. The winners: the Creators, and you and me – the "users," the People Formerly Known As Consumers.

"The people formerly known as consumers" – The future of media is increasingly **user**-driven

- User Generated / Programmed Content
- User Rating / Filtering Mechanism
- Mobile back-channels
- User tagging and social search
- "Wisdom of the masses"
- Viral "word of mouse" changes marketing
- Remixing and mashing

An interesting side-effect: An industry that was once (in)famous for its "top-down" style must now learn 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 manner in which 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, tried-and-tested assumptions.

A lot of changes are coming, bringing with them much uncertainty, but also an ocean of opportunities.

In 2004, we may already 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 in this new digital music era, simply because they can be more agile, often have a much shorter decision-making process, and can quickly embrace change.

The music business has made the transition from wax records to vinyl, from the Walkman to the CD and the DVD, sometimes in a very short time, and has only recently arrived at the broad acceptance of "disembodied" digital downloading. Broadband Internet access is quickly becoming a standard, and as greater connectivity heightens the desire for more content (and vice versa!) we are now finally getting ready for some serious changes in how we do 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, fewer restrictions, total transparency, endless choices, and lower prices to boot!

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" (as my friend and fellow museratus Jim Griffin likes to say). In other words, the artists had to be physically present to perform, and equally, the listener had to be present at the same place and time of the performance. Music was simply a service (as it still is in many developing countries, which is why they will head into Music 2.0 even quicker, skipping the entire product-centric period), 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 P2P (peer-to-peer) file-sharers loath so vehemently (and for good reason).

THOSE SPECIAL MOMENTS

Now, just above the horizon looms the "experience society" in which not just the steady and abundant flow of information, data, communications, and "content" reigns supreme, but also the actual, embodied 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? Creating these experiences will become the music industry's most important value proposition; and purveying those "special moments" for people suddenly becomes a lot more tangible in an interactive, personalized multimedia format rather than with a static media product – the tremendous power of digital media is all in those "special moments."

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

FORGET THE INTERNET – THINK DIGITAL CONTENT NETWORKS

Clearly, 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 really 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 is happening in the travel industry and in banking, and it is now severely impacting the music business. A

Picture kindly provided by flickr.com/lynetter and Alexander Kurashev (flickr.com/Shmaktyc) message to all those dot-com "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 ended up benefiting from it. Already, the World Wide Web 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, Wi-Fi, Bluetooth, E-Home networks, satellite radio, and the good-old Net seamlessly interconnected, 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 kicks of a baby during pregnancy.

GETTING DIGITAL ATTENTION

Tomorrow's music companies (yes, let's forget about mere record companies) must figure out how they will get their tracks into any and all of these new digital 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 its catalogs available, nor how much a track should cost, but just how the world's consumers will even find them, and how artists and their modern-day representatives can get and retain 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.

THE FUTURE OF MUSIC:

EXPOSURE
+
DISCOVERY
+
COMMUNITY
=
REVENUE

EXPOSURE AND DISCOVERY ALWAYS LEAD TO REVENUES

Exposure and discovery are the main mileposts on the digital highway of the future: If an artist can score and retain good exposure, then 90% of the battle is won. After all, the Net (and any other digital network) is really just a giant funnel for data, information, and communication. 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 – and then, of course, how to convert it into real dollars!

Simply put, once pretty much all music ever released is available on all digital networks (and that development is 100% certain, legal or not), multiple value-and-payment models will doubtlessly become available to fit a given user's needs, whether it be an à la carte deal, a custom-made, on-demand product, streams, samples, or bulk deals.

Simply because there will be boatloads of new money on the table, these issues will be solved across the board – with the new

BECAUSE IN DIGITAL MUSIC
IT WORKS LIKE THIS:

REVENUES
↑
COMMUNITY
↑
DISCOVERY
↑
EXPOSURE

money being used to break the log-jam. This development will inadvertently be catalyzed by the presence of even more simple yet powerful P2P and torrent-style content networks, 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 accepts this new money that is on the table, and gets on with it, or whether it forgoes yet another opportunity in order to spend yet more money fighting the "digital villains" that rocked its boat on behalf of the consumer.

THE WAR ON FILESHARING

Somewhat like the "war on drugs," the "war on downloaders" is only skimming the most blatant (but not the smartest) offenders off the top, while the savvy (and therefore most important) ones take refuge in the twilight zones of society – in this case, in private, members-only "darknets."

The recent criminalization tactics by the RIAA, IFPI, and BPI have brought us no reprieve – they have just led to more disgust and rejection from the consumers, the artists, and the ISPs and CE companies.

In contrast, just imagine the enormous power of exposure and discovery that legalized and UI-optimized peer-to-peer services could conjure. Music marketing costs would shrink to a mere increment of what they are today, niche markets could explode and prosper, the consumer would feel like he's struck a goldmine, and the music would be paid-for (or better yet, the artists would actually receive the payment!).

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 and video clips, from automobile software to digital photography and personal rich-media presentations. Audiovisual use of music will soar and business-to-business licensing income will become a major cash cow.

The industry's 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 and revenue-sharing deals with digital content networks (both business-to-business and business-to-consumer).

NEW PRICING SCHEMES

Today's music pricing schemes will be made obsolete by significant habit changes across most market segments, as well as by the ever-increasing competition from other entertainment products. The hundreds of millions of people who have figured out how to get free music from those seemingly bottomless digital wells – legal or not – will unlikely be persuaded to come back into the old world of unit-based payments; rather, they must be empowered to pay for access first.

Until just a few years ago, the music industry has had the amazing windfall of earning tens of billions of euros every year despite the fact that consumers have had to constantly sacrifice their own agenda simply to get anything from the industry at all. Let me name a few of those "quietly accepted sacrifices": the impossibility of getting only a single track by your favorite artist without having to buy the entire album; the impossibility of getting 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 simply forced to sacrifice their real needs just to get anything at all from the industry: no product (CD) purchase, no music.

But digital technologies are now putting a quick end to many customer sacrifices in just about every industry. Often some entrepreneurial outsiders who spot those unnecessary sacrifices are the ones who can exploit this opportunity better than the incumbents, who usually rely on those tacit sacrifices in the first place. And 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, anytime.

One need only look at the popularity of eBay, Etrade, Amazon, Mapquest, Google, Expedia, and Easyjet to realize 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 many more consumers categorically refusing to accept the old limitations, and no longer sacrificing their needs on the altar of ancient industry rules and traditions. A huge challenge is certain but a huge opportunity awaits as well – witness the tremendous success of companies such as eBay that are built entirely on customer empowerment rather than sacrifice.

MUSIC LIKE WATER

The digitization of music has released music from its physical product shackles, forever – it has no more plastic it must stick to in order to reach the listeners. Music 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 becomes much more user-friendly, watch the use of music go up another notch. When the gates are finally opened, and Liquidity is the official mantra, music will become truly ubiquitous, and revenues will start to flow from previously unimagined (and unattainable) sources.

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) more like water, and music providers will become utilities.

Multiplatform and mobile 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 will network seamlessly. Mobile music players will connect to open digital music services using GPRS, UMTS, Bluetooth, and Wi-Fi 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, and Linkedln.

Mobile music will support all kinds of interactivity between users, such as playlist sharing and collaborative filtering, and storage power will be virtually unlimited, with devices sporting up to one terabyte of storage within the next five years.

Flat-fee access deals, cheap international roaming, and "content and 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. Everyone uses, everyone pays – but it feels like free.

Cell phones and other wireless devices will utilize and suck up more content than any other small consumer device. Polyphonic ringtone offerings, Multi-Media SMS (MMS), Java-based games, wireless streaming of audio and video, i-Mode type applications (such as location-based multiplayer gaming), and other cell-phone based offerings will proliferate, at first in Europe and Asia, and only then followed by the U.S.

What else can the wireless carriers sell to their existing customers? Calls will continue to get cheaper while content services will always use more and more data.

THE "REAL THING" BECOMES EVEN MORE CRUCIAL

"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 snag and reuse existing snippets of music and create entirely new versions. This "cut and paste" culture will surge, and eventually a lot of new 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 will always want to be completed in "real-life" scenarios – as we can see in the concert business.

PRICING

The current music pricing model 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 consumer is already used to, such as the right to share and the right to resell. After all, it has proven impossible to make significant technological leaps and yet take backward steps as far as user rights are concerned.

We will likely see additional "built-in/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 obligatory license fees for public television and radio that most European residents already pay every year. Similar levies, taxes, or bundled fees are likely to be established for basic content services that will be available on digital networks, such as for wireless carriers, Wi-Fi 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 one euro (or the local equivalent in real value) 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 to happen tomorrow.

Beyond this, we will have what I like to call "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 95% of the population in the leading markets revert to active music consumers. Compare this with the today's average 10–25% 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-cataloged 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 with pay-per-view services and digital TV providers.

A single powerful attraction that will remain in radio's favor is the "people component," though – a good presenter will always make a great difference. However, 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 who are mobile and connected. Here are some simple Music 2.0 guidelines to sink your teeth into:

1. FIRST, FOCUS ON VIRAL DISSEMINATION OF MUSIC 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.

2. 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, the more loyal your customers and business partners will be, too.

3. LOWER THE PRICES AND UNPLUG THE PIRATES. Drastically lower the prices for music products and you will see "piracy" disappear quickly because pirates cannot compete any longer. Can you make a profit on a lower sales price? Here is my math: Reduce your productions costs by 25%; sell the product for 30% less; cut in the artist for 25–40%, but most important look to get 95% of your catalog exposed to their perfect target groups, via the Internet; 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.

And now, 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, that almost 90% of all catalogs 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), and packaging new tracks into games, phone subscriptions, and ad campaigns. And how about providing complete back-catalog series on new audio sound carriers? Abort the old way of thinking "product" – think service.

4. 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 a 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.

5. 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 advent of amplification, the rise of radio, the invention of the player piano, the gramophone, the Walkman, the CD, etc. Every time a significant technology invention came along and impacted the music business, legal struggles ensued and lawyers had their field days.

Ultimately, though, once a disruptive technology was actually widely adopted by consumers, everyone moved on to exploit it, and the overall market became bigger and bigger and bigger. The music publishers sued the piano-roll manufacturers, music companies and artists sued radio broadcasters, the TV networks sued the first cable operators, the film companies sued the VCR manufacturers, and now the RIAA sues consumers 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 a technology indeed 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. And laws get changed, too.

So, rights holders and creators, stand back for a minute. Allow this "deep music web" to be created, and agree to let that ominous celestial jukebox become a reality. Put your entire catalogs and all related information online both for B2B as well as B2C purposes. In the future, "content" assets will only be truly meaningful if they are available as zeros and ones. Look for "feels like free" distribution models that get some serious and free exposure for your content, because exposure is always first – before you sell, you must be found!

6. LET'S UNCHAIN THE MUSIC WE ALREADY HAVE. Allow your back catalog to emerge from obscurity by placing it into the digital networks, under the lowest possible set of restrictions 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 and when it has to be, and charge for it when, where, and how you can. The new game here is up-selling (i.e., selling more and more stuff to your ever-loyal customers), cross-selling (i.e., selling more stuff to someone else's loyal customers who were referred to you), and re-selling (i.e., selling the same stuff in a different package or bundle) – already common practice in the software and videogaming world.

Today, hugely valuable back catalogs remain unused, unappreciated, and untouched, and are not generating revenues. How about custom DVDs of entire genre collections and back catalogs, interactive online radio stations featuring back catalog, and P2P back-catalog subscription services? $19.99 for 500 MP3s of classic Americana – I'd buy it! Put your back catalogs back into the food chain and watch the new monies roll in.

7. LICENSE COMPULSIVELY. Preclude the formulation of compulsory digital music licensing laws by compulsively licensing to everyone who knocks on your door. 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 catalogs 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.

JANUARY 8, 2005:

NICHES ARE GOLDEN

Look at the high-yield niche markets that are now, finally, reachable using digital technologies. Promote and pursue diversity, not one-sound-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 and filling large concert halls.

How about custom CDs and DVDs for niche-music markets, dedicated online (and cable) radio services, customizable music subscriptions?

Without a doubt, the future of music is rooted in giving the consumer what (s)he wants, in utter transparency and open 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 or 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 rather than be subjugated to corporate agendas.

For the Creatives, the artists and writers, the immediate future may initially bring some real headaches due to the uncertainty and insecurity that will remain for the next two to

FORGET ABOUT HITS.
BUILD SUCCESSES.
EXPLOIT THE NICHES.

three years. But once the transition to "digital music" is in full swing, the creators will have easier access to their precise target markets, more transparency in business matters, more avenues of exploitation (and at very low cost), and a bigger pie to split up. 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 that will ultimately compensate for the recent misery caused by the slump in CD sales – if we let it happen! The roles and rules will change drastically, however. Few of those revered traditions will stay intact, and many of the existing players won't enjoy the music business 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

JANUARY 25 2005 MUSIC LIKE WATER:

THE INEVITABLE MUSIC ECOSYSTEM

I strongly believe we are heading into a "music like water" future, based on this very simple fact: Today, there are more people in more places around the globe tuning into music with more enthusiasm and sheer determination than ever before, and depending on their cultural backgrounds, they are using a myriad of different ways to get what they want. What's more, to a large degree the "traditional" record industry is simply no longer invited to the party. The bottom line is that consumer empowerment has finally reached the music business, and many consumers have now taken charge of their own entertainment. It's now My Media, not yours that you are simply "broadcasting" to me.

Music fans (or, in Silicon Valley lingo, "users") tune into online radio; buy satellite radio receivers; record terrestrial radio broadcasts onto their PCs; rip (copy) CDs checked out from libraries; swap tapes, vinyl records, and CDs via the Internet; trade files on instant messenger services; exchange entire hard-drives or flash-memory sticks with music; FireWire playlists to each other; trade loaded iPods; buy or create their own ringtones; transcode music streams provided by online radio stations; distribute or trade files on a multitude of P2P networks, topsites, and darknets; edit samples and loops with free audio software tools; buy games and videos that feature their favorite music; tune into music shows on television and record it with their TiVo or other DVR; and stream music to their cell phones. And all of this is just the tip of the iceberg – we could probably continue this list for the next couple of pages. Music is BIG. Major. Crucial. Full stop!

The trouble for the recorded music industry (yet not for the music publishers) is that these are mostly non-traditional ways of using and getting music (assuming there's still a difference) and that the industry can't control them nearly as well as CD sales could be controlled and monitored in that glorious "top-down," über-control past. Therefore, the entire system and its underlying logic is starting to crumble.

This was a system that was all based on total and relentless control, monopolies and cartels, obscenely high profit margins for sometimes very little work, and an amount of customer passivity and sacrifices that is probably still unparalleled in any other industry.

And things are getting worse, yet: Technologists and entrepreneurs all over the world will continue to invent new ways to find, discover, share, acquire, and consume music every other day. The cat, or rather, the music, is quite literally out of the bag, and – as my colleague and Pho-Group ringmaster Jim Griffin likes to say – nobody is going to succeed at putting friction back in a frictionless world, much less grow a strong business based on providing it.

The only thing left to do is to monetize the existing, actual behavior of the users, a.k.a. consumers, a.k.a. music fans, and there are many new ways to do that (read on!). In any case the industry will now have no choice but to accept the fact that this ecosystem has morphed into a customer-driven, bottom-up world that renders many widely accepted "analog" paradigms and traditions instantly useless.

Now, once we go down that inevitable path we will quickly realize that actually metering the use of music on a per-unit basis, as if we were still in the days of Colonel Parker and Elvis Presley, is simply becoming a "mission impossible" that most players will not be willing to accept.

If we, for now, ignore the distinct possibility of a flat fee-based system that could precisely track what music is actually used, and that could distribute exact royalties accordingly, there is still no way we can continue to ask for fixed fees on a per-track basis. After all, it's no longer even clear what constitutes a copy, a download, a digital phonographic delivery, or a performance versus a mechanical reproduction. On digital networks, just about any performance creates copies somewhere along the way, and every so-called copy is also being publicly performed somewhere (witness the latest discussions about "time-shifting" music).

This may sound a bit Orwellian, but it sure creates a significant transactional dilemma: A performance may be considered a copy that might also be downloaded and that could be transferred to some people under certain rules? That's an unworkable traffic jam of outmoded definitions, IMHO.

The argument reverberates in the latest definition of "music purchasing" on the Napster To Go (U.S.) download service: The user can download as many tracks as desired, as long as the subscription is valid. The Napster tracks cannot be used outside of the Napster application (which runs only on Microsoft Windows) and the computer it is installed on.

Amazingly, and quite conclusively pointing towards the Music-Like-Water model, these downloads are actually not considered purchases – at least not until I want to burn a CD with them, and therefore own them "free and clear." Clearly, we have already reached and crossed that border between performance and copy, between access and ownership, and pushed it further out to a more economically feasible and much more palatable place.

But the bottom line remains: the only way to monetize people's actual behavior and underlying desires on digital networks is to give them a simple, no-brainer, all-you-can-eat blanket deal, an all-in offer or a flat-fee bundle. Without wanting to sound like EasyGroup's Stelios: we must make it easy, first and foremost.

Call it what you want, but the conclusion is that this is a flat-rate and/or subscription model – not a "pay per download" model: One payment has me covered, but beyond this I have many other options to spend my cash on many other, related things. Call it levies, taxes, bundles, flat fees – that's all just a variation of the same subject. Music-Like-Water is where we are going, and up-selling additional services is the name of the game.

There's plenty of precedent here: We make automatic, habitual, seemingly "thoughtless" yet fully accepted and even expected payments for water, gas, and electricity bills; we pay for cable television, Internet access, and wireless services; and here in Europe, we are paying a flat yearly fee for the use of any device (radios, TVs) that can receive public broadcasts. And most of us pay quite happily for those utilities and subscriptions we have accepted as must-have's.

Imagine if you were asked for your ID and password every time you flushed the toilet at a public bathroom, or if your TV would count and bill the numbers of hours that you spend in front of it, or charge you more if ten people watched the hockey game rather than just you alone. Economically speaking, 99% of us already make these kinds of payments, all the time, and the pool of cash that's being generated is vast.

In Germany alone, approximately 80 million people pay approximately €70 per year for public radio and television – and this is compulsory, i.e., decreed by law, not an optional payment – so that's over half a billion euros per year that's available to support the activities of the public broadcasters.

But this is an extreme example, and one that would certainly not go over too well in the U.S., where such public levies would be resoundingly despised (only to then face the constant barrage of mind-numbing ads that scream at you from every TV in every bar and airport lounge in America).

But I am digressing. Consider this: a much lower monthly payment, say $3, something akin to a "content fee" imposed on some hardware or devices, and some services or transactions would get us there, just as well, and we would finally have a feels-like-free pass to do what many of us seem to already be doing, albeit with the "official" blessings of the rights-holders: enjoy our music where we want, when we want, and how we want, without having to worry about RIAA lawyers hunting us down, malware-poisoned software on our PCs, which type of bizarre DRM scheme is used by which label or retailer, which country we're in, which files in what format are actually complete and don't have viruses in them, which operating system we use, which devices are compatible with which PC and which application, and on and on.

Of course, that \$3 may end up being €3 in Europe, £3 in the UK, or, more important, the equivalent buying-power amount in other territories such as India, China, or Brazil.

If we don't go down this road, how could we possibly expect the music industry to be successful in the future, when at this very moment the customers have to practically kill themselves to legally give the industry their cash for digital music, on the exceedingly narrow terms that are being enforced today?

Once we can subscribe to music just like we subscribe to water, the music business will explode and we will enter a new ecosystem that will make the previous music industry look like New York City taxicabs from the 30th floor of the BMG building. DRM will morph into CRM; copy control will become usage-control (i.e., tracking and monitoring); record labels will morph into 360° music companies; radio will down(load)-cast; devices will truly plug-and-play; and yes, cell phones + music will likely kill the iPod's dominance.

There's only one thing: we must stop asking the consumers to fill up their bath tubs with Evian, or to use Pellegrino to boil pasta – they have already discovered the tap water! So let's just sell them tap water, via cheap, flat-fee deals, and the Pellegrino, as well. And this does not equal a flat-out, wholesale devaluation of music – quite the contrary. Ubiquity is a very powerful thing, and will create a nice pool of money for all involved parties, a pool that will only be the very first starting point for a much increased monetization of music.

Because here's another thing that will happen when the water/music flows freely: The up-selling opportunities will be huge, diverse, and multichannel. We will have all the user data we could ever dream of having: opt-in profiles and lots of user feedback, usage patterns, program preferences, personal profiles, locations, and access modes.

Apart from the obvious and quite serious concerns over data security and privacy (now there's another huge business opportunity!), this data will allow the content providers and rights holders to zero in on one person at a time (even if anonymous), and offer relevant and timely upstream items to him, and maybe to also place very unobtrusive and friendly product messages: Advertising may even become content, itself.

Imagine listening to your digital radio station while you're driving, and seeing a message on the display informing you of an upcoming show of your favorite artist that just happens to be in a location that you will travel to. Simply push a button on the display, or send an SMS from your mobile phone, and within ten seconds you could have purchased a ticket for the show. Then, when you get to the show, you take up the venue management's offer to zap the entire evening's concert onto your memory stick on the way out, for less money than the cab ride back to the hotel. One can see where this is going.

Once music is unleashed and we can stop the dinosaurial fight for the simple privilege of having access to it, distribution ceases to be a barrier to entry: All music, all artists, and all writers will be in those pipelines. Then, however, artists and their representatives will be facing the real challenge: getting anyone to pay attention to them, and surviving in this world of "digital Darwinism," since the old marketing mantra of Exposure + Discovery = Sales (Income) will be even more pronounced in a Music-Like-Water world.

Ultimately, of course, people will consume, or shall we say, use more media (music) all the time, but the real limiting factor is people's time. Simply put, all of the world's music (and its creators) will be competing for attention in this new ecosystem, and everyone will want a piece of your precious time. That will be the real challenge going forward: getting exposure and being

DARWIN:

"IT IS NOT THE STRONGEST OR MOST INTELLIGENT THAT SURVIVE, BUT THE ONES MOST ADAPTIVE TO CHANGE."

A recent UK survey by Google showed that Internet vs. TV attention now was 164 minutes for the internet and 148 minutes for TV.

discovered. The rest is already built into the pipeline. So, brave new music ecosystem – yes, but not a built-in goldmine.

Finally, here's a take on that crucial question of just when this will come about: Any business that is built on this "interim window" (i.e., the window that may remain open while we morph from "music like bottled wine" to "music like water') will have to have (at least) two parallel strategies. One that works and makes money now, and one that makes the real money when Music-Like-Water is a reality.

MARCH 10, 2005:
CLOSED SYSTEM = CLOSED OPPORTUNITIES

Science Fiction author, EFF activist, and Boing Boing contributor Cory Doctorow hits the nail on the head in a recent comment: "A word of warning to DRM-crazed companies: Somewhere out there is a competitor who will steal your customers with more open products."

I particularly like this part: "Now put yourself in your customer's shoes: Are you going to buy the alarm clock where you have to pay your alarm tone tax every time you wake up in the morning? Or are you going to buy the alarm clock that lets you load your own CDs into it? Somewhere out there, there is a competitor of yours who will sell your customer a phone that lets him listen to his own music. And that company will attract more business at the expense of companies that treat their customers as wallets to be held open for the music industry."

You could argue that, for example, TiVo was once that kind of "just do it" company, and now that it's less "cutting-edge" and daring, its business is quickly evaporating…or maybe it's just a "window closing"?

MARCH 21, 2005:
MORE ON RENTING VERSUS OWNING MUSIC

The debate on Napster To Go versus iTunes goes on and on, with many people loudly wondering if a renting music model (à la Netflix for movies) will prevail, or a by-the-track model such as iTunes offers. These debates are useful are but not quite getting down to the bottom of things yet. A quick two points on this:

1. IT'S NOT EITHER OR (NEVER IS). Rather, I think that some users will rent access to music for a cheap monthly fee that has them covered, plus they will download individual tracks, and some will still buy CDs and DVDs. However, the difference is that with a no-frills and easy-to-use subscription model I can convert a lot more people to buying music to begin with. Rather than accepting that 40% of consumers leave the music stores without buying anything, how about engaging 80% of all consumers with a cheap, flat-rate music subscription. This is where Napster wants to go, I'd say, but being hobbled by DRM is certainly going to make that mission much harder.

2. CONSUMERS, GUESS WHAT: YOU DON'T REALLY *OWN* YOUR TRACKS ON ITUNES, EITHER. There is DRM on these tracks you purchased for those precious dollars, and your rights to "own" them can be revoked. It just feels like you own it since most people won't get near the limits that Apple's DRM (Fairplay) imposes on them. The fact is, though, we are just renting here, as well. Why else would people try to crack it?

April 21, 2005:

A BIGGER PIZZA MAKES MORE SLICES – AND WHY THE MUSIC INDUSTRY IS HEADING TOWARDS LOWER PRICES AND HIGHER VALUES

Here's another bottom line: The real problem in the music industry is not file-sharing, piracy, or lack of consumer interest in actually paying for music. Rather, it's that the industry is way too slow in baking a bigger pizza. Rather, many incumbents are still obsessed with snapping up the same, small slices from under each other's noses as quickly as possible.

The bottom line is that we need to spur a new wave of music consumption and create a larger market altogether – a market that could have 9 out of 10 consumers buying music, not 2.5 out of 10 as is the case in the U.S. today.

And how could we do that? The answer is not rocket science: We need lower prices, higher value-for-money, and a much higher percentage of active buyers. But of course implementing these ideas is a big challenge given the serious lack of openness to change in this industry. Look at the airline or the travel industries, or at banking: The customer is truly becoming Godzilla, and demands constant value-upgrades for less cash.

As I've said many times before (even though I am not the inventor of this catchy phrase ;-), content is king, customer is Godzilla, and service is King-Kong! If the music industry "leaders" would finally get on with this basic mantra we would see a significant lowering of CD and download prices (i.e., license fees!), and a flood of additional content that the users would get "for free." As to added values, SonyBMG has started doing that with the dual CD/DVD idea lately, but hey – where it goes wrong is that they now want a higher price!

Just imagine this scenario, for a moment: If a CD would cost \$9 or €7.50, and downloads would cost between 10 cents and \$1 (yes, sorry – liquid pricing is a must), who would still bother with the miserable user experience on Limewire, Grokster, and Kazaa?

Better yet, if we could get 98% of all consumers to buy into a "basic music" subscription on any and all digital channels (TV/cable, satellite, radio, Net, mobile, Wi-Fi…) for something like \$3 a month we would all of a sudden have a huge and very tasty pizza that would have more than enough slices for even the hungriest record label, music publisher, producer, agent, or artist. Music Like Water, once again.

Do I hear you mumbling, "Pie in the sky, dream on"? Well, think again: Consumer electronics companies, Internet service providers, telcos, advertisers, and wireless companies will make this happen sooner than you may think – their combined market power is 150 times that of the music industry. And all of this will be great news to the artists, writers, producers, and composers since merit + exposure always leads to discovery which always leads to revenues – period.

And finally we could junk the idea that making-money-making music simply means selling copies of songs (whether physical or digital). There is a lot more to this business than that. Think branding, sponsorship, licensing, advertising, merchandising, and digital performance royalties.

John Cage has a good line that fits here: "I can't understand why people are frightened of new ideas. I'm frightened of the old ones."

THE BUSINESS OF JUST

SELLING COPIES

IS OVER.

JULY 11, 2005:

EVEN IN MUSIC, THE POWER IS MOVING TO THE EDGES OF THE NETWORK

In music, it seems like the "power" is just now starting to move to the edges of the network, rather than continuing to come from the middle, i.e., from central points or the heart of the industry. Network centers can be equated with the huge content hubs such as MTV/ VH1, Clear Channel, Infinity, the BBC, etc., or of course the major record labels and large retailers, as well as iTunes and maybe even Rhapsody and MSN.

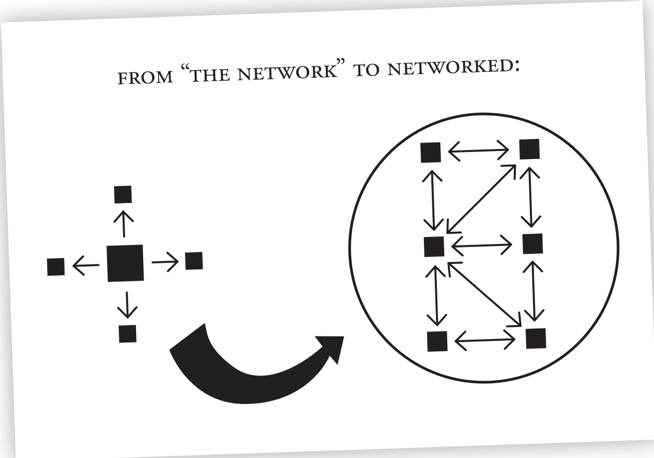
Network "edge-dwellers" are companies like Garageband.com, MySpace Music, XM, Sirius (soon to move into the center?), KPFA, Hearts of Space Radio, Last.fm and many others. Podcasting, blogging, and online networking are activities that are largely happening on the edges of the network. Thus, they are still mostly unregulated and represent a new kind of "bottom-up" phenomenon.

The bottom line is that digital technologies are quickly doing away with the traditional hit-paradigm of "it must be huge to be successful" (and merit my attention) that was a default principle until just five years ago. Now you can publish your music and – provided you can get people's attention – you can sell direct from your bedroom or parents' garage.

Granted, the numbers are not large yet, and it won't merit a Fortune 500 company CFO's attention, but more and more bands are starting to "get it" and are flocking to places on the edge of the network rather than trying to be in the center. Remember, that's what it all used to be about: Get onto MTV, play at Glastonbury, get on the cover of Rolling Stone. In other words: be in the center, be famous, be huge – or be toast. Rolls-Royce or bicycles.

Now, a whole new possibility opens up for artists and small labels: Life on the edge of the network is, indeed, economically doable. And in a few years, it may be lucrative, too. Niche markets can work. The much-lauded Long Tail in digital media makes it possible.

MySpace.com has opened a huge can of worms here (now here is one company to watch – hope they don't go the way of



Friendster ;-) – years after MP3.com, some of the very same thoughts are coming back in a new incarnation. Is the VC money indeed coming back, too, or is it just that we all have to come around a second time to prove that it can be done and that all those whacko dot-com music ideas were not entirely foolish?

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september 08, 2005:

THE RISE OF THE "CULTURE OF PARTICIPATION"

why the music industry should pay very close attention to blogs, photo-sharing, ringtone-mixers, and social networking

Witness: blogs, mashups, online collaboration sites and services, social networking, online photo-and video sharing, Google-Map-Archives, the tremendous growth of Wikipedia, Ourmedia.org and the Internet Archives, P2P web-casting, collaborative playlist sharing, and the countless new ringtone-creation tools…the list of participation-fueled sites and booming "personal media" services gets longer and longer, while tens of millions of people are signing up just to be a part of something.

"Fan-built playlists and mixes are taking over the way people get their music," says Wired's Katie Dean in a recent feature. "Mix tapes and playlists are really the new container for music," adds Lucas Gonze, creator of Webjay, in the same feature. Is this kind of music-sharing and "communing" the next big thing?

In a drastic departure from the good old one-way, top-down, TV-obsessed "culture" of the past, we are now witnessing a seemingly ubiquitous trend to media forms that allow, or better yet, promote participation, self-expression, and user engagement – and the music and media and so-called "content" industries are the first to feel it.

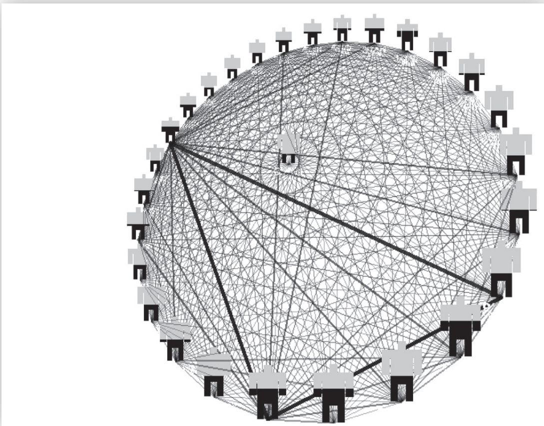
ENGAGEMENT **IS** THE NEW MARKETING

THE USERS **ARE** THE NEW CONTENT

For the average yet somewhat web-savvy consumer, though, it seems that now that we do have access to pretty much any content anytime (whether legal or not), many of us are no longer satisfied with simply taking advantage of that fact and blissfully consuming the content. Rather, now we actually want to be part of it, influence it, change it, and somehow play a more active part in it or – ouch! – maybe even create some "content" ourselves.

Does this take us to some sort of California tech-geek digital hippie-ism where every consumer is also a potential creator or (worse) publisher? Is that where it's going?

Well, personally, I have some doubts that just giving people good, cheap, and powerful production tools plus access to almost-zero-cost publishing and distribution mechanisms actually produces good content (however you want define that). Rather, I think it first and foremost creates a lot of content.



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Still, even if this empowerment trend does not (yet) truly boost the creation of mind-boggling new art, the mere possibility of playing a more active role in content (re)creation is certainly an exciting idea to many people, and probably will unlock some potential that may otherwise have gone unnoticed.

However, music may yet prove to be a different animal here: While the grassroots journalism that takes shape in blogging has already made a real tangible impact, and is very much on its way of changing the way magazine and newspaper publishing works and the journalism business operates, I am not sure that the same thing will happen with music anytime soon.

While, conceptually, I like and support the "everybody can be a publisher, composer, or writer" idea, deep down I have a hunch that so few people are actually gifted in these fields, and, personally, those are the ones I would want to hear and see, not the countless others who are just maybe of interest in their brightest moments. Who has the time?

Often, the desired result is best achieved with some sort of smart, benign, and intelligent filter in place, i.e., friends or other trusted third parties who select the best new music for me, or – maybe – some sort of human + machine +database intelligent engine that can emulate it. (See Pandora, Soundflavor, Transpose/Goompah, Last.fm, etc.) But this remains a big maybe.

As to participation, let's remember that back in the early days of the National Science Foundation, the ARPANet and the pre-Netscape WWW, almost every user was most likely also a contributor to its exploding vastness and ever-increasing depth. Early "epicenters of participation" like The Well (now for sale) thrived on people participating rather than just being "information freeloaders," which pretty much became the default scenario in the '90s.

However, we are now at the point where many things that were invented in the late '90s, and that didn't quite make it then, are becoming actual reality. (Witness the long and winding road of eMusic – IMHO, a vastly underrated success story in digital music.) And this phenomenon also brings us to the second wave of the "the culture of participation" – a phenomenon that is changing entire industries practically overnight, with the media/music/entertainment industries right on top of the s(hit)-list.

The importance of this new "participation factor" is even further amplified by that other crucial new paradigm of media consumption: Empower your customers or watch them move on. Add that to "enable user participation or become irrelevant" and you have a nice stew of opportunities – and significant challenges.

So, take a short tour with me. Even if you don't quite subscribe to the possibly naive notion that everyone can be a writer, actor, musician, artist, entrepreneur, or inventor, you still won't be able to avoid noticing how the thresholds for at least trying to be a content creator are being drastically lowered everywhere around us. Everyone can now "make music" using computers and various software programs (like it or not), and publish the results on a website, or set up his/her own online radio stations, right from the bedroom PC.

Almost everyone can now be a writer and publish endless pontifications on their blogs (I should know ;-) or even make you listen to them via podcasting (an even scarier thought, as in my own case :-).

No longer are we just content in shooting cool photos or bleeding–edge videos and showing it to our family or friends; we now actually want to show them to the world, and post them on Flickr, Webshots, Ofoto, or Shutterfly for everyone to see! And it's not just because it's so easy (it's not, really ;-), it's also because we all want to be heard and seen, make a contribution, and show ourselves, even without anyone's approval or official authorization.

No longer do we take the "official" and sanctified sources of traditional news for granted. Instead, we look to find and subscribe to "our own" news-channels by connecting to other people who focus on the exact same subjects or verticals that we're interested in, and that seem credible or are otherwise recommended. (Witness the booming popularity of Boing Boing, InstaPundit, etc.) Out goes CNN, and in comes RSS. Never mind MTV, Clear Channel, and American Idol – now people tune into podcasting! Or both?

No longer do we just listen to TUGOR ("the uniform, good old radio"), and take its remote-controlled programming choices for granted, instead we build our own radio stations on the Internet and swap playlists, like-it links, URLs, and profiles. Enter Mercora, MySpace, Grouper, Last.fm, Launchcast…

No longer do we just accept one opinion or one point of view as "real" just because that's all we can get right now; instead, we now Google everyone and everything, and find others who may have something to add that sparks our interest.

No longer do we only read the classified ads to find stuff, meet new people, make business connections or personal contacts, or find out what's happening. Instead we become an active piece of the puzzle, and contribute to the formation of virtual metaconventions where people meet each other for kinds of purposes. Witness MySpace, Friendster, aSmallWorld, Match.com, HotOrNot, Ryze, LinkedIn…

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No longer do we just listen to music; we now are starting to remix it the minute we have downloaded it. We morph, change, tweak, and edit with great enthusiasm the very minute it has turned up in its original version. We use samples and snippets of anything to make a personal and/or a fashion statement. Mass-customizing our cellular ringtones is a good example: Already ringtones are an estimated $4 billion global boon for music publishers and record labels.

Look at GarageBand, Minimixa, Digimpro, Hyperscore, and many others – watch for those kinds of tools and services to go through the roof in the next five to ten years. Tune in, engage, participate, contribute, share, publish!

Good-bye, one-way-content funnel and good old "linear" copyright, and welcome to the chaos of participation – a chaos that will ultimately make the music business three times as big.

Digital trust, virtual reputation, and credibility are now starting to be real factors; something that was once reserved to MIT geeks, hackers, and assorted "get a life"-ers. Now, one's reputation on eBay may be just as valuable to people as his "real-life" reputation at his favorite bar.

This, to me, is a sure sign that the distinction between "online" and "offline" realities is starting to blur. In fact, I would venture to say that within five to seven years most "digital natives" in most rich countries won't even comprehend what "offline" even means (except for, hopefully, for describing a certain frame of mind).

In music – as a direct side effect of the exploding culture of participation and the drive to self-determination that fuels it – we, the users, now determine what, when, how and where we listen to music – and we egg others on to do the same.

There goes Radio 1.0 (at least in its old form) and in comes Radio 2.0: time-, space-, and device-shifted. It is becoming clear that the more people are "connected" to digital networks more often and at ever decreasing costs, the more people want to participate and be involved.

We are therefore leaving something behind that in a way was the Holy Grail, the very foundation of media for the past 50-plus years: the one-way communication-mode that made them (the media companies) the producers, creators and rights-holders, and us into the consumers, buyers, "users," and couch potatoes.

Entertainment devices used to be receiving devices, now they are "trans-ceiving" and trans-sharing devices – we no longer just "get" stuff, we also change it, forward it, and share it, and that is where the growth of those industries will be found.

The advent of user empowerment is a huge shift the music industry is just starting to embrace, and as we can see in other industries (Amazon, eBay, SouthWest Airlines, EasyJet, ETrade…), giving the power to the user is what makes real money, today!

My humble success-recipe for music and media companies: Empower the user and promote participation, and you'll do well.

Please note: Naturally, I often draw inspiration from others as they may freely draw from me (hopefully)! This particular essay is inspired by a feature I recently received via email from Business 2.0; I believe it was Eric Schonfeld using the term "culture of participation" that egged me on to look at this a bit closer.

OCTOBER 01, 2005:

THE MUSIC INDUSTRY: ONCE THE PAIN GETS BIG ENOUGH WE MAY HAVE SOME REAL CHANGE

I often get this question from people: How come – if things are this obvious and the opportunities are so clearly there, as I like to argue – the incumbents in the music industry don't just do it: adopt all those new ways of using technology to grow the marketplace, and just get on with it. Why would anyone continue selling "music by the unit," sue their own customers, and chill the marketplace in just about every possible way?

Well, in my opinion, the answer is unfortunately that the pain is not big enough yet. It seems that often, people make really big, tough changes only when they are left with very few other options, when the old way of doing things is toast for sure, when there's nothing to lose and "anything else would be better than what we have now." Another 18 months and we're there, I think. In the meantime…prep the runway.

january 15, 2006:

"flat fee music" and the music like water (mlw) manifesto

written while at midem 2006, cannes, france, january 23, 2006

It's the 40th MIDEM (the music industry's oldest annual gathering in chic Cannes, France) and the first few days of 2006, and so I figured it's a good time to throw these ideas into the mix and present this paper for public discussion.

The debate over the licensing of digital music is raging and growing exponentially every day. Around the world, calls for flat-fee, open, and "public" music access systems have been getting louder and louder (see the French Parliament, the German Indie Label Organization VUT, Martin Mills/Chairman of the Beggars Group in a recent Music Tank essay, Gilberto Gil in Brazil, etc.). And, despite the huge – and indeed very respectable growth of online music sales – "legal"/paid digital music services are far from beating the ever-popular file-sharing networks, darknets, and countless other digital music-trading methods. Will it be a cold day in Hell before the legitimate offers are good enough to at least have a real chance of beating the shoddy experiences of the unlicensed P2P services?

In fact, rather than the universally desirable and much discussed "monetization of conduct" and the "flat fee licensing" of P2P networks (yep, this could have been done back in 1999!), the biggest thing to really happen in music, in 2005, was podcasting – for which most music is, once again, not made available or licensed at this time, with the exception of some recent and very laudable first steps by AIM in the UK). What does that tell you? IMHO, it confirms that indeed very few initiatives for significant change are coming from within the industry; almost every major change seems to be coming from the outside.

Now, despite the overall quite impressive number of approximately 830 million downloads that Steve Jobs just announced at Macworld, I think iTunes (but not iPod!) sales will be flattening severely as everyone who has any economically realistic view of life is now realizing that they cannot continue to spend $/€/£1 per track for yet another version of the same track, again.

With kind permission of flickr.com/lynetter and flickr.com/photos/layton/

On the other side of the digital music sphere the Janus-DRM'ed Windows Media-powered music services such as Napster and Real's Rhapsody are struggling with the heavy handicaps that their technology neither really protects anything nor is really easy to use for anyone. In fact, all the ones I have tried have plenty of "most likely does not play when you really need it" problems. No such troubles with eMusic, which I like a lot, but…very little, if any, music from the major labels there.

The bottom line is that the system, the very operating paradigm, is broken at the core, and thousands of band-aids will not make it well again. These attempts at reviving an almost comatose record (but not music) industry will just keep us going until we can get a full set of organ (and brain) transplants.

But naturally, huge changes like these must simply play themselves out, and so for 2006, I predict that the pain of selling music the good old way (i.e., by the "unit," whether online or offline) will become so severe that most incumbents will simply waive most currently mandatory must-have's and finally throw their holy cows (such as not licensing anything in MP3 format, or maintaining territorial restrictions) into the digital meat-grinder, and will start heading for greener pastures, in droves. Good.

Along with this, in 2006, we will see various embodiments of "MLW" and the Flat Fee Music Fee – and I certainly hope to be able to contribute.

EVERYBODY USES, EVERYBODY PAYS!

Simply put, and as previously introduced in my 2005 book The Future of Music, Music Like Water is the concept of music that is as "freely" (but not for free!) available and as omnipresent as water or electricity, with everyone paying and everyone using, and with ubiquitous coverage, accessed via an infinite number of entry points (Net, cable, wireless, satellite…), on many different devices, and in many different shapes.

It is a system where all users, and/or their service providers (!) would happily make small, "feels-like free" payments to be able to access a large pool of music, without restraints: all-you-can-eat, anytime, anywhere. A system where the works of any creator could easily be found and made available for discovery, where music could be used and compensated for, simply by virtue of being in the pool – and in the essence, proportionally to the actual use of their works. Sounds an awful lot like Cable TV or radio!

So why do we need MLW and Flat Fee Music?

There are many good reasons – here are just a few.

1. BECAUSE MUSIC (AND OF COURSE, ART IN GENERAL) IS AS ESSENTIAL TO OUR LIVES AS WATER AND ELECTRICITY – almost as much as air – and in a digital/networked society it shouldn't be, and needn't be, locked up and forcibly Pellegrino-ed, only because doing so used to create outrageous "benefits of friction" for the top four players in this system, while the end-user must sacrifice at every turn, rather than getting to participate and – holy cow! – even be an active part of the music experience.

The current situation – the Orwellian lawsuits, the hideously unclear and convoluted licensing situation, the DRM-booby-trapped CDs and online services, the raging tides of incompatibility, and the never-ending user frustration – is simply unsustainable and is strangling the market. Instead of technology giving us Music 2.0 it appears that the music-rights situation is pushing us back to a pre-Jurassic Music 0.5.

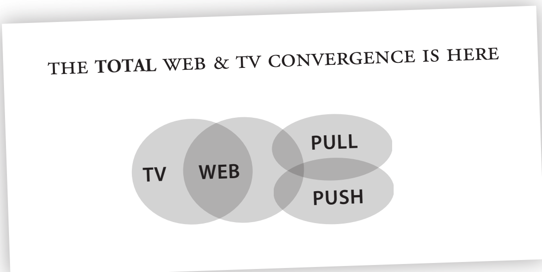
2. BECAUSE EVERYONE SHOULD, AND WILL (OR DOES ALREADY ;-), HAVE ACCESS TO MUSIC, IN THE CONNECTED, DIGITAL-NATIVES-RULED WORLD THAT IS QUICKLY COMING UPON US. Don't believe it? Well, what about Yahoo Music Unlimited, Napster To Go, Motorola's iRadio, XM-to-Go and the new iMesh? Call it a flat fee-based "music renting" model but really it's the first precursors of flat fee music – and if some of this reminds you of the pontifications of the ill-faded John Marie Messier, ex-CEO of Vivendi-Universal (the former utility company!), I guess that would be no accident….

3. BECAUSE THE USER CLEARLY HAS WON, HANDS DOWN, IN THE TEN-YEAR OLD BATTLE OF "US (AS IN THE CONSUMER) VERSUS THEM (AS IN THE RECORD INDUSTRY)." The system as we know it is imploding, the dam is broken, and everyone is looking elsewhere. Brazil is turning Creative Commons, newly developing nations are pondering alternative compensation systems for music, France's parliament wants a flat-fee P2P license, and meanwhile Apple is quietly (or rather…loudly) basically taking over the digital music business!

4. BECAUSE IT'S TIME AND WE'VE ALL BEEN WAITING LONG ENOUGH. Twelve-plus years since the birth of MP3, ten years since IUMA, six years since Napster 1.0…and 1.4 million frequent flyer miles on my account :-) – isn't it time to finally give the user what they actually want, when and how they want it, rather than trying to tell them what they should want? Time to take a page from Southwest Airlines, EasyJet, eBay, Google, and Apple. How much pain does it take before you make serious changes?

5. BECAUSE IT IS TECHNICALLY, SOCIALLY, AND ECONOMICALLY EFFICIENT AND EFFECTIVE. Even though it is likely that most music would initially come off central server banks in each territory, almost ubiquitous user acceptance would quickly create the perfect user case for authenticated and monitored P2P content-delivery systems such as BitTorrent or something like RawFlow, allowing large numbers of large music files to be sent around for a fraction of the bandwidth. This will eventually be a boon for broadcasters, of course – first music, then films…!

6. BECAUSE CONVERGENCE IS NOW FOR REAL, AND CONVERGENCE DEMANDS THAT WE SOLVE THIS PROBLEM NOW. Yes, sure, this talk of convergence in media is 15 years old but this time it's real, and if we don't offer a real solution – not a fig-leaf, a token, or a band-aid – to how music will flow in convergent and bundled media networks, it simply won't have music, or at least…not our music. Witness the developments in podcasting, social media, and P2P networks.



7. BECAUSE EVERY MUSIC FAN IS NOW TIME-SHIFTING, SPACE-SHIFTING, AND DEVICE SHIFTING, ANYWAY, AND LOOKING FOR A BETTER DEAL FOR HIS DOLLARS. The record industry wants more money per track, while the users keep exploring the cheaper, or free, options. But this time, just playing hardball is not going to bring in the bacon!

8. BECAUSE MLW AND FLAT FEE MUSIC GIVES EVERYONE THE IMMEDIATE AND SUBSTANTIAL BENEFIT OF HAVING CONSTANT AND MORE OR LESS LIMITLESS ACCESS TO MUSIC, ANYWHERE, ANYTIME, while at the same time it will gently and elegantly manage to get the necessary payments from each and every user.

THE FLAT RATE BASICS

- Unrestricted legalized access to music
- "Everybody uses everybody pays" – but "feels like free"
- Payments are bundled and/or opt-in
- Based on a voluntary collective license
- Rates vary by country
- The flat rate is only the beginning of $ flow
- Creates a very powerful Music2.0 ecosystem

The bottom line is that MLW and Flat Fee Music seems like the only approach that will really work, going forward. Just imagine a world where you need to insert your credit card into a reader to be able to flush the toilet at a restaurant, where a user ID and password is required to fill your bathtub, and where you secretly trade water jugs of rainwater with your neighbors. This is basically what we have in the music business, now!

Almost all of us indeed would be bona-fide criminals in such a scenario because it would be next to impossible not to be. Unfortunately the fact is that almost all of us already are criminals: we have engaged in downloading "unauthorized" content one way or the other (well…yes, for research purposes only ;-), and if it's not you, it's your kids! MLW is the only way to provide digital music amnesty, to offer insurance, to afford compliance, to build a safe and stable system of music consumption and creation.

SO HOW WOULD IT WORK?

The MLW idea would, of course, require a large pool of music that will be made available, to everyone, on any and all digital networks, in return for universally accepted payments that will very likely be bundled into other services such as general online access, wireless communications, club memberships, all kinds of online services, cable and radio, or other content-subscription services, and that may well be included in some existing or new levies for hardware and devices.

This available catalog is likely to cover the basic music needs of most music users in most countries, and will of course need to reflect local preferences in terms of language, genres, and the like. In my opinion, somewhere in the neighborhood of 1.5 to 2 million songs should be sufficient for most territories.

This catalog must be available in a format that will be universally supported, without exception (OK, I do have a hunch what format this would be ;-), and that will always play on 100% of devices, without fail, and in practical terms, we will ultimately no longer really need to distinguish between performance/listen or "digital download" since the actual use of each piece of music will be measured each and every time, and as it happens.

Every single track will have a unique ID, a unique fingerprint, watermark, DNA, with a central registry maintaining the data. Every use of every track on any and all digital networks is therefore likely to be tracked and documented, and – much like the stock market – rights holders and creators will be able to track these actual usage details pretty much as they happen. Payments for each use will be instantly trackable, transparent, and more or less instantaneously transmitted, handled by software solutions that have already been available for quite some time now.

So-called copy protection and DRM (as we currently define it) will simply become superfluous, since there is no real reason to snag content from somebody else that would also be tapping into the very same pool of content that I have access to – but user authentication, tracking, monitoring, scanning, playlisting, programming, and recommendation will be.

A quick side-note to VCs: Consider investing in companies that aggregate content and rights, and put your $$$ in media searching/playlisting/recommendation, advertising insertion technologies, and digital marketing tools – that is where the action is. DRM will become CRM (i.e., Customer Rights Management) and root-kits will become marketing kits ;-).

In a ubiquitous system of MLW nobody would bother to "steal" music from anyone, since everyone already has his or her own access. And even if you could not afford to pay for that access (as little as it would actually cost you), somebody else would be very likely to pay it for you – either to be able to market to you in return, or to simply make sure you are taken care of, much like the social service agencies in many countries make sure that everyone has power and water. This is simply because it would create too much friction in the system if you did not have it.

The real danger of stealing, in a MLW world, is people stealing your data and infringing on your privacy! Indeed, the MLW system really means that the users, themselves, are the content and create the real value for companies that offer services in this turf.

How would music be licensed into this system?

The flat fee, "music utility" license needs to be as binding (or compulsory) as the radio license and the good old "public performance" license – following the release of your musical work, you simply can't refuse to make your music publicly available, at least to some minimal degree; it's all part of, quite literally, "releasing" it.

I picture this compulsory license as the result of ongoing negotiations over tariffs (and yes, let's be real – this will probably require government "participation" in some form or the other), but ideally this license would mean that all new releases are automatically included in the available catalog, and a certain amount of catalog repertoire (say, the last two to three years) would be, as well.

THE FAILURE TO LICENSE THE ONLINE NETWORKS HAS NOT AT ALL REDUCED THE USE OF MUSIC ON THOSE NETWORKS – IT HAS JUST **REDUCED THE CREATOR'S INCOME ACROSS THE BOARD**

Everything else could be handled on an opt-in scenario; but of course, ultimately, who would not want to have their entire catalogs on this system, since being part of it would pretty much be the starting point and prerequisite for everything else, and it therefore would be foolish not to opt in with all of one's assets. Tariffs would initially be set by country, or better yet, by regions (such as EU-wide), and maybe the current rights societies (PROs and MROs) could administer the flow of the payments.

WHY WOULD "MUSIC LIKE WATER" BENEFIT THE CREATORS, AND THEIR AGENTS AND REPRESENTATIVES?

The answer is obvious: a bigger pizza makes for more slices. More money to spread around, a much fairer way of splitting it up, and a more leveled playing field of distribution that would create very powerful "smarter-marketing-wins" opportunities.

In its essence, this system would imply that artists and rights-holders would have nobody to blame but themselves and their service providers if they could not attract the attention of consumers – transparency and accountability would be "king."

Having said that, this may also create some extreme examples of what I like to call digital Darwinism, in that the effects of the "only-a-mouse-click away" -fueled competition would likely be extremely palpable: millions of tracks in a flat-fee, open-format, ubiquitous, and universal-access system would create huge competitive pressures as far as the consumer's selection process is concerned, i.e., on what the users would actually pay attention to, given that all of them will have less time but exponentially more media and entertainment options than ever before. But…I suspect that there are clever entrepreneurs out there who are already working to alleviate this very problem (time for a de-Darwiniser…).

WHO WOULD GET WHAT?

The MLW payment logic could encompass something like this: non-interactive radio would be free or almost free; interactive/on-demand radio would be subject to a small license fee; tethered downloads (i.e., downloads that could not be moved from a given system that receives them, but that would play "offline') would cost a bit more; and free/play-for-absolutely-sure downloads that can be moved anywhere anytime would cost the most.

And of course, physical media orders would all be extra. (These include CDs, DVDs, pre-loaded storage mediums, and other yet-to-be-invented fixed media formats – and there will be quite a few!) The most important thing would be, of course, the user/fan/consumer would not even know the difference, since any form of consumption of any song in the system would be covered with his/her music flat fee, anyway. The difference in mode of consumption would only matter for splitting up the pool of money (to quote my fellow visionary Jim Griffin's favorite term) and making the payments to the rights holders.

DOING THE MATH

Assuming that almost all users in most countries would "pay" this MLW "music fee" (or, more correctly, that someone would pay it for them, or bundle it into another product so they wouldn't even know they were paying for it), this is a first take of how I would envision these fees to be split up.

After deducting the "operating costs" such as the registry operation, file analysis/fingerprinting and/or watermarking, hosting, bandwidth, accounting, and general administration (all of these could very likely be reduced drastically, so in my view they should not make up more than 8–10% of the total), the remaining income from the total pool of "Music Fees" in each country or territory would be considered Distributable Music License Fees that would be paid to the content creators and/or their representatives.

What's more – and this is where it gets really interesting – I think that other revenue streams that would be derived by any of the music services that would tap into this "Music Pool," such as income from advertising, should also be subject to paying a small commission fee to the content owners.

From the 100% of the remaining license fees, my first thoughts are that something like 60% could be paid for all downloads (in the aggregate), 25% could be paid for all so-called tethered downloads (if that will even continue to be a viable offering, given the nature of the MLW system…), 12% could be paid for interactive/on-demand radio, and 3% for regular, non-interactive, digital radio.

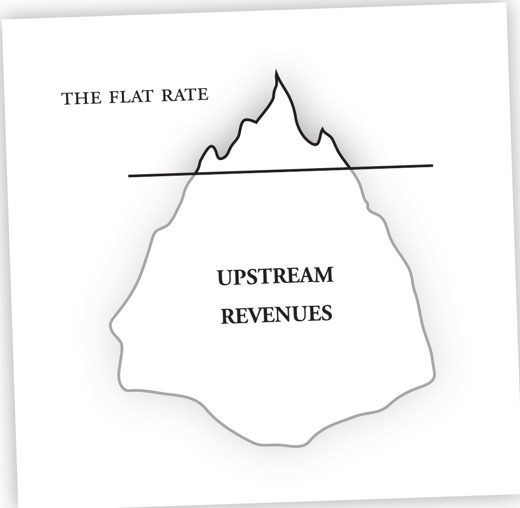
I am aware that this is a very contentious issue, but a 50-50 split between the artist/performer (master recording rights holder) and the songwriter (composition rights holder) seems like a good approach, in principle. Beyond this, every track used on the system would simply be tracked according to its actual use (beyond a 30-second trial or preview, maybe), and would receive the exact amount of royalties on a prorated basis to all actually used tracks on the network.

For example, if during a single day of accounting, a single track accounted for 5% of all downloads in a given territory, it would receive the 5% of the 60% allotted for download-license fees for that day (i.e., pro-rata from the per-month or per year "music fees" paid into the system.

MLW/FLAT FEE MUSIC IS ONLY THE TIP OF THE ICEBERG!

It is very important to realize that the Flat Fee Music concept described here would only be the very tip of the iceberg of what would happen in digital music commerce if we truly embraced this new ecosystem, In fact, I would venture to say that while MLW-derived fees would be quite substantial (and of course, recurring!) they would still represent less than 30–40% of the total revenue potential that this new approach would unlock.

Some of the other revenue streams could be things such as on-demand live show recordings, interactive webcasts, exclusive pre-releases, catalog re-issues, special products, and many different kinds of new audiovisual products – the list of options is getting longer every day.



How much would this cost the consumer?

The answer is that it would of course vary widely depending on territory and size of population, but overall the price to the end users is very likely to fall quickly (no, not the resulting license fees!!) once the system is truly "liquid," and once it starts generating huge amounts of potential opt-in, targeted and customized advertising opportunities, which IMHO will be the major source of entertainment monetization going forward.

Personally, for the "rich" nations, I am thinking that a 3–5 $/€/£ price range for the end user would be a good range, since I believe that kind of figure would result in almost ubiquitous buy-in from the consumers. I will get into detailed examples on the math behind this in my book, but do consider this quick preview: If 85 million Germans paid a monthly "music fee" of €4, we would yield a whopping €340 million per months, or €4.08 billion per year – not bad for monetizing what people already do. ;-)

And this would be just a starting point, I would think, since there would still be CD sales and all the new revenue opportunities listed above. At this rate, I think that we would very quickly have ISPs, telco's and mobile operators absorbing the user's fees for the privilege of selling other services to him/her. The result: The price goes down, and the service level goes up – the digital content paradox.

And then: enter up-selling, and enter Advertising 2.0, which I think will yield a multiple of the Music Fees described above. Keep in mind that, as evidenced by Google's latest move, targeted, customized advertising-in-media is an explosive growth market that some analysts have described as 100 times as powerful as the current advertising market – this would dwarf any money that the music industry could make just selling "copies" of songs.

THE ROLE OF GOVERNMENT

Unless the rights holders and the music services (i.e., retailers) can agree on a flat-fee music rate that also makes sense to the user, soon, and start to provide a level of service that actually works for anyone without an engineering degree, it looks like the government and other public policy organizations will need to step in and catalyze (or… force?) a deal.

Right now, I think it looks like that is likely to happen within the next 12–18 months, starting in Europe (your guess where, *exactement*). I don't think the government should actually run or even regulate a Flat Fee/MLW system, and I don't think it should be a tax or a levy, but still, this idea is of course nothing new to most Europeans, who already pay approximately $150 per year per resident to have the right to use their TVs and radios, so let's see how things do play out in that context.

Rather, I think the government (in particular, the European Commission) should be involved with setting the rates, and then get out of the way and let commercial services blossom that are based on that rate (see radio, and cable TV).

Please note: I am neither the "proprietor" nor sole originator of these concepts and ideas; I have simply been very busy learning from many others (see "Credits and Influences"), collecting, incubating on and remixing ideas, and collating thoughts from thousands of webpages, RSS-feeds, books, and conversations. All those before me and next to me deserve the credit – I am just the remixer.

February 24, 2006:

Why the Major Record Companies Will Offer MP3s in Less Than 18 Months

Originally written for Musically UK

Today, I will go on the record and predict that finally, the pain will be big enough and at least one of the major record companies will cave in, during the next 9–18 months, and offer paid downloads in the MP3 format. In other words, the holy cow of copy protection will end up in the meat grinder. Why? Here are some of the reasons:

1. BECAUSE DRM IS NOTHING BUT SNAKE OIL AND FIG LEAVES, AND EVERYONE KNOWS IT. It's pretending that total control over distribution remains actually possible. Do you know any company that has made any real money with selling DRM "solutions," do you know any consumer that sees a benefit in DRM, and are there any halfway smart kids out there that do not yet know how to sidestep it? Is there other reason for Napster, Rhapsody, and YahooMusic to use DRM apart from needing to placate the (major) record companies and get those content contracts signed to begin with?

Look around you: All DRM companies that have any real sense of reality are either exiting the business or becoming CRM (Customer Rights Management) companies, or they will cease to exist. DRM in its current form is the embodiment of "fear of change," plain and simple. What we really need is smart software that empowers the consumer, and paves the digital highway for the age of super-distribution.

2. BECAUSE EMUSIC WILL KICK THEIR BUTTS. eMusic is becoming the major force in the marketplace for some very simple reasons: The music plays everywhere, the price is right, and the site is very easy to use – in other words: it just works! Imagine that.

3. PRETTY SOON, EITHER MP3 OR APPLE'S ITUNES WILL OWN THE MARKETPLACE. That's simply because right now, nothing gets off the ground that does not work with iPods (e.g., Napster et. al.). The Windows-DRM'ed files don't work with many players. So which option is the least troublesome for the labels – going MP3 or playing second fiddle to Steve Jobs?

4. DIGITAL RADIO (SATELLITE, HD, AND ONLINE) WILL SOON SUPPLY HUGE AMOUNTS OF MUSIC, AT A VERY LOW COST. So many people who have still been buying CDs will start to accept and tolerate the lack of on-demand options on these services – again, because they are so convenient and they simply work.

LET'S FACE IT

75,000 DIFFERENT DEVICES
THAT PLAY MP3 FILES
APPROXIMATELY **75** DEVICES THAT PLAY
DRM'ED FILES

MARCH 23, 2006:

VIVE LA FRANCE: APPLE, IPODS, STATE-SPONSORED PIRACY AND... ...THE TRUTH.

Finally, someone is speaking up about the madness that is digital music today: The only thing that really works for the user (Apple's iTunes/iPod, at least, technically speaking) has given rise to yet another hardware-based, proprietary, walled-garden, non-music-centric, de-facto monopoly, while the other thing that we all know really works (MP3s) has been blacklisted for what I sometimes call "holy-cow violations" (i.e., giving the users what they want).

Now, the new bill that's in the oven in the land of "(h)ealthy snobbism," a.k.a. France, still needs to be approved by the French senate (in May or June I think), but its passage seems quite likely. As I understand it, this bill would basically stipulate that all music purchased from any legal music service must play on all devices, regardless of which DRM and/or other proprietary software is used.

I quote today's International Herald Tribune (IHT): "The French bill does not say, 'Don't respect copyrights' or 'Don't pay for creative works.' While technically and legally it may be impossibly vague, the legislation essentially calls for any company's copy-protection technology to be made available widely, with the goal of allowing digital works to be universally playable, without respect to the hardware involved…"

Now, this does not apply only to Apple, of course, but also Sony's ghastly Sony Connect service and Microsoft's Janus DRM, but so far Apple's Fairplay is the only DRM that is guarded more closely by "big Steve" than the jewels of Queen Elizabeth, and has not been licensed to anyone.

Another quote from the IHT (which always has some of the best coverage, by the way): "'If this happens, legal music sales will plummet just when legitimate alternatives to piracy are winning over customers,' the Apple statement said." Wow! Now this is self-serving with a very large S. I mean, come on guys, I love my iPod, I love my Mac G4, and I may eventually even learn to love iTunes (and that antiquated one-euro-per-song model), but to say that you guys represent, or even are the entire universe of legal music, is far-fetched at least.

But…in the same IHT feature, Apple's PR machine goes even further: "iPod sales will likely increase as users freely load their iPods with 'interoperable' music which cannot be adequately protected."

So, if you are forced to open up your walled garden, change your lock-up-the-ecosystem attitude, and make your fig-leaf albeit label-mandated DRM available, then the world will lapse into a funk of illegal downloading? Nobody to guard against the evil server farms in Vanatu? All that great music will go out there without your protection schemes that you set up to please the major record labels? Ouch, I shudder even thinking about it.

Yes, Steve, let's just give the whole thing to you instead: first music, then videos, then films, and then…well, how about search? Tivo? Google? The Universe? UniApple?

Let's do some math: 50 million or so iPods and approximately one billion music tracks sold to date makes 20 songs sold per iPod, during the entire lifespan of iTunes, i.e., since April 28, 2003 (thanks, Wikipedia). So approximately 20 songs in three years, i.e., 6.66 songs purchased per iPod user per year.

Now, pardon the question, where are all the other songs on those 3,000-plus-track-carrying iPods coming from? No, of course not…from ripped CDs, from file-sharing sites, from IM transfers, from USB thumb drives, from stream-rippers, etc., etc.

Face it: Your iPod is not popular because it sells music – it is popular because it's fashion, and it's cool, and it works well. Congrats on your marketing, Apple, but please let us have our music the way we want (and yes, that goes for the record labels, too).

For $1 a song (and I mean every song), nobody is going to win over the consumers – and you know it. Simply because such a system that asks me to pay $1 per song every time I get another one creates no liquidity, defies exploration, stops discovery, and – this is the worst – mirrors the outmoded, fixed-media pricing logic of $1/track that we should have gotten rid of years ago. Music needs flexible pricing now, and exposure and discovery are crucial!

Yes, Apple iTunes jump-started the digital music business, and it created a new ecosystem, and the rising tide floats all boats, and those Mac PowerBooks are so cool – but: it's time to move on, guys. Time to get out of the way and let other people in on the party.

The IHT has it right (as usual): "The iPod-iTunes link is like BMWs running only on BMW-branded gasoline, or like Sony CD players taking only Sony CDs – or even like Microsoft's Media Player being the only jukebox software to work smoothly with the company's Windows operating system." Thanks to the IHT for nailing this down like this.

As a side note, there is another marvel in here: "Much of Western Europe relies on a single currency, the euro. All of Europe has one cell phone standard. Both were government initiatives." This relates nicely to the debate on Flat Fee Music and Compulsory Licensing: If and when this will happen, the governments must be involved, without a doubt – the Apple Fairplay DRM story aptly illustrates this. Bottom line: No, Steve (or Bill), you can't own this. Sorry.

MAY 15, 2006:

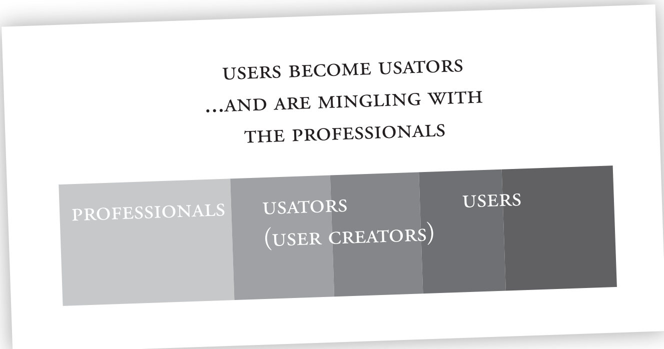
USERS CONVERGING WITH CREATORS

THE RISE OF THE USATOR, THE ADVENT OF DISTRIBUTED SELECTION, AND THE ATTENTION ECONOMY'S IMPACT ON MUSIC AND MEDIA COMMERCE

Faced with the seemingly endless number of issues on my Future of Media talks, I recently wrote this short essay in an attempt to summarize the really important stuff, to focus on what really matters and to describe which trends and developments I think will have real impact.

1. THE ADVENT OF THE USATORS

"Usators" is a portmanteau I made up; it describes the concept of users becoming creators, users who are not just receivers but also senders, of one-way monologs becoming conversations. During the past 9–12 months, some of those People Formerly Known As Users or Consumers are now becoming (co)-creators, too. What's more, the context they are creating is itself becoming content.



As evidenced in the recent developments at YouTube, Flickr, MySpace, Delicious, Pandora, Last.fm, LinkedIn and a good many of the latest so-called Web 2.0 ventures, many consumers of digital media are no longer just receivers – they may also become senders or re-senders of content.

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This phenomenon, of course, has vast consequences for broadcast media. Radio and TV will never be the same. (The BBC makes a great case study on this, for example). Consequently, the very definition of "content" – and yes, the underlying copyright mantra – is changing, too; being creative seems to be no longer reserved for expert producers, a.k.a. professionals.

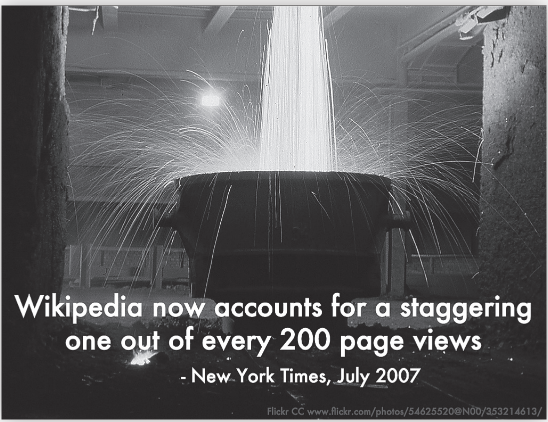
Some users are now becoming usators (again, this is a term I coined, solely for lack of better words), themselves producing content, remixing and mashing up content – in fact, by doing this, they kind of become content themselves, since they create their own values in this system simply by the very nature of their participation (think eBay, Skype, MySpace et al).

In a way, it feels like the emergent "art" of tagging, bookmarking, collaborative filtering, and online profiling is becoming just another type of content, one that would obviously not even exist without the users being part of the system to begin with. Suddenly, media that engages and involves the users – i.e., media that broadcasts not just for, but with or even through them – has gained a lot more momentum over one-way, top-down, or centrally served media. MySpace compared to MTV, YouTube compared to CBS, Boing Boing compared to Rolling Stone, Wikipedia compared to the Encyclopedia Britannica…

Media is now also turning two-way, interactive, and non-linear, with many new gradients that surface between being a "producer" and being a consumer – and "also" is crucial word here since these developments are not really replacing Media 1.0 as we know it; rather, these are shaping up to be additional options for the user, making for a larger menu to feast on. However, they do severely cut into the advertising revenues of "old media," something that is certainly a major concern and source of headaches for many media companies.

The result: Content is king, but since "content" now also includes the user as content – in other words, the usators' added-value creations – we are facing a circular debate here, so this is really a moot argument.

The bottom line is: You must engage your users the best you can, and turn them into yet another tier of content, and you will do well. Think professional media > prosumer media > amateur media, all next to each other, and interwoven in many new offerings such as DVDs, TV, and on-demand.



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MAINSTREAM MEDIA IS ABOUT
HIT CONTENT

UGC IS ABOUT
FACILITATION
(USER EMPOWERMENT)

My prediction: I think that the BBC will swiftly emerge as global media powerhouse by integrating those digital natives and usators into their programming, across the board – and not just in the UK. As a uniquely credible, trusted, and truly global brand, the BBC will continue to blur the line between public and commercial broadcasting, and will be the first broadcaster to also be a one-stop digital media reseller.

2. DISTRIBUTED SELECTION IS AROUND THE CORNER

User empowerment is here, beyond Marshall McLuhan's wildest dreams. Now, in parallel and as virtual adjuncts to the professionals, the users and usators can also be the ones who decide on what's hot or not: slick new user rating tools, digital reputation schemes, tagging, bookmark sharing, and blogging in general all drive this new trend higher and higher.

And again, it's not like the role or importance of professional programmers or editors is seriously diminished, either: It is just being supplemented (and therefore admittedly pressured) by another type of amateur editor – the mass of people who may spend five seconds leaving a quick comment or tag, for whatever that's worth in the long run. While I may not entirely subscribe to the "wisdom of masses" theory (in music, in particular), I do see solid value in averaging user ratings and tags – after all, this is how companies such as Gracenote have created a huge pool of very powerful data.

Many of the what I call “next-generation music companies” will be based on the belief that giving the users more power means that they will give it right back to you, in form of loyalty, support, and attention (i.e., cash). In the very near future, these newcos will use public rating and tagging tools, and “conversation-metering,” to find out what’s out there, where, and why, rather than trying to tell the listeners what they think they should pay attention to.

A&R people will – once again – truly listen to the network buzz, and the art of metering the buzz will be just as important as having an ear for the music. We will see a whole new generation of music companies sourcing their acts from and on the

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Net, period – and this will, of course, be in close interaction to what happens in real life, because the Net will very soon simply become all-pervasive reality, like water or electricity.

My prediction: New artists and bands will be “born and raised” on digital networks and on the corresponding streets, stages, and venues around the world. Many fans and eager online talent scouts will do the work of thousands of part-time A&R (*artist & repertoire) managers. And Google will charge new bands to be found and heard by the "right" people.

3. GETTING ATTENTION, NOT DISTRIBUTION, IS WHAT MATTERS

Having Distribution (or, in radio, a frequency slot, or owning a cable or a wireless network) is no longer a big deal. But being good at getting, retaining, and converting attention is. If you still think that simply having a network of retailers and outlets, or a popular radio frequency, or a high-powered cable network, or a highly priced wireless license is going to make you king of the hill by default, then think again, because today, everyone has or can have distribution – and many of them are using your expensive networks for free.

Today, it's neither only owning the network nor only owning the content that would make you king; it's what actually happens within, on, through, and via your network, or with your content. Read: The conversations, the interactions, the relationships – in other words, getting and retaining attention.

We are finding ourselves being catapulted into a world that is no longer based on content or on distribution, but on an ecosystem built around content that is already distributed by default. In a way, we may have come full circle, back to what it used to be before there was any way to record and mass-distribute media: The experience is what really matters, the meaning,

THE MISSION FOR FUTURE GROWTH

MONETIZNG ATTENTION

the context, the relevance, not just the pure offering in and of itself. What music is remembered without its context, its time and place?

My prediction: Marketing is therefore evolving into "attentioneering." New companies will pop up that will have their ears to the ground, and that will help "the creatives," the media producers and owners, to reach their users/usators by snagging their attention at the right time and in the right place. I predict that media companies and creators will actually pay people to pay attention to them, i.e., users will get paid to download a track, watch a movie, and play a game. This will be a rather bizarre but inevitable reversal of the ludicrous RIAA witch-hunting we are still witnessing today: Download our music, talk to us, and we will give you a lot of good stuff for free.

4. COPYRIGHT CONDENSES

In a much faster, more eclectic, and infinitely more diverse world where previously separated forms of media increasingly converge, a much shorter term of copyright is inevitable (and needed).

Look around you: Our world is becoming a very mad place of seemingly contradictory trends that are all happening at the same time. For example, nation-states or purely national concerns are starting to matter less and less, but at the same time, quasi-national, "tribal" – or shall we say communal – concerns such as energy, health, and the environment are becoming equally important to people no matter where they live.

Life keeps speeding up at a dizzying rate, and the media companies of the future simply won't need copyright terms of 75 years beyond the life of the author. We will have 8–15 generations of media users behind us by then, and plenty of money can be made from 25–30 years of exclusive ownership protection, I reckon. As content creators, writers, composers, and artists, we just need to get used to very fast moving media phenomena that will only exist in a "moment" (in overall terms), ride those waves while we can, and then move on to be part of, or create, the next one.

In this context, improved opportunity recognition will be a vastly desirable skill. Much like Clive Davis and Ahmed Ertegun had a good ear for great songs and artists, the new trend-spotters and "producer moguls" will have a nose for creating instant media explosions that are not just music, or just film/TV, or just games, but will constantly cross over from one sector to the other. Trend spotters and opportunity recognizers will be (behind) the new Trumps, Gateses, Murdochs, Turners and Mottolas. Look for new leaders to emerge who "simply get it" and can smell a hit 18 months before it's actually here.

My prediction: Designated futurists will become part of the strategy team within every major media company within 12–18 months. (I do certainly like that idea!)

5. MASS MARKETS MORPH INTO A MASS OF NICHE MARKETS

If you're American and over 50 years old, you may still recall the days when 63% of your fellow Americans faithfully watched Gunsmoke on the tube – the peak of the united-by-TV feeling and the tube-driven national identity.

In music, when looking at Neil Young, Santana, Elvis, the Rolling Stones, the Beatles, and other major music brands that sport this kind of global mass-market appeal, I would dare to conclude that in addition to their obvious genius their vast success was also due to a severe distribution bottleneck that simply did not allow ubiquitous and economic access to many other artists as well. In other words, not all music by all artists was equally available (as it is today!). And while these artists were (are) truly fantastic, the lack of strong, niche-market driven competition – or using a Chris Anderson-inspired term, "viable long-tail alternatives" – that people could also listen to, is part of what really created the mass markets that the record labels loved so much and grew fat on.

Today, everyone's taste is becoming more eclectic: Many different kinds of food, new music from all over the world in an ever increasing melting pot of styles, and the increasing global cross-pollenization of cultures is evident everywhere. The range of interest in media content now is as diverse as the crowd in a New York City subway car!

In the future, while we will likely still have mega-stars of some sort, the days of ubiquitous, global, and long-lasting media dominators such as the Beatles, Elton John, and the Rolling Stones are long gone. The world has simply become more complex than that, and more options means fewer mass-market hits.

In my opinion, this development is definitely not due to a lack of good artists, as is often alleged; it's simply a cultural trend driven by technology – having more choices has unchained diversity, and therefore the dollars are spent more evenly. Not a bad thing for the 98% that never made it to the top!

My prediction: In 2006, the next hot music style is not Anglo-made (i.e., from the U.S. or the UK) – in fact, this may already be here…in the shape of Reggaeton. In 2007, the first Chinese music star breaks globally. And in 2008, so-called "world" music makes up more than 7% of the total industry turnover.

6. MEDIA IS A TWO-WAY CONVERSATION

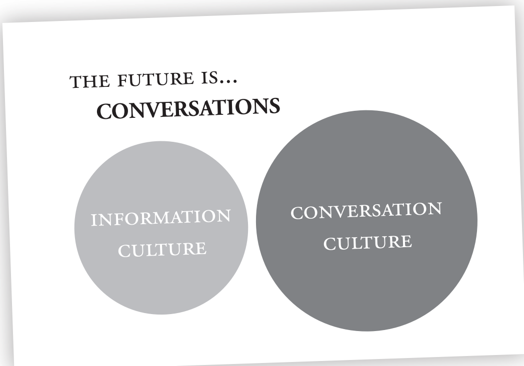
The media of the future is not the monolog passed down by the über-wardens of Hollywood; it's not a sermon delivered from above; rather, it's a conversation. It's no longer all top-down, centrally served, dispensed-on-a-schedule, wrapped in remote-access-control-as-we-see-fit software. It may not even be A&R'ed, either. It's simply grown.

Media of the future is not just from "me the producer" to "you the consumer." It's also an interactive process, an ongoing, two-way conversation, not a stale and linear product. And who can pirate (as in "steal") a process? Who could steal conversations? Going forward, media companies are not just creators of content but also conversation curators, offering platforms for exchanges. This may mean that soon the term "broadcasting" becomes as meaningless as the term "record company."

7. MARKETING 2.0

The burden is now on the media itself, i.e., what we create must be found worthy, and what we offer must have real merit. It's no longer the consumer who is subjected to artificial scarcity mechanisms such as record distribution, or some default advertising programs that he or she has to suffer through. Users and usators are no longer targeted with weapons of mass advertising; rather, they now decide and tell us what they want to receive, whom they may "allow to find" them.

In fact, as evident in much of the old-style, quasi-military advertising lingo ("targeting, penetration rate, launching a campaign…"), we must now no longer assume that we need



to conquer the customer, to nail him while we can, to get his attention and squash him into submission – i.e., get him to buy something he probably doesn't need. This old view of media has all too often been the idea of the customer as some kind of elusive enemy who needs to be pounced on the very moment we can see him.

In the future of media, effective advertising simply consists of boosting the enablement factor that the user enjoys, maybe even giving him the tools to switch you off – handing control over, fair and square. Mass advertising will diminish greatly as mass media shrinks and shrivels and as media is both becoming unbundled (i.e., songs rather than CDs, and clips rather than shows) and re-bundled (i.e., included in access subscriptions and other services).

To finish this off, here are five more predictions:

1. Google will launch an application that allows you to program your digital radios, TVs, and mobile services via epg.google.com: Search, find, program, get – all in one go.
2. Skype will launch a service that will see bands and artists paying consumers to download and "taste" their music and provide ratings and feedback to them – some music fans will make a living as professional music raters.
3. CNN will offer ad-hoc, live video and image feeds from camera-phone equipped "stringers" from all over the world.
4. A consortium of Asian telcos and wireless operators led by SK Telecom will offer $10 billion-plus per year to get a flat-fee, all-you-can-eat license for music on digital networks.
5. Within 24 months, a compulsory digital music license will be tested in some European countries, followed by a pan-European scheme.

JUNE 11, 2006:
THE RECORD COMPANY OF THE FUTURE

In my work as a music and media futurist I often get this question: So what should a "next generation" record company look like? How would all these ideas be realized?

Well, first of all, the so-called "Record Company of the Future" (RCOF) is not actually a record company at all; rather, it's a music company. This may sound like a trivial peculiarity but it is actually a very important distinction. While the "Record Label of the Past" often served as a bank, or a venture capitalist, or simply the underwriter (and, of course, as the essential gatekeeper to distribution), the RCOF finds, grooms, develops, accompanies, and takes care of promising artists and writers. The RCOF guides – but not autocratically controls – their careers, and is in charge of many facets of an artist's branding, marketing, and revenue-generating activities.

If this sounds a lot like what a manager or an agent usually does, well, it is; and therefore managers will either be part of RCOFs (or indeed, start them) or work in close conjunction with them. And we are not talking about prolonging the "dysfunctional family" mode of operation that has unfortunately become somewhat of a standard in the music industry, as far as the relations between artists, managers, record labels, and publishers are concerned.

RCOFs will source music through a vast network of real-life and virtual "stringers" and A&R scouts who simply listen to and gauge a band's buzz around the world, whether online or offline. (This very differentiation will of course cease to be meaningful in less than 18 years as all of us will always be online.)

New artists will, quite literally, surface in online and mobile forums and communities where the so-called "distributed selection" by the users (i.e., rating, tagging, and viral marketing by the fans) reigns supreme, and these new acts will cut their teeth in clubs and venues around the world, just like they always have and always will. But instead of only one venue they now have hundreds at their disposal. Window-shopping for new bands may have never been easier. (But be forewarned: Real talent will still be just as scarce.)

RCOFs will not usually own the artist's recordings or compositions outright. Rather, the RCOF is appointed, and continuously re-appointed, to be the warden of the artist's interests, for a certain time period that can be very long or very short, depending on both parties' performance. But clearly, longtime alliances will be most fruitful and will probably be more common, overall.

Simply put, the RCOF makes money not off but along with the artist, and I would put the percentage somewhere between 15% and 30% of the artist's her total revenues. The often lamented "plantation deals" that the major record labels pursued are now truly a thing of the past.

Because the RCOF needs to be able to do any and all deals that involve the artist's activities – and this is very likely to include placements in motion pictures and shorts, mobile campaigns, ads, games, video/TV, and the like – the RCOF needs to represent both the artist's compositions and his or her master recordings. As a result, RCOFs are likely to only sign up artists that either write and perform their own music, or that can provide both rights via solid and cooperative third-party relationships.

The RCOF's revenue streams will consist of many different components, with smart B2B software solutions handling the bulk of the transactions as well as their administration. The actual sales of what used to be considered "music products" (i.e., downloads, CDs, vinyl, etc.) will likely only contribute around 30%–40% of the total, on average. RCOFs will thrive by providing music (and the artist!) as a service, and will be very keen to pursue revenue-sharing deals rather than fixed-fee deals. Think Google Adwords + music; think PSP + XM + Urge.

Since significant revenues will be derived from a myriad of traditional and new types of public performances (i.e., terrestrial and digital radio offerings, webcasting, the use of music in audiovisual works, music services for retail locations, rich media advertising, etc.), RCOFs will shoot for always getting the maximum exposure for an artist so that his music can easily be discovered anywhere in the world, as quickly and effortlessly as possible, and will focus on driving "netplay" as well as airplay.

Once either voluntary collective or compulsory licensing finds its way to digital music (which it will, without a shadow of a doubt – just like it did in radio), the RCOF will be 100% ready because it has already left behind the "distribution economy" and embraced the "attention economy."

Other very important revenue streams will include deals that provide for revenue sharing from advertising that is connected to the artist's work or appearances (and by this I mean new, smart, opted-in, user-endorsed advertising!), product tie-ins and sponsorships, live concerts and concert recordings, commissioned works, special products, and much more.

The RCOF will, of course, use advanced B2B e-commerce and fast asset management tools to license direct, and in a (semi-)automated way, wherever possible. All royalty accounting will be completely transparent and available online, 24/7. Click, look, count, cash in. Rights markets will boom.

New artists will be sent out on the road and the Net, to cut their teeth and prove themselves. The artists' own responsibility (and by extension, their managers') will be increased by a considerable order of magnitude because the "Rolls-Royce or bicycle" attitude of the past is gone for sure. Now, until an artist/writer has achieved a certain level of exposure and can therefore drive meaningful revenues, most RCOFs will tend to invest a lot less money into an artist's career than they used to. Marketing will be 750% smarter and 75% cheaper, and therefore the pressure will be on the artists to get attention for themselves, as well. More responsibility, more cash.

The concept of a "label," though, will still be alive and well, and is likely to have a resurgence, since having signed with a respected RCOF brand will still guarantee the market's attention, at least to some degree (see ECM Records, Putomayo World Music, Nettwerk Records, Blue Note, Domino, K7, etc.).

All in all, RCOFs will make a lot more money – and be a lot more profitable – than the current editions of "record companies," but they will be based on much less obsession with control and on an equal footing with the artists/writers and their managers. And they will have to prove themselves, again and again, just like the artists have to, every time they get on the stage.

I reckon that many RCOFs will reach a certain size and will then find it hard to get bigger without losing their individual approach to their artists, thereby following the overall trend towards the creation of dozens of niche-market operators rather than a handful of mass-market dominators.

Soon, the music industry may go back to its roots: providing a service, finding and managing good artists that share the revenues, and giving the power back to the "People Formerly Known As Consumers."

July 27, 2006:

The Wall Street Journal: A Critical Voice on Chris Anderson's Long Tail Theory and Book

Today, the WSJ is covering Chris Anderson's book, The LongTail. Quote: "By Mr. Anderson's calculation, 25% of Amazon's sales are from its tail, as they involve books you can't find at a traditional retailer. But using another analysis of those numbers – an analysis that Mr. Anderson argues isn't meaningful – you can show that 2.7% of Amazon's titles produce a whopping 75% of its revenues. Not quite as impressive."

A DEFINITION OF THE LONG TAIL

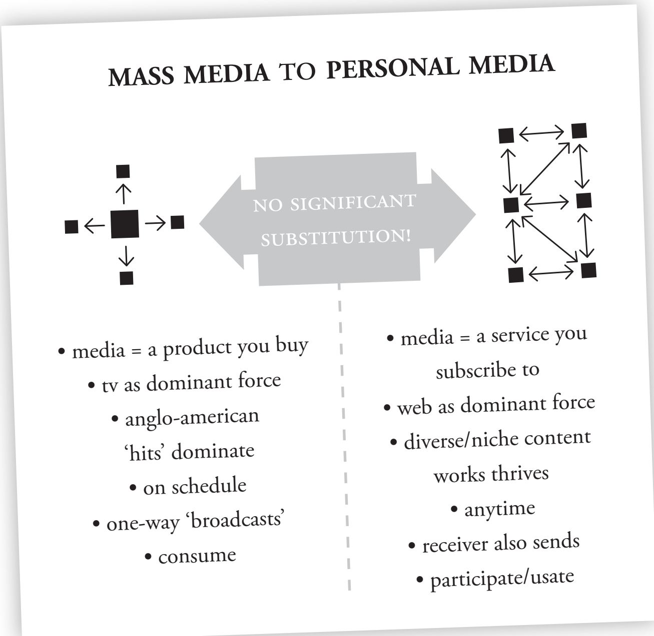
IN A DIGITAL ENTERTAINMENT ECOSYSTEM IT BECOMES FEASIBLE THAT THE TOTAL, COMBINED NUMBER OF SALES OF THE **LESS-POPULAR PRODUCTS** ACTUALLY SURPASSES THE TOTAL NUMBER OF SALES OF THE TOP-LEVEL PRODUCTS.

My comment on this: I think the Long Tail idea is real, indeed, but maybe overly emphasized in the process of explanation – i.e., maybe it comes across a bit too idealized in Chris' book, which otherwise I really enjoyed. In other words, for me, it's not really a question of whether the concept is wrong or right; rather, it is a question of whether we are looking at hit-centric content businesses versus catalog/non-hit/niche-driven businesses.

I believe that now, with the advent of a more connected, Net-centric content economy, both can work out great and make some serious money. However, hits within niches will emerge, as well, which eventually will bring us back to a "new head" within the tail itself. Sooner or later, we will have some ten million songs online, and yes, we will have bona-fide hits within all those niches, too.

In any case, keep in mind that we may not even know who those new hit artists are unless we are in that same niche, too, and maybe those niche-hits will indeed make up 80% of that niche's revenues (not just sales!) as well. Does that kill the idea? I would think not.

As mass media collides with personal media, it won't mean that mass media will cease to exist. Underline this with your magic markers: Mass media won't end; it just won't grow as much as it used to. The real opportunity for serious growth is in the niches. Mass media will take a bit of a paradigm-change-induced beating, temporarily, but then quickly incorporate



personal and social media aspects, and many incumbents will use these new concepts in addition to what they already have – i.e., market share, trust, expertise…well, at least for the most part. ;-)

Traditional radio, for example, will not just evaporate or even diminish significantly; rather, it simply won't grow enough on its own. And that means that broadcasters will look elsewhere for growth, e.g., podcasting, digital radio, interactive/convergent radio, music commerce, community, and so on. To me, this is the true message behind Chris' Long Tail pontifications: It's about unlocking the "not-hits" stuff, about going deeper and going direct.

JULY 18, 2006:
FORGET CONTROLLING DISTRIBUTION – JUST GET MY ATTENTION!

Much has been said about the so-called "Attention Economy," the new buzzword and catch-all phrase for a dawning, digitally networked ecosystem where attention is worth as much or even more than distribution, where "having the time" is the final frontier and the great democratizer, where the "long tail" rules and where the businesses that have – and keep – people's attention stand to prosper dramatically.

Ten years after the birth of MP3, the music industry is now in the throngs of this powerful shift from "having distribution" as a gatekeeper to "having people's attention," which looks like the next Holy Grail. It may boggle the mind of record retailers, distributors, and labels, but it is now no longer relevant (or shall we say sufficient) to have distribution, i.e., to have a replication facility, a retail network, reserved shelf space at the point-of-sale, frequency slots (if you are radio company), a satellite in orbit, or a cable network. What really matters is how many people care about what's in your network!

What's more, soon it will matter less and less that you can store ten thousand hours of video, or that you can pipe it through your network to hungry users around the world, as it will get dramatically cheaper and easier to do this, for anyone. If you look at the projections for future bandwidth and storage costs it looks like within seven years pretty much anyone can be a broadcaster or media service provider – at least in technical terms.

I reckon that eBay and Skype are going to illustrate this point very soon, when they role out their legal, fully licensed P2P entertainment network (and they will!), putting them into the driver's seat of what some people have come to call media 2.0. And just how much attention do eBay and Skype already have? Hundreds of millions of visitors – probably a lot more than all of the record companies combined.

Google is now worth more than Disney and Viacom combined, and though they still insist on not being a media company (well, give that another month or so), search is media,

MEDIA2.0 PARADIGM SHIFTS

LINEAR → INTERACTIVE

COPYRIGHT → USAGE RIGHT

MONOPOLIES → MERITOCRACIES

OWNING COPIES → HAVING ACCESS

MASS MARKETS → MASSES OF NICHES

HIT CULTURE → NICHE SUCCESSES

plain and simple, and search is the web generation's ubiquitous attention funnel.

Apart from all the attention that people pay to Google, eBay, and Skype, they also have one thing that truly sets them apart from the record and publishing companies, and that is trust. Deep distrust (to put it mildly) of the record companies has swept across the world as a direct consequence of the past ten years of misguided efforts of "putting the genie back into the bottle," of taking your own customers to court, and that is what must change first in the record industry.

In order for people to pay attention to these guys and their artists, once again, a new trust must be established; a new appreciation nurtured; and a new, mutually acceptable basis for commercial relations must be established. Because today, attention is the currency, not control. It's as simple as that.

Take the hints from the airline business, from travel and the gaming business: Give the users total control, transparency, and clarity – in other words, the power – and you will thrive. Keep tight control, loose people's attention, and perish.

For the music industry this means the return to "uncontrolled" i.e., unprotected, formats (yes, just like the CD), the creation of flexible and competitive pricing schemes, all-you-can eat subscription services, bundled offerings, and ubiquitous, music-like-water offerings.

Here is my recipe: First provide access and get attention, then sell a service, then sell products, and then sell more services. Going forward, we will see the "next generation" music companies focus on two things:

> **1.** Discovering, producing, and taking care of great artists that create great music – in other words, talent!
>
> **2.** Getting attention for those artists and their music, in any which way they can.

And the big record companies will continue to provide "access to attention" in a way that few others will be able to (at least, as quickly), because once they are done with their control-fits and smarten up and start to employ some of the same concepts that are already widely used in the DIY scene as well as the independent industry, they may indeed harvest some exponential benefits of the powerful "economy of scale" effects.

Stop worrying about "controlling distribution," "controlling the value chain," or "maintaining price points," and instead worry about getting some of the attention that Skype, Google, Yahoo, MySpace, YouTube, eBay, Amazon, Nokia, the BBC, Samsung, and Apple have – it is brands like these that have the potential to be the dominant media companies of the future.

The people who literally "pay attention" to these companies provide them with a new currency that converts into much more than a dollar per track of music downloaded at iTunes. Rather, this kind of attention will convert into very lucrative direct marketing and advertising possibilities, into mountains of user-generated data, peer-generated content, and remixed media that will in turn attract an exponential number of other users. All of this will translate into trust-based opt-ins and the collection of deep marketing information that many third parties will gladly pay for, into longer site visits and deeper use of media, and into creating zero-cost viral marketing effects that could result in your products and services flying off the virtual shelves even faster.

The bottom line: Getting attention, retaining it, grooming it, and earning it every day creates trust, and only trusted entities can make money in this new world.

Let's take the music business back to what it was to begin with: Attention + Exposure = Discovery followed by Revenue. And what's so futuristic about that?

JANUARY 18, 2007:

MUSIC INDUSTRY THREATENS ISP'S OVER PIRACY – THE MADNESS CONTINUES

The UK Independent reports: *"The International Federation of the Phonographic Industry, or IFPI, said it would take action against Internet companies that carry vast amounts of illegally shared files over their networks. It stressed that it would prefer not to pursue such a strategy and is keen to work in partnership with Internet providers."*

John Kennedy, the chairman of the IFPI, said he had been frustrated by Internet companies that have not acted against customers involved in illegal activity. He warned that litigation against ISPs would be instigated "in weeks rather than months."

Barney Wragg, the head of EMI's digital music division, said the industry had been left "with no other option" but to pursue ISPs in the courts.

The IFPI wants ISPs to disconnect users who refuse to stop exchanging music files illegally. Mr. Kennedy said such activity is in breach of a customer's contract with the ISP and disconnecting offenders the IFPI had identified would significantly reduce illegal file sharing.

Let me see if I get this straight: The record labels still have not gotten around to working out a realistic model that can actually monetize the tremendous and surging interest in music. They still prefer control and denial over access to new revenues. They still bang their heads against the wall, and try to offer only crippled and DRM'ed files via iTunes, Napster, and Rhapsody.

Well, if you haven't noticed, next to no one is buying. Just look at the increasing number of Windows DRM-based services that are slowly shutting down, such as AOL Music, MyCokeMusic, and Virgin Digital.

While not a bad concept, the various new ad-supported services will also fail miserably as long as they are forced to sell crippled files. All of this bizarrely illustrates that the major labels still don't get that they are killing the market by not offering something that people will actually want to buy.

Picture kindly provided by Ed Knittel (http://www.tastypopsicle.com via Flickr)

They still market music like it's 1982 (i.e., push-push-push); they still want digital radio – and TV – to be crippled or go away. Just look at the debate on the new so-called Perform Bill in the U.S. (imagine DRM'ed radio!) and the Broadcast Flag discussions, as well as the certifiably ridiculous lawsuits against XM Radio, the U.S. satellite radio service.

So now they want the ISPs to patrol their users and the entire web, and see if someone downloads something in a manner they have not sanctioned. In other words, they want to enforce their failed and antiquated business models via a web police squad that they won't even pay for. Now, if that's not Orwellian, I don't know what is! The absurdity is unfathomable.

Here is my message to John Kennedy: It's time you understood that the world has moved on since total control of music was feasible, back when a bunch of guys determined what the artists, the distributors, the retailers, the radio stations, and ultimately the consumers could or could not do.

It's now the user formerly known as the consumer who has the power, and they aren't buying that crippled and locked stuff you want to sell them. Period. Not because they are evil and not willing to pay, or because they are all looking to steal as much as possible, but because the value proposition isn't working.

Because you are trying to sell them less value, fewer options, and fewer usage rights – for more money! Those ISPs you want to sue into oblivion or make into your content police need to get a new kind of blanket license so that anyone can use the music, under a flat-fee and revenue-sharing agreement such as Playlouder in the UK is suggesting. And the record labels would make a lot more money, too!

To me, it is utterly disturbing that the industry and supposed leaders like John Kennedy are still pushing this disconnected, ill-informed, and bizarre agenda, while at the same time it is perfectly clear that digital music is not selling as it's currently offered, that sales are slowing down, that the consumers are rejecting the current offerings, and that $2 billion in sales in 2006 could have been $20 billion if the industry finally gave the users what they really want: open and fully compatible formats, flexible pricing and bundles, easy and instant access, and fully interactive and sharing-enabled online and mobile platforms.

What has to happen before you guys get it? EMI sold to private investors? MySpace signing major artists for direct deals? Google offering direct distribution to millions of bands? 50% of the staff fired at major labels around the world?

JANUARY 26, 2007:

FRANCE AND GERMANY JOIN SCANDINAVIAN GROUPS IN EFFORT AGAINST APPLE ITUNES

Digital Media Wire reports: "In June of 2006 consumer agencies in Denmark, Norway, and Sweden charged that Apple was violating contract and copyright laws in those countries by not enabling customers to purchase, download, and play tracks from iTunes on their non-Apple portable players. A Norwegian official today revealed that French and German consumer groups have joined the Scandinavian countries in their efforts to pressure Apple."

Here is my take on this: Apple couldn't have cared less (and probably didn't) about having any DRM on their iTunes store – after all, they don't sell DRM, they sell cool hardware (and only then some music). It's the major record labels that asked for it, and it's those same labels that should solve the problem by dropping the stifling DRM requirements.

If Apple went for an open MP3 format (which they must do, ASAP, anyway), iTunes would just be one of many online stores and destinations that could sell music, but of course iPods and Macs and iPhones would still sell just as much as today (in fact, probably even more). In my view, going after Apple for not having an open standard is understandable (and obvious), but it's really the labels that should be forced to open up their licensing policies. DRM is killing the market for digital music; it's as simple as that.

Open formats, flexible pricing, open licensing standards – and we would have another huge growth spurt in digital music.

FEBRUARY 01, 2007:

MUSIC SALES 2.0: IT'S NOT ABOUT GETTING PEOPLE TO BUY, FIRST, BUT ABOUT GETTING INTEREST – ATTENTION IS CASH!

One of the things that seems really paradoxical and bizarrely "retro" in the music industry (well, yes, there are a few others, too…) is the industry's utter obsession with a unit-based, sales-centric, and productized value system and its related economics. Buy this record. Download this song. Get a copy.

This ancient yet persistent paradigm and mindset results in a constant repetition of the seemingly most urgent question: With all this digital stuff, how can I get people to actually shell out some cash and pay for my music? In other words, the thinking is that the buying is a different story than the discovery. Well – it is not, and here's why.

The reality is – and some of you may find this refreshing, others may think it's glorified Silicon Valley New Age geekdom – that it's not at all about selling something at every turn and putting a Buy button everywhere.

In reality, I think it's all about this question: "How can I interest you in my music/band/artist?" It's the process of getting interest from the right people, getting them to pay attention (literally, I believe, attention is money), engaging an audience, creating value for and with and through the users.

Only then, after and if all of this happens, is where the Buy button comes in, where you can put some sort of tollbooth, where the wallet comes out. Let's not confuse the issues, therefore: Before telling people that – hooray – now they can buy my music, they must be interested, engaged, open, and ready. And that, in my mind, is where most of the new and exciting Music 2.0 applications and services come in. Create demand, capture interest, collect attention, and drive exposure – that is the mission.

Selling is just a consequence. Focus on getting interest, and then enjoy the results.

This requires, of course, that so-called record companies do not just make $$$ from the sale of a copy. After all, if that were the case, the companies would not participate in 90% of

> **ATTENTION IS THE NEW WAY OF PAYING FOR CONTENT**

the monetization that occurs after a band finds its audience and gathers interest, and after it builds trust with its audience. It's about providing access, not selling copies. (Repeat, repeat, repeat.)

Dinosaurs of the record business: Take note. Switch to becoming a full-service, 360° music company – now. Be bold, or see your importance dwindle faster than you could possibly imagine. You have 12 months to get on this train, never mind driving it.

And do keep in mind that in the very near future, getting attention (i.e., views/listens/ impressions/clicks) literally and actually will translate into real $$$, since the presence of a flat rate for music (which is absolutely inevitable if we will still want anyone in the world to actually pay for music) will mean that anyone who has interest in my music can just click the "add" or "get" button, and, voila, I've made a sale. Exposure and discovery lead to income. Simple. Right?

MARCH 01, 2007:

DROP DRM OR BECOME IRRELEVANT

WHY THE MUSIC INDUSTRY NEEDS
TO DROP DRM, AND SELL UNPROTECTED
DIGITAL MUSIC, NOW.

Is DRM a question of belief systems? After countless conversations and debates over the past eight years, I have come to think that the DRM issue is largely a question of which reality one believes to be true – and we must address the solution as such, too. No research, no statistics, no hard facts, and no futurists will tell us conclusively whether the record companies should or should not use DRM when selling digital music. To make this decision will not be science but an art!

Do you believe that the sharing of music – and therefore its consumption in general – needs to be controlled; that a certain amount of friction is required to extract any meaningful payments for music in a digital environment; that the average consumer will always try to avoid paying anything if given any opportunity to do so; that it is impossible to sell something that is, to a large degree, also obtainable for free; and that the monetary value of music really is in "the copy" of a song?

Then you would indeed need to be a strong advocate of technical protection measures and digital rights management software. In your mind the control of those 0s and 1s would be a definitive prerequisite for any monetization. No control equals zero income; a "free for all" is the result of having too little control.

Or do you believe that a consumer will always be willing to pay for something that is easy, enjoyable, and trouble-free to acquire and that has demonstrated, tangible, and trusted value; that it's not just the copy of a file or a piece of plastic that represents the real and inherent value of music; that friction can not be successfully re-inserted into our increasingly frictionless commerce environments; that our business problems cannot be solved with technological measures?

Then you would be against DRM or other technical protection measures (TPMs), unless they could be 100% device-compatible, unobtrusive and behind-the-scenes, and indeed offer actual benefits to the end user. This certainly looks an exceedingly tall order that is, in my humble opinion, beyond reach as far as digital music commerce is concerned.

Do you believe that music can be sold "like water" i.e., as a ubiquitous asset that can both feel-like-free (like tap water), as well as be paid-for (like premium priced bottled water, a $100 billion business), or should music commerce remain strictly in the realm of units, copies, and their various controlled physical or digital embodiments?

THE DRM ISSUE CANNOT BE EXAMINED AS AN ISOLATED QUESTION

Clearly the DRM question cannot be truly considered if kept separately from the drastic changes that are impacting all adjacent sectors of the record industry, such as music production, contracts, pricing, licensing, promotion, and marketing, without investigating how exactly the record industry's entire business model must evolve in those areas as well.

After having done so, my own conclusion is that eight years of badly implemented DRM have forced the major record labels into a detrimental fixed-pricing model for digital music, creating even more walled gardens and virtual monopolies such as iTunes, further perpetuating a myriad of unresolved licensing issues, and single-handedly stopping many promising marketing opportunities that could have worked if the music could only be provided in an open – i.e., MP3 – format.

If you work for a major label, just take a good look at the deals that have crossed your desk during the past 12 months. How many of them could you have done if it weren't for those business rules related to "strategic" principles such as DRM? How much revenue could you have generated? How much innovation could have been brought into this business if it weren't for this bizarre stumbling block caused by the belief that the customer cannot be trusted and therefore needs a clever piece of software to restrain him?

The bottom line is that the record industry is literally starving itself to death by basing its digital business strategies on outmoded assumptions by way-out-of-touch leaders who have gone unquestioned for far too long. It's not about how much money the record industry has already made with digital music, but how much the record industry is leaving on the table – 90%, in my estimation.

Some good cases for DRM may exist – just not in music! It is feasible that some use cases for using DRM/TPMs exist, such as with libraries, closed-content- systems such as the PSP, banking transactions, classified documents, etc. – anywhere the results of DRM are indeed benefits to everyone in the food chain, and where it is not apparent to the average user that such safeguards even exist.

The problem is that, as far as music is concerned, DRM is simply an impossible mission:

- The CD is and must remain an open and universally readable and convertible format, and this has set the standard for the digital music marketplace. In a digital ecosystem, consumers will under no circumstances accept less than what they are used to; rather, we need to expect and support an attitude that will be based on expecting more value. Charging more $$$ for less value, in an exponentially more competitive market with omnipresent and innovative competition, is a suicide mission.

• Too many different music formats have already been in the marketplace for too long; no single, universally agreed-upon and proprietary standard can and will emerge, and no "SDMI take 2" (a.k.a. CORAL) initiatives will achieve this goal. It is a technologist's pipedream that keeps the record industry locked out of reality while it's losing the market to new competitors

• The music consumers' (i.e., the public's) fair-use expectations, ethics, and traditions are totally incompatible with effective DRM measures, and ten years of "secure digital music" has utterly destroyed the trust in the market space. The un-beautified result (a.k.a. the non-IFPI version) is that the public is increasingly turning off to legally purchased music altogether, and that won't change until this policy changes

CHALLENGING YOUR ASSUMPTIONS

So…if you are a believer in control, and therefore in DRM, let me challenge your assumptions and convince you to reach for the Reset button, as I firmly believe the record industry (in particular the major record labels) is destined for certain demise within 18 months if it stays on the course of trying to "protect" and control digital music.

Assumption #1: If all of our music were available in an unprotected format, nobody would bother to buy CDs anymore, and 90% of our current revenues would quickly evaporate. We need to keep on selling CDs as long as we can!

My response: Your music is already available in open formats, for free, and the consumers who still like CDs are still buying CDs. But it has now become a choice, not a must; paying for music has de-facto become voluntary (as my fellow pontificator Jim "pool of money" Griffin likes to say).

If the record industry made it easy, affordable, and enjoyable to buy MP3s legally, a much larger percentage of the total target population would consider getting engaged. This would, in turn, generate more, and renewed, interest in buying all kinds of new physical media products after a consumer has had his fill online. The sole downloading of music as MP3 files will, IMHO, never be the final stop for any real music fan. It is only the beginning of a new business, not the end – the new business is selling music as a 360° service and as a product.

However, clearly the price of CDs would have to be much more competitive and flexible, both in the way of offering low-priced CDs as well as with high-priced/higher value products (such as high-definition audio, video, and mixed media). By selling MP3s online, and by offering a lot more CDs in the $7–$12 range, as well as positioning premium products in the

CHANGES IN THE CONTENT INDUSTRIES

CONTENT 1.0	CONTENT 2.0
DISTRIBUTION	ATTENTION
SHELF SPACE	MIND-SHARE
MASS MARKETING MONOLOG	NICHE MARKETING DIALOG
CONTROL	INFLUENCE & REPUTATION
CONTROL	ATTENTION & TRUST

$25–$40 range, the record industry would still generate more revenues than before, and put smart retailers back into business, as well.

Assumption #2: If there is no friction in the process of getting music (as a result of having a ubiquitous, open format for music that can be shared by anyone), our entire business model will collapse. No control means no cash!

My response: It is not about absolute control versus zero control – it's about a new kind of relative, smart, opt-in, transparent, fair, and timely control. It's happening everywhere else – why not in music? The traditional record industry's unit-based business case has already collapsed: There is simply no future in only selling copies, so let's stop pretending there is.

The record industry must first sell access to music and artists (and then sell units), in an all-encompassing portfolio of products and services – and there is absolutely no way you can do that by enforcing proprietary, locked music formats.

There are many other ways to maintain and "enforce" value in an open format system; i.e., the record industry can insert something that is equally effective to friction: stickiness, loyalty, trust, community, and appreciation. The record industry will get the same, and even better results but must use a different path – think eBay, Amazon, and Google.

Assumption #3: If we offer unprotected music, everybody would just share their music with everyone else, and nobody would ever make any payments, and that would be the end of it!

My response: Flexible pricing (lower and higher amounts), bundles, flat rate services, free and ad-supported models, and a host of new premium offerings would take care of this problem of "rampant sharing." Share all you wish because we will have a way of getting your dollars, regardless! If it's just a copy of the file I want, yes, I may be able to circumvent payment, but if want the whole thing, the experience, the complete access, I will have to remain with the provider that can dish up all of it.

Why would I bother with circumventing a payment if the value, the service, and the convenience I get is beyond reproach and makes irrefutable economic sense – a legal, open-format music service just has to be better, faster, and more compelling. And it can be!

The bottom line: if the price is right, and the service value is high, and the trust is there, consumers will pay without fail: See cable TV and cell phone subscriptions – and again, the $100 billion bottled water business.

Assumption #4: Switching to open formats will make the record industry (in particular the major record companies) utterly vulnerable, and it will lose any remaining market advantages it still enjoys.

My response: Open formats will certainly create a more equal marketplace; however, the major record labels will still be able to extract a lot of value out of the existing assets, i.e., the catalogs, the relationships, and the global business network. It will indeed be a different business, but a lot more fruitful!

Many traditional advantages (such as controlling distribution) are quickly and inevitably eroding in today's marketplace. By making a proactive decision to embrace these changes, now, the record industry will be able to be in charge of them, rather than solely react to them.

SO WHAT WILL HAPPEN IF THE MAJOR RECORD LABELS STICK WITH DRM?

CD sales will continue to tank exponentially as even the most faithful customers in the most traditional territories tap into the ever more powerful online networks, while the growth of digital music will stall in all territories, paid-for ringtones will decline, and all those fancy new mobile devices will play MP3 files but not those crippled and DRM'ed files, on a ratio of 50,000 to 70.

The wireless broadband explosion will take the sharing of music to an unprecedented level: Every single user becomes a moving super-node of content, and 99% of them will exist in a legal and economic gray zone of non-compliance – because there is no other option! In other words, unless the record industry's content is available in open formats, its music will be consumed outside of any system of monetization. Avoidance is not an option, participation is!

New companies will show the way and quickly propagate entirely new ways of acquiring and presenting music. Telecoms, handset manufacturers, networks, portals, and ISPs will target the record industry's core business (i.e., talent); and within 18–24 months the traditional record labels' overall relevance will be greatly reduced.

The markets will find a way around the protected digital music that the "official" record industry is offering, and the rising digital music tides will float every boat except for… theirs!

Very few outside investors will invest in any music-related ventures, not only because there will be no growth (and no demonstrable ROI) but also because the industry is, and will be, universally disrespected for its lack of leadership and decisiveness. This lack of outside investments will create a vacuum that new players will aggressively use to build their own ventures, based on new talent that the traditional record industry will no longer be able to attract. Major music companies will become isolated in the capital markets, becoming sitting ducks for takeovers (is that good or bad?)

Just take a look who has defined success in the past few years: eBay, Amazon, Apple, Google, Skype…they all give control to the user, provide open and transparent services, earn and keep trust, pull not push, have conversations not monologs, promote enablement not prevention – that is where things are going.

The time for a change is now: If you are still a believer in control, protection, and enforcement, I urge you to reconsider your position and make a leap into the only future I believe there is for the record industry: open formats, ubiquitous access for music, new models of partnerships with artists and retailers, flexible pricing, and open and transparent licensing standards.

Come gather 'round people
Wherever you roam
And admit that the waters
Around you have grown
And accept it that soon
You'll be drenched to the bone.
If your time to you
Is worth savin'
Then you better start swimmin'
Or you'll sink like a stone
For the times they are a-changin'

- Bob Dylan

APRIL 17, 2007:

THE DAM IS BREAKING: DRM IS OVER

AMAZON TO LAUNCH MP3 DOWNLOAD STORE IN MAY; UNIVERSAL ON BOARD

•

It's a new game now. I have always thought that Jeff Bezos is one of the smartest guys around, but this latest development will probably send Amazon's stock through the roof. Amazon has a huge amount of trust and user loyalty, tens of millions of faithful users, and over a million online affiliates – once they go out with an MP3-based digital music offering everyone else will have to run for cover (but hey, Apple still won't care – they just make the coolest devices!).

I predict that Amazon will become the biggest seller of digital music within 12–18 months once all the labels go with this new tidal shift (away from DRM). Well, of course, they really don't have a choice, do they?

I also predict that within three months of launching complete MP3-based services, all retailers will start bundling digital music with other products, therefore drastically reducing the effective, user-paid price for music, and leading to explosive purchase behavior that will ring in a whole new era for the music industry.

As I have always said: Stop chasing total control, and start receiving more $$$ instead.

From *Digital Media Wire:*

> **Report: Amazon to Launch MP3 Download Store in May; Universal on Board** *Submitted by Mark Hefflinger on April 16, 2007 – 11:03am.*
>
> New York – Online retail giant Amazon.com is poised to launch its own digital music download store in May that will sell songs in the unprotected MP3 format, Billboard reported. Amazon declined to comment for the story on its entry into a market currently dominated by Apple's iTunes Store.
>
> Label sources told Billboard that some are waiting until after it launches, or until a major label signs on before they decide whether to support the service; others are negotiating with Amazon over a premium price to be charged for higher-fidelity 256K MP3 downloads.

Billboard also reports that major label Universal Music Group plans to test the sale of unprotected songs at the Amazon store and other retailers, including some of its classical catalog and music from other genres. The news follows fellow major label EMI's recent announcement that it would sell songs as unprotected MP3s on iTunes and other services.

Amazon ditched plans last year to launch a subscription-based service utilizing Microsoft's Windows Media Audio format, after Microsoft closed off its Zune player to competing services.

April 19, 2007:

Music CD Sales Fall 13% Through 2006 in U.S. (Does Anyone Still Wonder Why?)

Yahoo! News reports: *"Though sales of music in digital formats such as downloads and mobile ringtones more than doubled in some cases during the year, digital sales did not grow fast enough to cover the revenue gap caused by the downturn in CD sales. Consequently, overall music sales were down by 6.2 percent to $11.51 billion."*

This is not really news for anyone, I would say: CD sales are in free fall. It took much longer but is hitting much harder now. Except for EMI, which recently announced a bold move towards selling MP3s (even though there is plenty to complain on how exactly they plan to do it), and maybe UMG, who is rumored to offer MP3s via Amazon's new service, the major record labels still prefer control over money.

In other words, they would rather not sell MP3s or other non-DRM formats than make money with their music. The reason? Because without DRM, they can't control what we (a.k.a. the evil users – the People Formerly Known As Consumers) would eventually do with their tunes. (Imagine: We may actually share them without permission!)

As long as the major labels keep pounding on their right to have the cake and eat it, too, people will buy fewer and fewer CDs and continue to download for free, simply because there are so few other, worthy, easy, attractive options.

Get it? It's not the evil intent that creates the free-loaders; it's your intent to control the consumer that is being rejected. And please don't tell me iTunes is such a perfect option and "everyone who wants to be legal can just use iTunes." Yes, it's easy and works great but the economic model as far as music sales in concerned (as opposed to hardware!) is fatally flawed: an ever diminishing fraction of consumers will continue buy songs for $1 per track. In the long run everybody just stops spending at a certain point, and will look for options that don't punish interest in new music.

Here is my simplified recipe for you guys:

1. Offer all music in open, 100% compatible formats.

2. Offer back-catalog deals, bundles, subscriptions, and sooner rather than later, flat rates.

3. Start providing added values that only you can provide (such as bonus tracks, video, chats, blog/backstage access, concert downloads)

4. Start treating the users/listeners/fans with the love they deserve instead of with the disgust that your lawyers have for them.

Wake up and smell the roses of Music 2.0 – or continue to duck and cover.

may 03, 2007:

PANDORA TO SHUT OUT NON-U.S. USERS

another example of ancient music laws killing a good service (or how to discourage startups to care about music rights)

Pandora, my absolute favorite user-generated-programs web radio service, today announced that it will cut off all of its non-U.S. listeners because of licensing restrictions. You may guess who is behind this: Yes, the music rights-licensing organizations – that would be my guess, too.

This is really lame. Here we have yet another example of how outmoded licensing traditions and 50-year old laws kill something that really has value, that has been painstakingly built over the past few years, and that is helping everyone to discover and buy more music online.

I think that if the music industry does not start solving these tired licensing problems ASAP it shouldn't be surprised why everyone is now starting to fill their music needs via totally unlicensed sources that never even go nearly as far as Pandora has to become legal. I mean, come on, how many years has the music industry had to give a license to Pandora?

Maybe the European Commission should start thinking about some penalties for PROs (Performing Rights Organizations), some fines for not making reasonable licensing deals available? How about a penalty for tardiness-of-business, for hampering the growth of new business or for sitting on your rear doing nothing while smart entrepreneurs and their investors are busting their butts trying to reinvent the music business?

It almost seems that a company that tries to do the right thing from the start gets punished at every turn while those that don't even bother with getting any of the rights are the ones that A) get funded with tens of millions of dollars, and B) sell their company for hundreds of millions of dollars and get to do as they please while the music industry is acting all shell-shocked and standing by. (Since they never bother to check out the new stuff until someone alerts them, not asking for a license would be the safe way to start, right?)

With these outdated licensing structures and seriously handicapping business processes most of the music industry is actually encouraging people to completely ignore the rules if they want to get anywhere, anytime soon. For example, just like DRM is actually producing "piracy behavior" – by punishing legally minded users and giving them less value for their money (similar to DVD region coding) – the new webcasting regulations are forcing companies into noncompliance due to the lack of reasonable options.

If this isn't bizarre, I don't know what is! Here is my call to action for the music rights organizations around the world, the PPL/GVL, BUMA, GEMA, STIM, SESAC, and SOCAN: Get moving to license Pandora within 30 days – you've already had years to contemplate it!

MAY 21, 2007:

WARNER MUSIC CUTS STAFF 15% IN U.K.

TIME TO FACE THE TRUTH – UNLOCK THE MUSIC!

From the Telegraph UK: *"As part of WMG's ongoing transformation to a music-based content company, we are realigning WMUK to most effectively organize our resources," the company said Friday. "The music industry is undergoing fundamental changes, and we are adapting our business accordingly, channeling our resources into growth areas, managing costs, and investing in new business initiatives."*

One has to wonder why Warner Music (WMG) just does not seem to have the guts to do what needs to be done to remedy their "shrinking pie" problems.

Well, let me summarize this for you, again:

> **1.** Sell music in an open format that works on all devices, with flexible pricing (meaning both more $$$ and less $$$!), and in bundles/subscriptions/packages. Make music ubiquitous, sell it everywhere, anytime, to anyone, bundle, package, re-package – take a page from Amazon. The key is to make your music available widely, and without all the ifs and buts, and with open and fair licensing standards.
>
> **2.** Offer fair agency-like deals to new artists, make them (and their managers!) more responsible for their own success, and take a nice percentage of all revenues that flow from the artist's brand. Move beyond music as the single moneymaker – it's a multimedia world now, right? – and please get off the "selling copies" paradigm and into selling access and services. Make a larger pie instead of quarreling over who gets what of the quickly shrinking pie you think you still have.
>
> **3.** Reduce marketing costs by 60% by diving head-first into viral syndication of your content – let the users, the fans, the listeners do your marketing for now. Give up

> the pipedream of total control over distribution and get new revenues flowing again.

First of all, it's time to admit that you were dead-wrong about DRM, about taking your customers to court, about trying to force the music fans and your own users into submission – and then get ready for a new flood of revenues.

And yes – you may need to slim down to 30–50% of your current size, and get people onboard who know what's real and what's not.

Engage, not enrage.

MAY 28, 2007:

THE PLUNGE OF THE MAJOR MUSIC LABELS: IS THE END OF MUSIC 1.0 NEAR?

Here is some good reporting from the *New York Times*, as usual: *"Despite costly efforts to build buzz around new talent and thwart piracy, CD sales have plunged more than 20 percent this year, far outweighing any gains made by digital sales at iTunes and similar services. Aram Sinnreich, a media industry consultant at Radar Research in Los Angeles, said the CD format, introduced in the United States 24 years ago, is in its death throes. "Everyone in the industry thinks of this Christmas as the last big holiday season for CD sales," Mr. Sinnreich said, "and then everything goes kaput."*

My comment: I guess there is hope, after all: Once the pain is big enough, changing seems like a real option, all of a sudden – that is what we are seeing now. Maybe this ship really has to be steered into the cliffs first, after all? Call me an optimist, but I used to think there were other options.

My two cents: If you have the guts to change now, you can still own a good chunk of the market, and prosper. But: band-aids are over – it's time for real, hard-core changes. Drop copy-protection (at least for now – until something can be used that is of super value to the user!); tell the users, fans and artists that you screwed up; go for flexible pricing and bundles; package music into other media; offer agency-type deals to artists; become completely transparent and drop the "secret sauce" antics; and start using syndication as the prime vehicle of promotion, marketing and distribution. It's not the copy – it's the access. It's not prevention – it's participation.

The New York Times continues: *"For the companies that choose to plow ahead, the question is how to weather the worsening storm. One answer: diversify into businesses that do not rely directly on CD sales or downloads. The biggest one is music publishing, which represents songwriters (who may or may not also be performers) and earns money when their songs are used in TV commercials, video games, or other media."*

My comment: I have talked about this until the cows came home, but here is again: Switch to music as a service. Again:

Never mind the copies – the next big thing is offering access. Brands. Experiences. Added Values. Stuff that only you can provide – together with the artists. Values and experiences can't just be downloaded.

More from the NYT: *"But very few albums have gained traction. And that is compounded by the industry's core structural problem: Its main product is widely available free. More than half of all music acquired by fans last year came from unpaid sources including Internet file sharing and CD burning, according to the market research company NPD Group.*

The "social" ripping and burning of CDs among friends – which takes place offline and almost entirely out of reach of industry policing efforts – accounted for 37 percent of all music consumption, more than file-sharing, NPD said."

My comment: Sounds like an obvious problem – it's all out there for free so they stopped buying. But the thing is that this is not the real problem. "Free distribution" is a blessing, not a curse, and P2P/super-distribution will emerge as the main mechanism for digital distribution in the next three years (and not just for music).

Rather, it is – still seriously counter-assumptive, and beyond grasp of most of the incumbents of Music 1.0 – the unfailing desire to, at any cost (including self-destruction), want to control the ecosystem that the large music companies must keep in check. And then we can understand and monetize what people actually do with technology.

They are doing this because they like the music and the artists, not because they want to do as much damage as they can – you simply have not given them good enough options to act differently.

If the model of über-control of music distribution isn't working any longer, wouldn't it make sense to try to come up with a new model? Lesser control does not mean zero revenues. There is life after selling expensive copies of plastic, or indeed copies of 0's and 1's. Trust me ;-)

JUNE 18, 2007:
A HOT AND COLD REPORT FROM THE CISAC COPYRIGHT SUMMIT IN BRUSSELS

On May 30, I was invited to attend the inaugural Copyright Summit in Brussels, Belgium, organized by some friends of mine on behalf of CISAC (the RIAA equivalent of the copyright societies/PROs/MROs). I moderated a panel, too, and quite enjoyed it.

The funny thing about this event was that it provided a constant succession of hot and cold showers (although most of them were on the chilling side). On the one hand, copyright societies, composers, and various intellectual property lobbyists (and boy, did that label apply – even Charles Aznavour was turned into a shining example of righteousness!) constantly lamenting how badly things were going because the Internet really is just a giant rip-off machine. (This, of course, was always and without fail linked to the instant quests for more protection by the governments.)

On the other hand, some lonely but outspoken and "keen-to-help" technologists, visionaries, consultants, entrepreneurs, and Music 2.0 advocates (I guess I did fit in there somehow ;-) who tried to insert some sort of reality check into the proceedings.

At one point I felt that one might as well summarize this entire conference like this: "Please just try to get it – the utter control paradigm of this ecosystem is over. Finished. The Past. You need to move forward and adjust to making money in a new way. Go and do it. Now."

This thought, I felt, was somewhat echoed by Andre LeBel, CEO of the Canadian Society SOCAN and without a doubt one of the most forward-thinking people as far as rights organizations (MROs and PROs). Andre was one of the few PRO speakers who did not just dwell on "We need more protection" but instead urged his peers to change, and to change fast. Somehow it seems that Canadians are always ahead in these things…

Unnervingly, at times the event felt like most people on the stage were shooting to incite a mutual love-fest with their peers in the audience, and other times it felt like a stoning incident was immanent – particularly when Larry Lessig entered the stage. I really thought he did a great job defending the Creative Commons initiative considering that the audience basically told him to stuff it and stop talking about it in public: "It makes life so much harder for us to have you out there saying these ludicrous things…." Still, Larry did a great job, as usual. I just wished he had more time to explain things, and a better moderator would have been nice, too.

British Telecom CEO Ben Verwaayen delivered a good keynote speech that I thought was very much spot-on and quite daring given that the audience consisted mostly of fairly upfront and ready-to-blast-you copyrightists and people who want to see "their IP rights defended." Here is one of my favorite quotes from his speech: "Because the consumer of today is no longer the consumer you're used to…the question is not where the value was yesterday but where it is today."

The *Hollywood Reporter* commented: *Verwaayen flatly rejected suggestions that operators like BT need to compensate rights owners because they provided the infrastructure for online piracy. "It's nonsense," he said. "It's the same issue in many industries: Is one responsible for the problems of another? If you think someone else will solve your problems for you, forget it – it won't happen."*

I think Ben's speech was great mostly because he really cranked up the opposition in the audience, most of which apparently believed that the telecom companies should just shut up and pay for the music their users get on the network, and thereby solve everyone's problem. (No, we are not talking about a flat rate here; we are talking filtering and paying penalties.)

A really great contribution was made by musician Billy Bragg – recently (in)famous for his run-ins with MySpace – who highlighted some of the great advantages that the Internet has brought us, and successfully bridged the gap between the somewhat technophobic crowd and the rest of the audience. "As artists we have to find a way to get together…technology and the audience are well ahead of us," he said. Well done, Billy!

John LoFrumento, CEO of ASCAP, delivered a good example of playing to the crowd but was otherwise unfortunately not adding much value: "This is stealing…and hurting a lot of people." These kinds of tired observations could be heard from many panelists and speakers, over and over again, thereby, I guess, enhancing the opportunities for some good mutual back-patting: You cry for me – I cry for you.

I think it would have been much better to have some honest conversations about real change, why it's needed, and why it's urgent (which is something I dare I say I tried during my panel; I hope I achieved it at least some of the time).

Unfortunately, the second day at the conference was somewhat ruined by a über-ludicrous flyer that some ASCAP people passed out at the entrance – a bizarre cartoon one-pager called "Donny the Downloader" that depicted a freaked-out musician who is working in a fast food joint because the very people who order food from him have been freeloading his music instead of paying for it.

Sorry, ASCAP and everyone within ASCAP who is still doing a great job to bring real change into the organization, but this kind of thing is just so utterly simplified and makes you look deeply ridiculous. It's hard to believe that you would even consider publishing something like this.

It's not the free downloading that's hurting the composers and publishers, it's the industry's (and that means labels and publishers) ongoing and irresponsible refusal and/or inability to license music on different terms than it's used to. Get with the program and enforce participation, not punishment – you can't outlaw 90% of the population. I and many people next to me were amazed at the idiocy behind this flyer – it reads like something from 1999! Where have you guys been?

All in all, though, it was still a very interesting conference – mainly because I learned a lot (even though I had to have my flame shield on most of the time), and got to talk to a lot of people who were very sure of what they do, and that always makes for interesting conversations. The organization was flawless, even though I wished there had been fewer yes-sayers and more speakers who pushed the envelope and questioned the comfortable "We just need more protection" attitude that prevailed throughout. But then again, it was a CISAC show…right?

JULY 01, 2007:

GERD LEONHARD'S OPEN LETTER TO THE INDEPENDENT MUSIC INDUSTRY

MUSIC 2.0 AND THE FUTURE OF MUSIC IS YOURS – IF YOU CAN RESIST THE TEMPTATION OF BECOMING JUST ANOTHER MUSIC CARTEL!

On June 29, 2007, while at London Calling, I was invited to speak to a small group of indie record label leaders at the annual AIM/WIN gathering in London. I took this opportunity to take a good look at what I think needs to happen in order for the independent music companies to actually take advantage of the new music economy that is rapidly unfolding right now.

A NEW MUSIC ECOSYSTEM

PREMIUMS/UPSELLS

CDs, DVDs & OTHER FIXED MEDIA, TRACK-BY-TRACK DOWNLOADS, CONCERT & LIVE-RECORDINGS, GAMES, TICKETS, MERCHANDISING, FAN-CLUBS AND SPECIAL ACCESS OFFERS ETC.

BUNDLED/SUBSCRIBED/VIA FLAT RATES

DOWNLOADS ("OWNERSHIP OF MUSIC & VIDEOS")

FREE/FEELS LIKE FREE/REVENUE-SHARED

RADIO, INTERNET STREAMING, SOCIAL NETWORKS ETC. (REVENUE SHARING)

Here are my views on what I like to call "Music 2.0" – the next generation of the music industry that is being created as we speak. The Music 2.0 model is dramatically different from the traditional music business; many old ways of doing things, many old relationships, and many outmoded traditions cannot and will not survive.

I want to seduce you, the leaders of the independent music industry, to fearlessly go down this new road, to take a leap, to leave some of your assumptions and your "religions" aside, and to make bold moves – because that is what is required to turn this ship around.

F. Scott Fitzgerald, the famous novelist, once said, "The test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function." This will clearly be the music industry's task going forward!

Technical and economic innovations have, for the past ten years, stripped away many traditions, social and economic hierarchies, and monopolies in the music industry, and if there is one thing we can say for sure I guess that would be that it's now showtime: The music industry is finally reaching a major inflection point, ten years after the first dot-com ventures shook the ground.

It took a lot longer than we all thought, but it's hitting us much harder now: CD sales are down between 20–40% YTD, and digital sales are not going to make up the difference any time soon – and the one-horse race with the omnipresent iTunes clearly is a dead-end, too.

We are very quickly nearing a point where we will be forced to dive into what I like to call "Music 2.0" – a new ecosystem that is not based on music as a product, but music as a service: first selling access, and only then selling copies. An ecosystem based on ubiquity of music, not scarcity. An ecosystem based on mutual trust, not fear. A sales model based on merit, not control.

As Don Tapscott points out in his great book Wikinomics, we may want to think of Web 1.0 – the "old" web – as some sort of digital newspaper, whereas Web 2.0 is a canvas that allows syndicated content and information to be put up, shared, changed, and remixed. It's now all about the interaction, the send-and-receive options that make it useful and "special."

And of course, in music, it's always been about interaction, about sharing, about engaging – not just about sell-sell-sell right from the start.

Stop the sharing and you kill the music business – it's that simple. When the fan, a.k.a. user, a.k.a. listener, stops engaging with the music, it's all over. Today, you urgently need a canvas for music, not a one-way product (such as the CD).

Let's face it: Most "leaders" of the major record companies as well as a good many independents are, by and large, still in solid denial about the fact that their unit-sales-based model is utterly broken and crashing quicker than they can fathom, and many still hope for some magical technology solution such as DRM or TPMs to solve a serious business problem. Just take a trip to the annual MIDEM convention to see how disconnected most people in this industry still are!

Billions of dollars have already been lost due to misguided strategies, outdated policies, and lack of true leadership. Forgive me, but I think it's time to get your act together and do whatever it takes, not just what fits comfortably into your current mindscape – this is a make-it or break-it moment.

How come most music rights societies (PROs & MROs) are still at a total loss when it's about "licensing the un-licensable" (as my dear friend and colleague Jim Griffin puts it), when it's about making new models legal?

Thousands of companies with innovative business models are left unlicensed by default (or shall we say by tacit consensus?), and most of them have given up on even trying. Major money is left on the table due to the industry's tardiness and internal squabbling.

Many of the traditional music licensing organizations have utterly failed in their mission of making music available – in fact, they have, by non-action, succeeded in making it unavailable. What you need now is action, not continued excuses.

Today, we have arrived at the paradoxical state that any startup that wants to use music will not even try to be legal right from the beginning, since there is no reasonable way of doing so, and since it will eat up a lot of resources without any tangible results.

Look at the biggest exits in this turf, during the past two years: MySpace, YouTube, and to a lesser degree, Last.fm – either they did not even bother with the "proper" music licenses, or it was unclear if and where and when they would even need one. Non-compliance with existing copyright regimes, and extensive loophole-exploitation succeeded and was handsomely rewarded; while complying with the existing laws and regulations was punished by becoming irrelevant in the market place (see Napster).

The music industry must now admit that it has failed to act. Its leaders' cluelessness, incomprehension, and general lack of willingness to embrace true change allowed paying for music to become voluntary. Congratulations.

As an example, Don Tapscott points at the year 2006: The losers built digital music stores, and the winners built vibrant communities based on music. The losers built walled gardens while the winners built public squares. The losers were busy guarding their intellectual property while the winners were busy getting everyone's attention. Warner Music Group's stock nose-dived from $30 to $14 in less than one year; Google rose from $323 to $526; Apple went from $50 to $127.

For the independent music industry, the question is: Which side do you want to be on? Do you want to become another "major player" and stay stuck in the muck of Music 1.0, or do you want to lead the way into Music 2.0?

THE FAILURE TO LICENSE THE ONLINE NETWORKS HAS NOT AT ALL REDUCED THE USE OF MUSIC ON THOSE NETWORKS - IT HAS JUST **REDUCED THE CREATOR'S INCOME ACROSS THE BOARD!**

In this context, please allow me give you a glimpse of the future, so that you can make some decisions based on what is coming.

1. UBIQUITOUS SHARING

Within 18 months, in many key music territories around the globe, wireless broadband networks and device-to-device ad-hoc networks will connect every conceivable device with each other, as well as with gigantic online content depositories – or shall I say media switchboards – that will contain every imaginable song, film, or TV show.

If you think "sharing" is a big deal now, just give it another two years – music sharing will be a hundred times as easy, 500 times as fast, and enabled on every single device, from music players to car radios to wrist watches (i.e., not just computers). And over three billion cell phones and over one billion wireless music players will connect seamlessly to each other.

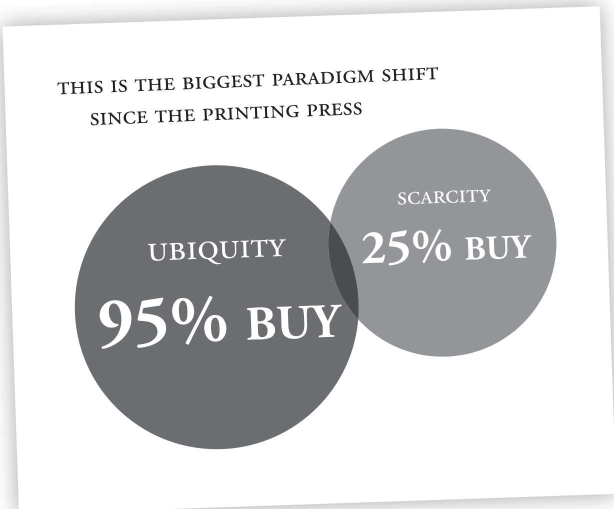
Wireless broadband access and devices will become so cheap, fast, and ubiquitous that sharing content will become the default setting, at very high speeds and with anyone who is close by. Search – Find – Select – Exchange. Click and get!

So how can the content industries monetize this? The only sensible approach is by licensing participation via a blanket license, i.e., to legally enable the networks and the devices through which the content flows. The music industry in particular must license the use of pretty much all existing and newly released music on these networks, and it must make irresistible, irrefutable, and utterly compelling blanket offers to those who run the networks. These license deals must be conversations, not monologues, so that they are not perceived as yet another stick to the ISPs and telcos but welcomed as a mutual benefit.

2. AUDIOVISUAL SYNERGIES

Thousands of new TV, online video, and gaming channels will get underway in the next 2–3 years, and all of them will need music to go with the visuals. Millions of songs will be synched to video, and this market opportunity will surely explode. If you are 360° music company (i.e., if you own can represent both the master rights and the publishing rights, and if you serve as a trusted agent to your artists), it may well be that those burgeoning B2B licensing revenues end up being more than 50% of your future income.

However, exploiting these opportunities will only be possible if an efficient and frictionless system for those myriad B2B transactions is available, and widely used everywhere, and this is where I believe the huge opportunity for AIM, WIN, and the independents' new Merlin initiative lies. Think eBay + Alibaba + Chemdex + Getty Images. Every euro invested in better B2B processes will make tens of thousands of euros for music rights holders – while they sleep, or better yet, make more music.



3. USING THE FLOW

Streaming music, on demand, will be everywhere. On every website, every widget, every mobile, every device; supported by a new generation of ads, sponsorships, and commissions on transactions. Performance-based income will surge beyond your wildest imagination. But again, only if the industry's licensing organizations and their members finally chose to play ball, to participate, to provide irresistible license and flat rate offerings, create reliable standards, and go flat-out for liquidity, not try to maintain artificial scarcity. U.S. public performance rights organization BMI's revenues have grown from $630 million in 2003 to $779 million in 2006 – not bad considering the overall demise of the recorded music market at the same time!

Read my mouse: It's not the copy of the recording that will make all those new dollars or euros or yen or shekels or rupees – it's the use. In fact, the use of your music may just be the next big format you have been looking for.

4. MULTIMEDIA RICHES

Rich media (i.e., multimedia ads with music, video, animations, audio, etc.) will become the default advertising format for online advertising, representing yet another huge growth opportunity for music. Researchers predict that soon, over 10% of all ad spending will be on the Internet and 16% of all Inter-

BY 2008, ONLINE ADVERTISING SPENDING IN THE U.S. IS EXPECTED TO SURPASS RADIO ADVERTISING SPENDING net ads in 2009 will be rich media. With an estimated $700 billion of global ad spending by 2009, that means $70 billion for online ads, and over $10 billion spent for rich media ads. Hundreds of millions of $$$ for music licenses!

5. RADIO DIGITIZED

Digital radio will deliver 100% time- and place-shifted music experiences, stopping only a tiny bit short of becoming a "feels like free" version of iTunes. The reality is that Net radio is really just another TiVo – but for music.

Radio will indeed become the feels-like-free, on-demand music box once again: The only remaining "Radio 1.0" factor will be that it will continue to be curated and expert-produced, as well as taking in social recommendation and smart technology agents. The best radio stations will become very strong brands (BBC Radio 1, KCRW, WYNC, etc.), outdoing what used to be record labels. So how will the rights holders license Radio 2.0 if they insist on staying with a per-copy model? Talk about a clash of paradigms....

6. WATCH AND LEARN

All music companies will become video companies, by default – music will be multimedia, from the get-go. Think: music + video + audio + text + games. If you aren't already diversifying into video and TV, you really should.

7. FOREIGN INTRIGUE

China, India, South America, and Africa will explode with new models for usage-based rights bundles and flat rates based on access. In other words, content will be monetized by accounting for usage, not by counting copies.

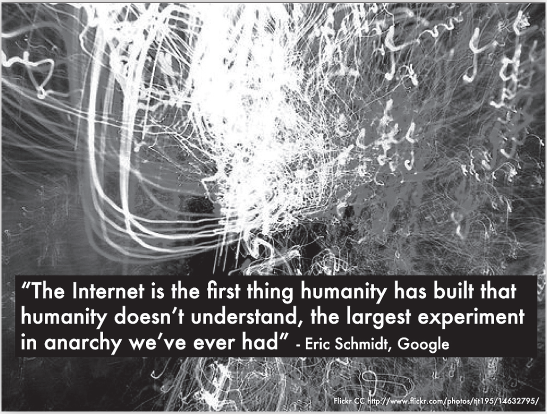
MEDIA

...WAS	...IS AND WILL BE
LINEAR	INTERACTIVE
TEXT WEB	AUDIO & VIDEO WEB
COPYRIGHT	USAGE RIGHT
ADVERTISING	CONTVERTSING
PROFESSIONAL CREATORS	UGC AND PROFESSIONAL CONTENT CREATORS
PAY WITH CASH	PAY WITH ATTENTION (AND CASH...TOO)
ONE WAY PUSH	2-WAY PULL

But again, you will not have truly liquid (i.e., efficient, low-friction, and vastly scalable) markets until you allow, support, enable, and trust them. The music industry must swing this ship around, because right now, they are failing miserably: failing on technical and on licensing standards, on flexible pricing offerings, on competitiveness, on compatibility, on being trusted, on transparency.

Let's take a step back for a minute. The music industry's past was based on:

- Control
- Exclusivity
- Monopoly
- Closed-ness
- Guarding/Protection
- Secrecy/Non-Transparency
- Territoriality



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The challenge is that the industry's future – if it chooses to go there – is based on:

- Openness
- Transparency
- Peering
- Sharing
- Trust
- Un-Control
- A truly global outlook
- Liquidity

To quote Jim Griffin again: "Monetize anarchy, and license the unlicensable."

I predict that as much as 60–70% of this new music business – and with that I mean a newly revived, $100 billion music business – will be independent within 3–5 years – but only if its leaders don't follow the major labels into liking control more than income.

In this context, here are a few of my favorite bottom lines:

1. THE MEDIA ECOSYSTEM OF THE FUTURE IS, AND MUST BE, FRICTIONLESS. Frictionless means music anytime, anyhow, and anywhere, ranging from free and "feels like free" to bundled, up-sold, and premiumed. Your job as a music company is to do away with the friction, not to add to it, much less to re-insert it. On the Internet, every hurdle is treated as damage, and the traffic is simply routed around it. Create friction and be sidelined.

2. IT'S NOW ALL ABOUT PARTICIPATION, NOT PREVENTION. Because of the utter impossibility of maintaining any real hurdles to access, it is absolutely crucial that you find ways to participate in any and all forms of commerce that use music in one way or another. Charge smartly and efficiently for access but make music available the same way that cell phone operators make cell phones available: at a very low cost, in an irresistible way that engages people – and sell upstream from there. Whether it's streaming-on-demand, remixes and mashups, playlisting and social network music applications, adding music to video, or digital radio, being part of it is what it all starts.

3. LET'S FACE IT: THE WEB IS LIKE A GIANT TIVO, a huge recorder, or a DVR – all performances are or can be recorded, all broadcasts really are deliveries. You need to stop distinguishing between music "to keep/own" and music "to listen to" – your users and those pesky digital natives already did this a long time ago! License the use. Share revenues. And then up-sell to ownership.

4. COPYRIGHT IS THE IDEA, THE PRINCIPLE, THE BACKDROP, BUT USAGE RIGHT IS WHERE YOU WILL ACTUALLY MONETIZE. Licensing usage and collecting for usage is where you need to focus your energies, not the "protection of intellectual property." This is a tough spot but again, do you want total control, or do you want revenues?

5. END THE FEAR-INDUCING ENDISM: Very few things end completely when new inventions are taking hold. Usually, the market simply changes, and most of the time it becomes larger. And it will be no different this time. Yes, the fax machine and the Internet killed the telex and the telegraph, but we still have books even though we have Xerox machines. And we still have theatres even though we have DVDs. CDs will decline, and may eventually fade out completely, but nothing you do in digital music will completely wipe out physical media – in fact, there is likely to be a new physical media format emerging from the total digital access paradigm (think HD!). In reality, the web is just another format, and it's called access.

6. WE MUST REMEMBER THAT THE ONLY REAL LIMIT TO GROWTH, IN MUSIC AND IN MEDIA, IS THE CONSUMERS' AND THE USERS' TIME. Media consumption will continue to rise as the offerings become cheaper and more ubiquitous, and as more of the "Digital Natives" consume multiple media at the same time. Content creators and media companies are now engaged in a battle for the wallet and the clock – but the clock comes first. Mindshare means time-spend means money spend!

Again, this is where attention translates into money, and this is why the first objective is to get attention, and only then to get money. The biggest problem for most artists (and their labels) is obscurity, not piracy.

7. ENGAGE, NOT ENRAGE. Stop anything that enrages the users. And do it now.

8. YES, YOU CAN COMPETE WITH FREE, because what only you can offer must never just be free. Yes, a copy of a file is free. A CD burned from another CD is free; a USB stick's content copied to my computer is free. But the real-life connection to the artist, the experience that is happening around the music, the added values such as videos, films, games, chats, books, concerts and merchandising, the context (!!!) – all of that must not be given away "for free."

In fact, the more unique and valuable the experience is, the more expensive it will be – look at the global rise in live concerts!

The music companies formerly known as record companies must quickly stop the obsession with trying to make money merely from selling copies, and instead provide 360° access, because only the legitimate and authorized source (i.e., agent-label-manager) can provide these comprehensive bundles of values that the users, fans, the People Formerly Known As Consumers, will feel compelled to open their wallets for.

Music 2.0 is an unprecedented opportunity, very much like when music went from acoustic to electric. Everyone wants music. More music is used on more platforms, all the time. There's an unprecedented hunger for music that you need to fulfill!

Lastly, here are some challenges that I believe a music industry led by independents must embrace.

1. LICENSING

Once released, a recording becomes, in reality, available by default and must be made "usable" under a default license – all else equals tacitly conceding that it's free to use without permission. As a result of such a new "default license," some rights principles that we have gotten used to may not translate into this environment, such as the moral right of deciding where your music is being performed or maybe even otherwise used.

However, I don't think this will apply to commercial use in films or ads – unlike the private or semi-private use in UGC and web-generated content – and of course, to public performance.

THE UGC DEFINITION EXPANDED

USER GENERATED:

CONTENT

CONVERSATION

CONTEXT

COMMERCE

COMMUNITY

2. COPYRIGHT

The traditional definition of copyright and intellectual property cannot, for the time being, be the sole key to monetizing your creations. Because it is no longer about copies, it's no longer about the right to copy, it's no longer about reproduction – it's about how music is being used and how to participate in those much larger revenues.

Call it ephemeral copies, tethered downloads, rented media, streaming, buffering, caching, storing, time-shifting, downloading, ripping, or whatever – the fact is that digital technology has already done away with the distinction of a so-called performance being different from a so-called DPD (digital phonographic delivery). All computers – and that now means all cell phones, too – are by definition copying machines.

As scary as this may sound, you must therefore discard the idea of charging more to "keep" music, as opposed to just "listening" to it as in radio. Instead, you must focus on charging for added values (such as a better way to keep the music ;-), and on collecting revenue at every point of access, and then go from there. Charge for music like utility companies charge for basic water and electricity service, and then charge more for all the other options. Did you know that the bottled water business is a $100 billion industry?

3. FINDING NEW STREAMS

Your revenues from selling copies of songs will soon dwindle down to maybe 30% of your total income. The rest will be revenues from licensing, sync, performance, bundling, flat rates, revenue sharing, and the many other streams that are yet in their embryonic stages. Get busy creating and supporting those new revenue streams!

4. RESISTING EXCLUSIVITY

You can't afford exclusive rights representation at high rates any longer, unless these traditional institutions and licensing bodies really give you 100% coverage and a flawless solution.

5. GOING GLOBAL

Forget territorial rights clearance except for when serving local repertoire (which is on the rise, too). Most talent is global, and your audience is global, or at least virtually local. Internationalize right from the start and build systems that will support that. Build a worldwide licensing and B2B-transactions system that makes all repertoires available for all types of use, and build it quickly.

6. CHARGING FAIRLY

If you are independent music company, you must resist the temptation to do as the now quickly deflating major labels have done (e.g., extract huge one-off payments, extort equity shares, license at unreasonable rates, refuse access for no reason but market-control concerns, sue their own customers, etc.) – that is a certain death wish. In fact, now you can force them to follow you!

7. RESISTING LOCKDOWN

Resist all attempts at locked/protected formats, and go for open systems.

8. PACKAGING

Bundle and package music in new ways: with other services, with other products. And prepare for the Flat Rate because it's coming, without a doubt.

MUSIC MARKETING 2.0: VIRAL SYNDICATION

- Pull (not push) approach to get attention
- Decentral approach
- Based mostly on merit content
- Lets the USER do the marketing
- Basic principle is "making it available"
- Is based on flexible toll-booth strategies

9. REMOVING ROADBLOCKS

Remove any and all hurdles to complete market liquidity: pricing inflexibility, lack of standards (technology), lack of licensing transparency, territorial differences, rights monopolies.

10. LOOKING OUTSIDE

Embrace outsiders that can jumpstart the music business. Niklas Zennstrom disrupted the telecom business, Hotmail changed email, Stanford dropouts started Google – the innovation often comes from the outside.

Call me a utopian, call me a dreamer, call me a ruthless optimist, but I think this is the future of music.

July 27, 2007:

Music Syndication – Embrace the Inevitable: Project Playlist, SeeqPod and… Sonific

Just as Sonific, my own company that is plying the Music Widgets turf, is about to release its new Playlist feature, this whole "widget" turf seems to explode with announcements. (Which is good for us, I think. ;-) Witness Fairtilizer, SoundPedia, Jamendo, Project Playlist, and now, with the iPhone, Seeqpod.

Apart from the rather odd name (hello, branding guys… what are you thinking?) it is quite an interesting app, essentially searching MP3 files from whatever MP3 blogs are out there, sucking the MP3s off them, and creating playlists that can be widgetized anywhere. Not exactly a new idea (see Project Playlist) but nicely ajax-ed and well-done.

So, I can't resist…. Here are two thoughts on this stuff:

> **1.** This is essentially a concept based on meta-distribution of MP3 files that have been embedded in tens of thousands of MP3 blogs around the world, i.e., it's feeding off third-party blog posts and their media servers, added on top of their already gray-zone legal status. (And I say this with great appreciation – I love what these blogs are doing!)
>
> Currently, most of these MP3 blogs are basically ignored or tacitly tolerated by the actual rights-holders and the record labels that own the master recording rights. However, this kind of super-redistribution of those "tolerated" free MP3s will rattle their cages fairly quickly, because, let's face it, this is essentially on-demand, interactive play of single tracks, which the labels have always maintained is subject to a license fee.

Yes, of course that idea is decidedly Music 1.0 and wishful thinking, too, but still: Look at the recent Imeem-Warner Music lawsuit. And this is also, of course, the very reason Sonific does not yet have a lot of current hit artists available – the license deals that are currently being offered are beyond ridiculous.

So, what do you think will happen if these newco's that are pushing the envelope (such as Project Playlist, Seeqpod, et. al.) gain a real audience, i.e., millions of users and embeds in most social networks?

Well, it's simple: The MP3 blogs that feed them – willingly or not – will get take-down orders; or rather, the top three blogging platforms and services (Blogger/Google (!), Typepad/Livejournal/Vox/Six Apart, WordPress) that actually host most of these blogs will get take-down orders for all MP3s that are hosted on their millions of blogs, and that will be the end of us enjoying things like Fluxblog, Elbows, or HypeMachine as well. I am not so sure these MP3 blogs should be, or are, so happy about stuff like Project Playlist or SeeqPod.

> **2.** As to the major labels: Talk about facing a new reality! Super-distribution of music is here, now. No matter how much you scream, sue, and lobby, you will not be able to plug these holes, and insist on up-front license fees for on-demand streaming or interactive radio applications like these. In reality, you can only chose to participate and share revenues – you need to fuel the fire, not look for a firehose.

I am willing to bet you 100 copies of this book that if you were to actually license all those social-network-Music-2.0 companies that want to use on-demand, interactive, streaming-only widgets for their music-driven social networks, you could start to generate some serious money from advertising revenue shares and e-commerce click-throughs. Plus you could use them to market your music extremely efficiently (well… for free, really!).

And no, this would not replace your CD sales (ahem…if you still have some, within the next 12 months) or your digital sales (provided you'll be smart enough to finally get out of DRM before your tankers hit the cliffs).

JULY 31, 2007:

ILLEGAL MUSIC DOWNLOADS HIT RECORD HIGH

I ran across a good read from the UK Telegraph today, entitled "Illegal Music Downloads Hit Record High": "*Four out of every ten social network users have music embedded in their personal profiles, rising to 65% among teenagers. Russell Hart, chief executive of Olswang Entertainment Media Research, described this phenomenon as the democratisation of the music industry. "Social networks are fundamentally changing the way we discover, purchase, and use music," he said. "The dynamics of democratisation, word of mouth recommendation, and instant purchase challenge the established order and offer huge opportunities to forward-thinking businesses."*

My comment: This guy is hitting the nail on the head, for sure. Yet, I still don't see a concerted move from the labels to simply offer a new, default license for the use of streamed tracks on these networks (radio, anyone…?) in exchange for a nice share of revenues and zero-cost access to hundreds of millions of music buyers.

This sounds like a great job for the PROs (performing rights organizations) that represent the master recording rights such as the PPL (UK), or SoundExchange (U.S.). But once again, the only thing you hear from them is that they don't have the mandate for this, yet, and on and on.

Now, whose fault is it if there is no license to be gotten? My prediction: On-demand streaming of each and every song will be offered, licensed or not (not is more likely since there are already hundreds of apps available that do this perfectly, and without a license), on all of these networks – and there are already approximately 750 of them, serving approximately 700 million people, and their number is estimated to grow to over 5,000 within 12 months.

If the record labels (and to a lesser degree, the music publishers) think they can just deny this license in their usual "go away – permission not granted" style, simply in order to be able to extract larger sums out of the market, they will just put another nail in their coffin. Because today, non-participation means that everyone just routes around you!

The biggest trend here is access replacing ownership. Hundreds of millions of people go to those networks and listen before they will consider buying anything (provided that the buying of digital music may even be attractive, which it is clearly not, right now).

AUGUST 17, 2007: THE ATTENTION ECONOMY AND THE MUSIC INDUSTRY

A few months ago, the UK law firm and research company Olswang released a new report called The Impact of Social Networks on Music Commerce. I have had the PDF on my desktop, marked in red, for a long time, and I finally got to dig into it today.

DATA FROM OLSWANG.COM

OLSWANG.COM STUDY EXECUTIVE SUMMARY

THE MAIN HEADLINES

- The 2007 Digital Music Survey reveals how social networks are changing the way music is discovered, purchased and consumed
- Legal downloading is increasing but at a slower rate than hitherto
- Unauthorised downloading is now at its highest level after last year's signs of decline –consumers are less concerned about prosecution
- Mobile music downloading creeps forward. Predictions are for further modest growth unless providers change current market conditions – ease, fair pricing & clarity
- Significant increase in listening to radio onmobile phones –good news for broadcasters and possibly an exciting revenue stream if/when DAB is rolled out
- UK live music scene is buzzing & demonstrably effective in boosting album sales
- Strong indications that live music webcasts are an attractive new revenue stream
- USB format is highly regarded and further trialing recommended
- Continuing growth in personal digital player penetration with digital players on mobile this year's highest gainers

*With kind permission of Olswang *London*

This is an absolutely brilliant piece of research (albeit with a fairly small number of UK-only participants, about 1,700 I think) that very clearly spells out where the future of music will take us: licensing access, sharing new revenues, ad-supported monetization, diversified revenue streams, complete music and video convergence, user-generated playlists and viral syndication, and so on – you've heard all that from me before I reckon.

Here are some excerpts and comments:

> Social networks are changing the accessibility of music, helping it to become more democratic and utilitarian and this is having a profound impact upon the discovery and purchase of music, with far-reaching implications for the music business.

My comment: You can say that again. Streaming full-length music tracks, fully selectable by the users without any restrictions whatsoever, is now becoming the default on social networks and blogs. Basically – and I said this two years ago – this is the new radio, and it should be licensed like radio (albeit for a higher share of revenues).

> The Impact of Social Networks on Music Discovery & Purchase: The Digital Music Survey is currently in its fourth year and is an independent survey of 1,700 UK consumers. The research indicates massive increases over the last 12 months in usage of sites containing music such as YouTube (up 310% to 53%) and MySpace (up 57% to 55%).
>
> Amongst teenagers the incidence is huge – 77% have used MySpace and 69%, YouTube. For users of these social networks, music is playing an increasingly important role. For example, 39% of social network users have embedded music in their personal profiles (65% of teenagers). Approximately 70% do so to show off their taste and half do so to reflect their personality. What's more, it seems to work as almost 60% agreed that they could tell a lot about a person from the music in their profile.

My comment: Embedded music and media players will indeed be the #1 driver of content syndication, and will play a huge role in how music is being found and purchased. Give it just another 12–18 months and every web user will know what a widget is – and probably use them, too.

Imagine Amazon.com offering MP3-only downloads that are based on a weekly or monthly flat rate, and/or bundling deals that "feel like free" to the consumers that are on the receiving end of click-throughs from 500 million social net users. (They already did this with Premium Shipping and are now

DATA FROM OLSWANG.COM

EXECUTIVE SUMMARY

MUSIC USED IN SOCIAL NETWORK PROFILES

• 2 in 5 social networkers (39%) have embedded music into their profile

• For Bebo & MySpace, levels are even higher (65% abd 63% respectively)

• Incidence of embedding music in a profile is directly correlated with age. 13-17 years olds most likely (65%) and 45+ years olds least likely (10%)

• Social networkers use music for public displays of their taste and to reflect their personality –a means of self-expression through music:

> 78% of those embedding music to their MySpace profile do so "To show others what music I'm into"
>
> 51% "To say something about my personality"
>
> Above is also true for Bebo users (70% to show off taset, 54% to reflect personality)
>
> Furthermore, 59% agree with the statement "I can tell a lot about someone byt the music they have on their MySpace profile"

*With kind permission of Olswang *London*

doing it with Kindle, their new book-device that has the connectivity already included.)

It will no longer matter where and how the purchase happens, and whether any new friction can be interjected to shore up that good old scarcity paradigm. All that matters will be who gets the clicks and who does not – getting and retaining attention is the new mission; distribution is simply the default. Friction is Fiction.

Olswang continues:

> The survey findings strongly suggest that social networks are also impacting music discovery. 53% of people revealed they actively surf social network sites to discover new music and artists and two-thirds of all users regularly or occasionally discover music that they love on their preferred social network site. The incidence is higher still on MySpace (75%), Bebo (72%), and YouTube (66%).

My comment: This is indeed a huge marketing nirvana for the record labels, and one they need to embrace a lot deeper than they have been doing until now. Just like the New York Times dumped its Times Select offering in favor of an open, ad-supported approach (and the WSJ is sure to follow), record labels need to shelf the idea of fixed per-stream fees. It just sets up hurdles that won't be meaningful, anyway, and it will dampen everything. Being in the pipeline is what matters, and getting more people to pay attention is what will drive future music commerce. Don't abolish the tollbooth – just move it down a bit further, and be smarter about it. Pull before you push!

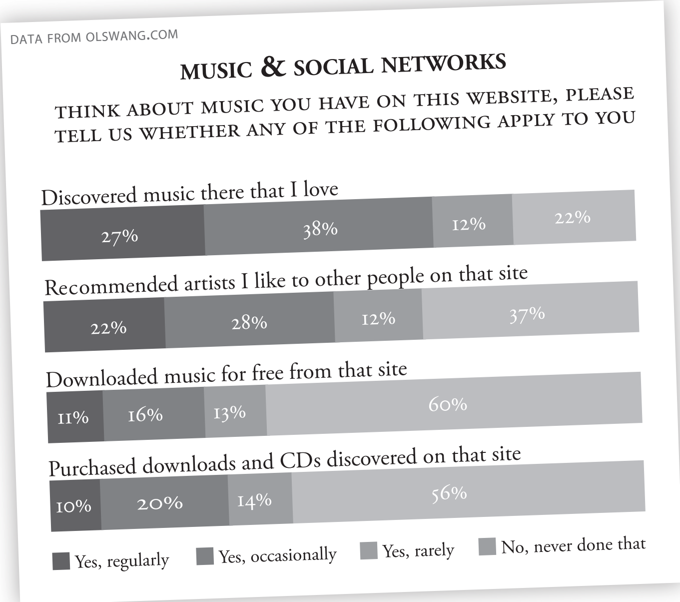
DATA FROM OLSWANG.COM

REASONS OF EMBEDDING MUSIC IN PROFILE

WHAT ARE THE REASONS YOU EMBEDDED MUSIC ON THIS WEBSITE? (MULTI-CODE)

	TOTAL	MYSPACE	BEBO
To show others what music I'm into	72%	76%	70%
To say something about my personality	45%	51%	42%
Quick & easy access to music I really love	41%	34%	54%
To promote a friend's band/music	19%	25%	6%
To play music that I or my band has made	15%	15%	18%
To impress people I know	6%	6%	6%
Other	2%	2%	2%

*With kind permission of Olswang *London*



*With kind permission of Olswang *London*

Crucially, the discovery is translating into changing purchase behavior. 17% of social network users claimed it has a "big/massive impact" on the way they purchase music and 30% state that they "regularly/occasionally" buy CDs or downloads of music that they discovered on a social network site. This rises to 36% of MySpace users. However, more needs to be done to make purchasing this music easier, with 46% of respondents agreeing with the statement "I wish it was easier to purchase music that I find on these sites."

My comment: I think it is shockingly pathetic how little the record industry has done so far to harvest the fruits of this enormous interest in music. People are totally interested in music, but until now the industry has only done its utmost to deter the interest, with impossible commercial terms, copy-protection obsession, format wars, territorial restrictions, and licensing turf wars. Ouch! Talk about a dysfunctional ecosystem – this is winning the grand prize, in my humble opinion.

> Russell Hart, Chief Executive of Entertainment Media Research commented: “Social networks are fundamentally changing the way we discover, purchase, and use music. The dynamics of democratisation, word of mouth recommendation, and instant purchase challenge the established order and offer huge opportunities to forward-thinking businesses.”
>
> John Enser, partner and head of music at Olswang, says: “The music industry needs to embrace new opportunities being generated by the increasing popularity of music on social networking sites. Surfing these sites and discovering new music is widespread with the latest generation of online consumers but the process of actually purchasing the music needs to be made easier to encourage sales and develop this new market.”

My comment: Record labels: Are you really listening?

I am going to stop here as you can read the rest on the Olswang site, but here is one more morsel that must be shared:

> Enser says, “As illegal downloading hits an all-time high and consumers’ fear of prosecution falls, the music industry must look for more ways to encourage the public to download music legally. Variable pricing models and DRM-free music, which would allow consumers legally to transfer music to other devices, were popular among respondents and represent new ways of enticing people away from breaking the law.”

august 03, 2007:

RADIO 2.0 IS LIKE GOOGLE READER

WAITING FOR THE UNIVERSAL MUSIC FEED READER

It just occurred to me that I already see the future of radio every single day: my Google Reader. I add new feeds to my reader every day (or remove dead ones), I share my feeds and OPML files with others, I freely export and import, I browse online, I browse offline…. I am now in complete control of my news and I pay with my attention, not with cash – yet. (And guess what: I think I would even do that, too, if there were a few more added values thrown in!)

Now, replace the text feeds and news chunks with music and you have an interesting future scenario for radio. Imagine being able to add a radio program to your selection of feeds, with a click of the mouse, and it would instantly be available online or offline (yes, in the car, too!). Imagine every radio station having an output feed, every listener having a music-feed reader, 200 clever FeedBurner-like apps serving 1.1 billion people online and over 3 billion people on cell phones.

On this imagined radio-feed-reader you could bookmark what you like, tag it, star it, rate it, forward it, as you see fit. Select from any content provider, or have them select for you, or have others share your selections. Select from any grades of "narrowcasting" (i.e., one-to-one playlist sharing) to any shade of broadcasting. Aggregate it all in a "reader" formerly known as a receiver that would work on any platform: mobile, phone, TV, digital radio, the computer, your music wristwatch or your MP3 sunglasses. (Maybe this is what those guys at Slacker.com are shooting for?).

As far as I recall Google has been reproached many times over its "use" of third-party news feeds in the Google Reader. Google has been sued over Google Print, of course, and Google has been sued over YouTube. Google always gets sued because it continues to push into those gray zones between technology and copyright, and whenever it does this there is a good chance that it is once again on its way to transforming the future.

Google won't touch this idea (it has much larger plans ;-), but someone out there will launch The Universal Music Feed

Reader (TUMFR) and free music from the slavery of the copy-and-unit-sales paradigm. (Read: not copyright – just copy!)

So what about the content owners? Brutally put (and many of large record labels seem to like it presented that way), just like with the Google Reader and text-based content, a refusal to participate is futile. All audio and music content is already being made available by millions of networked and super-noding users, and any refusal to "not-permit" just leads to a re-routing-around-the-damage, i.e., the network always heals itself of you wound it by putting up the walls.

It's time to realize that the surest way to have your brand diminished, and for your relevance to dissolve, is to not participate. You will not only lose some or most of your audience (since you are forcing them to comply with your paradigms), but you will also be forced to police how much of your content ends up on those TUMFRs anyway.

The bottom line: Participate or be participated.

AUGUST 30, 2007:

ON-DEMAND STREAMING OF MUSIC ON SOCIAL NETWORKS AND BLOGS

THIS IS THE NEXT RADIO!

Partly because of my general work as a futurist, and partly because of my role as Co-Founder and CEO of MusicAPI provider Sonific, I have been very busy analyzing social networks, blogs, and other self-publishing platforms, and their importance to the music (and media) business. I will be publishing the results as part of my new book (The End of Control) soon, but my early conclusion is that this is the birth of the next iteration of radio that we are witnessing here.

If you recall, radio was first based on "pirated" unlicensed content, too – unwanted and ubiquitously hated by the music companies since they considered it a replacement and cannibalization of solid revenue streams (performances and sheet music, mostly) that they were counting on and did not want threatened. (Much like CD and download sales, today!)

But then hundreds of stations were launched around the globe, radio became something that everyone loved and used (yes…largely also because it "feels like free"), they all used whatever music that wanted without a definitive license (if any), and guess what: After ten years of just standing by and not giving their blessings, the music companies finally had to agree that radio was, indeed, driving sales of music and that it should therefore be allowed to exist.

The irony, of course, was that the U.S. labels did not even manage to get any revenue share from the radio operators; only the publishers did (in the U.S., that is). Would they have gotten substantially more if they had agreed on a revenue share right from the start, before those radio networks became the driving force behind music sales? You bet!

NOW: CONTROL 2.0 EMERGES - BASED ON

TRUST, MERIT, VALUE, TRANSPARENCY

So here is my urgent appeal to the record labels: License the social networks with a blanket, full-length-track (streaming) revenue-share-based license now, and get your foot in the door before it jams up, and before they can successfully argue that you need them more than they need you.

Mark my words: Streaming music on-demand, fully interactive, fully share-enabled, full-length-tracks, will become a default setting on the social networks, regardless of the record industry's "permission-denied" attitude. And we are already talking over 220 million people, 700-plus sites and services, growing something like 250% every year. That's potentially billions of $$$ in revenue shares from ads, up-selling, bundles…

SEPTEMBER 01, 2007:

TV 2.0

RETAINING THE EXCELLENCE OF TV'S PAST WHILE ADDING THE BEST OF THE WEB

Today, incumbent TV networks are facing a two-fold mission: On the one hand, current viewers (a.k.a. "users") must remain engaged and receive their steady supply of "push-media"; even on fixed schedules and in fixed locations, and in the traditional ways that have worked well for those that are not part of the Net Generation (i.e., those web-savvy 12–27 year olds). On the other hand – and this is something we must totally embrace – the only significant and sustainable growth in revenues, in the future, will flow from this generation of the "echo boomers," the Digital Natives.

These are the people who will consume VOD services, IPTV, mobile TV, and online video offerings. And, let's face it, these are also the people "formerly known as consumers (i.e., viewers)" – they no longer just sit, wait, and watch. Rather, they program their own media (that means locations, schedules, and delivery platforms), they comment, they question, they share, they communicate – and many of them want to interact as well, and even contribute to this new TV 2.0 medium.

The Net Generation will be able to select from, and switch back and forth between, many different delivery platforms and hundreds of thousands of sources of TV/video. This has already started with YouTube, DailyMotion, Metacafe, Joost, Babelgum, and Facebook. In addition, the rapid growth of cheap, wireless broadband may yet turn every person into a walking DVR, video vault, and peer-to-peer broadcaster, as well.

Therefore, the most important mission for the incumbent, large, and international TV companies must be to really embrace these changes and to build (or buy) new business models based on these new paradigms, while efficiently retaining what is still working – but with the understanding that this will, beyond a doubt, no longer generate enough revenues in only 3–5 years. Embrace user engagement, interactivity, user-generated content (or shall we say user-generated context?), social media, and communities built around TV and video content, and go for the Web approach. It's not all good but it's going to get there.

Sometimes, it may work best to start an in-house, rival "TV 2.0" company, a new, quasi-subversive entity that seeks to overthrow and out-do the existing company and that is free to do things the new way without having to worry about the day-to-day business.

For TV producers and distributors, it is now also crucial to seriously question one's own operating assumptions. The worst thing that can happen is to take your own, current media consumption habits as guidelines for the development of future scenarios, because it is not us (i.e., the 30 to 60-year-olds) who generate the future growth, it's the 10–30 year olds who will – and they don't think at all like we do!

Once one realizes that there is no longer such a thing as "offline," that TV is about to fully converge with the Internet, that all of us will very soon be truly always-on and connected at very high speeds (and with small devices formerly known as computers), that the Internet is now all about content rather than just communication, that in many western countries the Internet has moved to the #1 position as the favorite medium of choice for the digital natives, and that Internet advertising stands to overtake TV advertising in 2009…then one cannot overstress the importance of getting involved with TV 2.0, with jumping in head-first, with becoming the driving force behind change. Don't wait another day.

As Victor Havel once said: *"Consciousness precedes reality, and not the other way around."*

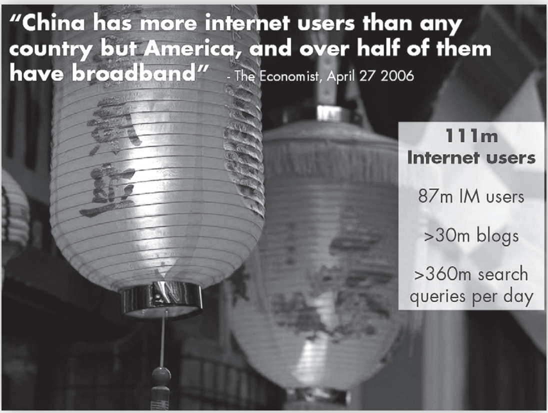

MEDIA 1.0
MEDIA 2.0
CONTENT
TIME SHIFTING
PLACE SHIFTING
QUALITY
INTERACTIVITY
FEEDS
FOLKSONOMY
REMIXING
NEXT GEN EPG, SEARCH & NAVIGATION
COMMUNITY

SEPTEMBER 11, 2007:

WHAT WOULD NEGROPONTE'S $100 LAPTOP INITIATIVE DO FOR THE FUTURE OF MUSIC AND MEDIA?

It looks like Nicholas Negroponte and his One Laptop per Child (OLPC) initiative will indeed succeed in giving everybody in Brazil, India, and Africa a fully functional, wirelessly connected $100 (or less!) computer. You may have not thought about it this way before, but just imagine another 250 million or more networked computers (a.k.a. digital copy machines) being given to people who have had no previous access to those large media vaults-in-the-sky that we Bit Torrenters have been taking for granted, and who may have never even heard of our traditional "western" copyright concepts before.

What is likely to happen here, and how will the media sector suffer or benefit from this? But first and foremost – how will the creators of all that media content benefit from this? No matter how you look at this, we can clearly forget the unit-base "pay-per-copy" paradigm here – nobody in India or China will buy into this and few will be able to afford it even if they wanted to, meaning those illicit libraries of all-media-anytime will continue to grow even faster. More users, more bandwidth, more storage, and increasingly less control over devices and networks!



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I personally believe that the only practical way we can remunerate the creators (never mind the middlemen, i.e., the publishers or the people formerly known as distributors) is indeed to offer all-in, flat-rate access to media content – starting with music. Those flat-fee-access libraries would need to be quite substantial, but lots of opportunities for smart up-selling could be built in as well – if you have a good reason to charge a premium, you will still get it since the user is already just a click away from it.

And he knows you and you know him (remember that trust-based economy!) so despite the fact that, yes, your premium content will also be available for free somewhere out there in cyberspace, you can still make a sale here – provided the real and perceived value is there, and the value-benefits ratio is clean.

september 27, 2007:

OUTLINING THE LOGIC OF THE FLAT RATE FOR MUSIC

plus more details on "music like water," part 1

Lately, a lot of people have been asking me why I am so sure that a flat rate for music would be a good thing, how it can be brought about, and how it may actually work.

Since I have just started preparing for my keynote speech at the Flat Rate Music Event in Iceland (on Oct 17, 2007), I am getting pretty well tuned up on this, so here is a bit of a FAQ on the flat rate and what I have come to call "Music Like Water."

Some statistics gathered by eMarketer clearly illustrate the current conundrum – albeit from a U.S. centric point of view, so some of this may or may not apply to Europe in exactly the same way. Basically, what's happening is that a much higher percentage of the total population is actually buying music today (32% of the U.S. population in 2006, versus 20% in 1980), but (and this is a very big but) the amount spent per capita has almost halved – and that does not even account for inflation since $100 is obviously worth a lot less now than it was in 1980. In fact, what cost $100 in 1980 would cost $267.76 in 2006 so $198 back in 1980 would be $530 today. I guess one could safely summarize that if we adjust for inflation it has actually shrunk by 75%!

Why is this happening? First, the music buyers' behavior has changed and they have broken down the control mechanisms, and bypassed the pricing rules of the record industry. For one thing, people can now buy individual songs (i.e., just pick the cherries rather than buy the whole album), they can download music for free pretty much anywhere (and most of it cannot be tracked no matter what they tell us), they can swap music on IM, Skype, and via Bluetooth, and they have myriad other options to get free music (satellite radio, Pandora, etc.).

Plus, and I think most important, the competition from other entertainment categories such as gaming is huge. The entertainment share of the consumer's wallet is under serious siege, no matter how you look at it, and music has not kept the top spot here (to put it mildly).

In any case, this development reflects that, as far as music is concerned, more and more people seem to want higher value at ever lower prices, and that they are tired of being forced into buying an entire album only to get the one or two "good" songs that they really wanted. Digital music has buried the concept of a "must-have-the-album," finally – at least as far as its physical possession goes. A quick note on that: I do think this will be revived once complete and unfettered access to digital music becomes the norm for all users.

The downward price pressures and value perception shifts that go with these stats are rock-solid trends that we can only accept as the definitive reality, and ultimately we must now counterattack with a radically new model: Let's lower the price of on-demand access to music (since that is what it's all about – i.e., not copies); get 98% of the population to automatically pay a very low minimum, every month; suck them into the music vortex (so to speak); and then take them upstream to sell them lots of other stuff. Not rocket science, really – see cable TV, cell phone services, software, games, etc. – but certainly a huge shift for those record company cartels that are used to telling the users what to do, when, and how.

The bottom line, however, is this: We urgently need everyone to have "feels like free" access to music, access that will generate solid, recurring, and expandable revenues that are built into the ecosystem rather than remaining an option that every user must select (and thereby pay for) every single time he clicks on "get this song."

That model simply won't scale – the Net Generation and those ADD-prone 12–27 year olds who have grown up as "digital natives" just won't buy "the old way" anymore – that model is asking too much, too early, too rudely, too disconnectedly, and it will be the industry's noose around the neck if it does not change.

YOU MEAN...LIKE A TAX?

It kind of sounds like it – and that may be one way of looking at it – but I would much rather see this as a voluntary collective license. (Again, just like radio!)

Having said that, the thought of a universally accepted and agreed-upon, "common-good" payment may seem somewhat un-American, and therefore my hunch would be that Asia and Europe will be first to implement such a concept. After all, most Europeans already pay for a public TV and radio license, and for levies for devices and recordable CDs – and most Europeans love their public libraries, too.

THE FLAT RATE BASICS

- Unrestricted legalized access to music
- "Everybody uses everybody pays" – but "feels like free"
- Payments are bundled and / or opt-in
- Based on voluntary collective license
- Rates vary by country
- The flat rate is only the beginning of revenue flow
- Creates a very powerful Music 2.0 ecosystem

Here is a simple appeal to the labels and publishers (and of course to the artists they represent, and their managers): License music on the Internet just like you licensed radio – but at better rates of course.

In fact, the Internet, and social networks in particular, are already like Radio, and the likes of Facebook will in the very near future be as crucial to music promotion and marketing as radio was the past 50 years.

Today, just as during the humble beginnings of radio, online social networks and services are by and large not yet licensed for their use of music because no workable, realistic, and practical license model exists. The rights holders and industry bodies have failed miserably to come up with a workable model because they have no idea what those hundreds of millions of people out there actually want. The result: Permission denied. End of story.

As a consequence – again, just like radio – large percentages of Internet users are now basically forced to blatantly engage in unlicensed behaviors of some kind (such as streaming tracks on-demand on their blogs, ripping webcast streams…never mind P2P filesharing), a fact that is also increasingly attracting the attention of the European Commission, which wants this paradoxical situation resolved ASAP. There is a market, there is demand, there are revenues – how come there is no license? Hello?

So, to begin with, what is a flat rate for music?

Basically, it's the simple concept that literally everyone, in some way or the other, should be able to legally attain basic access to music, and that everyone's open-access consumption of music should finally be sanctioned and legitimized. But payment for this must be offered in a way that does not feel like a major decision or impending credit card transaction every single time you do it. It is the idea of a built-in, universally accepted payment for a service that one cannot and would not want to live without, akin to water, electricity, and of course TV and radio.

Similar to how cell phones and wireless services such as BlackBerry email only took off when device prices came down drastically, and flat-fee (or prepaid) offerings came about, and to how cable TV took off only after it was offered at a very low price point, the idea is to engage 95% of the population in a "payment-already-included" and bundled consumption of music so that they can become satisfied and engaged users, and then be converted to even more active market participants who are likely to buy something "upstream."

Again, just like the cell phone or cable TV, the mission is to get everyone into the system, at a very low price point, and then crank up the business with all kinds of extra offerings. Engage, not enrage!

ENGAGING = SUCCESS
PREVENTING = DEFEAT

Music simply cannot be reduced to a luxury offering for an exclusive group of buyers, and we must stop pushing expensive one-off deals (i.e., CDs and à la carte downloads) to a very exclusive group of buyers such as 45-year olds who want to "do the right thing," who are not online all the time, who have more money than time – and who like stylish devices. Rather, the industry must urgently launch offers that can bring everyone aboard at a very low entry point, and with an irrefutable value proposition – a value proposition that can feel like free yet in the aggregate generate large amounts of cash.

Let's do the math: Get 90% of the Western population (i.e., everyone who is connected in some way or the other, be it on the TV, the computer, or the cell phone) engaged at €1 per week, and you instantly have a very sizable pool of money that would rival or even surpass the still-existing revenue streams derived from CDs and downloads. And that would just be the beginning: Those who still buy CDs now would not stop paying them then, either!

This is how I am envisioning the Music Flat Rate structure:

FOR UNRESTRICTED STREAMING USE: A revenue-share (and/or a share of expenses, such as in the case of non-revenue earning entities that offer music) in the neighborhood of 10%, for both the use of the master and the compositions, exact split TBD. This would not include downloads (formerly known as digital phonographic delivery); however, it would need to cover any and all types of "listening" uses including full-length tracks, on-demand, and interactive and unrestricted uses. Plus it would include all platforms including mobile. (Remember, there is no such thing as "the mobile web," so why should this be any different?

FOR DOWNLOADS (FORMERLY KNOWN AS "COPIES"): A flat rate per registered user on a given site/ISP/platform/network; I'd propose €1/£1/$1 per user per week, with the exact fee to be adjusted in each country, of course. This would give every user unfettered access to "use," i.e., download unprotected music files on/via any network of their choice (e.g., ISPs, telcos, operators, search engines, portals, or social networks).

The catalog would need to be very substantial but quite a bit of it could also be subject to premium charges such as live concert recordings, etc. It is not unthinkable to have some sort of ceiling here (say, 500 downloads), but that probably wouldn't really do anything for anyone, so…why bother?

Most important, do keep in mind that most users will not actually pay the flat-rate charges themselves. Rather, their service providers will wrap the payments into other payments (similar to how XM satellite radio is bundled "for free" into new cars, or how 911/emergency calling access charges are bundled into all U.S. phone bills).

And they will find many new ways to subsidize the legal music consumption via advertising, sponsorships, or upstream-selling schemes. Why would they do that? Because if these licenses are provided, they now can build a business around music and count on the content being part of it (again…like radio!).

HOW WOULD THE ARTISTS AND CREATORS OF MUSIC GET PAID?

Any and all use of music on the networks can be monitored and tracked, i.e., any user who streams or downloads music will create a data trail that could be used to determine which music by which artist was used in a given month/week/day/hour and in which territory.

Leaving aside the complex and possibly daunting privacy and data security issues (which I believe can and will be solved) this means that an artist's income will be totally and actually proportional to the level of attention he or she is actually getting on the networks. For example, if your music amounts to 3.1% of all streaming and 2.5% of all downloads in any given month in any given territory, you would receive the exact prorated amount of the available pool of money in that month as well.

Of course, both rights (master and composition) would need to be covered and paid for, so the total payment would be split up in a yet-to-be-determined ratio – my proposal would be a 50-50 split but this will obviously be subject to the authors agreeing with the performers (or rather, their representatives). That's probably another arbitration panel heading our way.

The total aggregate of all user payments, i.e., the "pool of money" as my fellow flat-rate evangelist and music industry catalyst Jim Griffin likes to say, could be collected by an appointed agency. For now, it would be by territory, but sooner or later on a per-continent or even global basis. This is a potential job for the existing societies but I personally don't quite see this happening for them since the commission for doing this IT job will probably be no more than 2% of the revenue.

As a practical example, if a German ISP wanted to provide "free" music to all of its users it would pay, or rather, generate, €1 per week via advertising, bundling, or simply by using its marketing budgets. The ISP would then pay that money into the German pool of all providers that are licensed under the flat rate.

Note that this pool would probably increase over time, as well, since more services would take advantage of the flat rate as it becomes apparent how they can generate new revenues with or on top of it.

Also, an interesting side effect could be that any single given user may well end up having several access points such as their ISP, their wireless operator, and their favorite social network, all of which would be likely to pay the €1 for the very same user, thereby increasing the total size of the pool over time.

WOULD THE FLAT RATE COMPLETELY KILL CD SALES AND OTHER PHYSICAL PRODUCTS?

Definitely not. Keep in mind that buying CDs is already defacto voluntary since anyone who has a computer and a Net connection can already search for and instantly find a myriad of ways of getting those digital copies for free. Of course, the music industry can no longer afford to, literally, bank on those voluntary actions and "random acts of kindness," and it's becoming painfully obvious in almost all territories that the percentage of people who continue do this will rapidly decline over the next few years.

The advent of the Music Flat Rate will without a doubt create a very powerful environment that will spur the discovery of new music. That may in some cases result in foregone CD sales but in many more cases it will actually revive them – provided of course that CDs (or whatever comes after them) can deliver real value and come down in price. Better sound quality, nice artwork, bonus material, and a very competitive price should do the trick here.

OCTOBER 02, 2007:

A RECORD PRICE FOR A RADIOHEAD ALBUM: $0

DISTRIBUTION CONTROL IS TOAST

Just yesterday I released my new book *The End of Control* online, for free. Incidentally, the band Radiohead came out with its latest record yesterday as well (admittedly, its music is probably more popular than my books ;-) – for "any price you want to pay" as a download, and for a very steep price for the box set.

I have talked about this many times before and the Radiohead development is another great example of what's happening right here, right now:

- Distribution as a control factor is toast. Everyone has distribution via the web now.
- Major artists going direct is becoming a fact of life in the music industry. It's their managers who are driving the undoing of the major record system (along with technology, of course).
- It's attention that matters first, and only then is it sales – exposure comes before the selling.
- The web is the next radio and that's where the music is playing, first and foremost.
- Give the user the control and they'll reward you handsomely – with their attention and their dollars.

The fact that this is happening just as EMI and UMG are going DRM-free and WMG's EBJ is furiously back-peddling from his past "We will not relent because we need control no matter what" pitches should raise a huge warning signal for the major labels: You are about to become squashed between hundreds of managers and artists who want to go direct, large retailers like Amazon that are re-writing the rules of online music-selling (think bundles…think flat-rate), telcos and operators that are getting fed up with the tedious and outmoded licensing practices, search engines that are powering or even becoming music communities, and the burgeoning next generation of radio. If you keep up the strategy of "You need us badly and therefore we make the rules," you will lose the artists, their managers…and the audience. Get engaged or get outmoded. And do it soon.

SOME KEY AREAS OF CONTROL-LOSS

- Media distribution
- Content scarcity and unit-based sales model
- Release windows and territories
- Information scarcity (and monopolies)
- Attention monopolies
- Push-style marketing

OCTOBER 07, 2007:

THE ECONOMICS OF CONTENT: ALL THE NEWS THAT'S FIT TO CLICK

The *New York Times* (NYT) makes a great case study for how one can turn reputation and top-level content into new cash. It recently launched a new PR campaign entitled "All the News That's Fit to Click."

Now imagine a major record company launching a campaign called "all the music that's fit to play" and making free streaming available, supported by ads and upstream selling. That would go in the right direction. Pull, not push. Stay relevant. Stay engaged. Sell access.

My favorite quote from the NYT:

> "We have developed this campaign to make readers aware of the wealth of content and tools available on NYTimes.com," said Murray Gaylord, vice president of marketing, NYTimes.com. "Our core audience – affluent, educated, and curious – demands their news and information in a variety of formats, and we are committed to meeting, and exceeding, their expectations. This campaign illustrates all the different ways we do that."

Wouldn't it be great to have a similar quote from the heads of WMG, UMG, or whateverMG: "Our core audience demands their music in a wide variety of ways, anytime, anywhere, and we are committed to actually giving it to them."

Remember: The NYT tried charging for access, limited RSS feeds leading to subscribed content, and closing off its archives – and it did not work if compared to what could have come out of a different approach.

CBS Market Watch has another good quote:

> "The whole marketing campaign stems from how people don't think of us only as an online newspaper," Schiller said. "You don't know what's going to stick. Slide shows have taken off like a rocket, accounting for 10% of our page views in August. Our strategy is to unleash the

> creativity of our journalists to tell their stories and build communities around areas of interest." To flourish online, Schiller stressed, the Times doesn't intend merely to fall back on its world-class reputation. "You can't just say, 'Come and get it' any more," she said, leaning forward for emphasis. "You've got to push your content out. You've got to skate where the puck is going."

Music guys: When will you get it?

OCTOBER 17, 2007:

DEFECTING FROM MUSIC 1.0

WHAT RADIOHEAD, MADONNA, PRINCE, THE CHARLATANS, KORN, JANE SIBERY, ANI DE FRANCO, AND THE EAGLES HAVE IN COMMON

I don't buy a lot of printed newspapers. (Why? Well, you should see the inbox of my Google Reader. ;-) But something made me pick up a copy of the *International Herald Tribun*e (IHT) today. The IHT is one of my favorite international newspapers, offering consistently great writing and sharp opinions.

I was delighted to find at least two major stories on the music industry in this edition: one on Radiohead and one on Madonna. I was happy to see that at least one of them is already available online in its entirety.

So what is happening here?

Basically, faster, nimbler, less control-obsessed and less-conflicted players are doing what the major record labels should have done five years ago: offering partnerships to artists and their managers, real profit (and responsibility) sharing, engaging with artists on all levels, not just on selling copies of plastic (or zeros and ones, for that matter). As the IHT puts it when talking about the Madonna-Live Nation deal: This is a "wide-ranging partnership," not a midterm "plantation agreement" (the latter expression is mine, not theirs).

And by and large, major record labels are just too-little-too-late and will not be welcome in this game, because:

- They have little expertise in it.
- They have none or few people who could run something like this.
- By and large, they have a monopolist's mindset (which is not going to work here).
- They have aptly and with great dedication eradicated trust across the board – with the artists, the managers, the producers, and the users.
- They don't like deals that create a level playing field.

Here are some favorite quotes from the IHT feature:

> Radiohead couldn't be in a better position to market itself online, without middlemen. It has a huge and loyal, if contentious, fan base that has sold out arena concerts for more than a decade. Unlike Prince, who chose to go independent at a much earlier, slower stage of the Internet, Radiohead can count on broadband access from much of the world.

My comment: indeed. If Todd Rundgren and Prince had had broadband-enabled fans instead of a dial-up crowd it would been all over for the major labels a few years ago.

> Radiohead records and tours on its own budget and timetable, plays new songs before they're recorded, lets listeners hear its music with a click or two and sustains itself primarily through performing and direct sales.

My comment: I like that thought, too, yet I think they will indeed need very strong managers, smart advisers, hot branding teams, and cutting-edge service providers to make this work because large financial success is still always a question of scale. That is, of course, what the major labels have indeed provided and maybe that is what they can provide in the future?

But now, guess what, there are hundreds of companies gearing up to provide scale, and access to very large audiences. Another tough reality check for the majors: As far access to large numbers of people goes, they will be competing with the likes of MySpace, YouTube, Google, Facebook, AOL, Yahoo, and a gazillion startups such as Kyte, Blip.tv, iLike, Jamendo, Reverbnation…and other Music 2.0 companies.

> Historically, middlemen are expensive. Under typical major-label contracts, musicians have paid handsomely

for market access. The luckiest ones receive perhaps 15% of what their albums earn after a label's expenses are recouped – as opposed to the 100% of revenues that Radiohead is getting from In Rainbows online…."

Below are some driving factors behind all of this:

THE KEY DRIVERS OF CHANGE

- Broadband
- Mobility
- Social networks
- Blogs and user generated content (UGC)
- Total fragmentation of the audiences
- Convergence

October 22, 2007:

THE FLAT RATE FOR DIGITAL MUSIC

FROM CONTROLLING DISTRIBUTION

TO DESERVING ATTENTION.

The music industry makes a great case study as far as relentless obsession with control is concerned: Despite a long, hard struggle to retain (or even increase!) control over what people do with music, the music industry has in the most spectacular fashion irretrievably lost control over the distribution of its product.

The only thing left for the music industry to do is to admit it, as is now happening with EMI's new Terrafirma'ed management team. (They have a long way to go but what a relief to have someone wake up and actually do what needs to be done!)

Not that the impending loss of distribution control wasn't obvious more than ten years ago, which is why the steadfast refusal of the music industry's "leaders" to acknowledge and act on the fact that the user is now the one in control of distribution is utterly astounding. Many music executives still think they are entitled to run their content-is-king-doms as they see fit (imposing copy protection and other restrictions) while the consumers should remain relegated to the good old take-it-or-leave-it role.

Thus, the end of control over distribution is hitting major-label music executives particularly hard, and the longer they wait to accept this basic fact of control-loss, the less likely they are to survive this shift to a new ecosystem, much less prosper in the Music 2.0 world. Long-term denial does have its side effects.

ACCESS REPLACES OWNERSHIP

The reality is that it has never been easier to share songs and get free music via P2P filesharing (still a popular pastime but contrary to popular myths, far from being the most popular way of sharing music), Bluetooth, USB-stick swapping, hard-drive trading, instant messaging, Skype, Gmail, social networks, MP3 blogs, stream-ripping, and hundreds of music widgets that offer the world's music catalogs on demand, for free. Even in free sharing environments, access now replaces ownership, and a vast cornucopia of music-sharing tools has recently opened, making Napster 1.0 look like a soda straw.

Let's face it: Music sharing is alive, well, and growing exponentially. Just wait until we have 100 million iPhones and 200 million Wi-Fi-enabled iPods, with Apple's new iPhone SDK luring thousands of enterprising young developers into creating the coolest new music-sharing applications, which those pesky digital natives will gobble up at the speed of sound!

Add another two billion second-generation, interconnected Nokia, Samsung, LG, and Motorola mobile communication computers (a.k.a. cell phones), and you have a mobile sharing nirvana. Still dreaming of controlling distribution? Still not interested in putting a metering device into this digital music-like-water stream?

Anyone who still argues that music distribution is not totally out of control must either be a highly paid and reality-numb lawyer for the RIAA or drinking some really serious DRM-laced Kool-Aid.

EMBRACE THE END OF CONTROL

If it wants to stay alive, there is now only one option for the music industry: Embrace the end of distribution control, and move forward to share access-based revenues that are already generated by all those "pirates" that have free access to music, regardless of lack of permission.

The very use of the term "pirate" is, of course, indicative of the music industry's dilemma: Its (mis)leaders still can't fathom that the People Formerly Known as Consumers (PFKACs) have finally had enough and actually dared to search and find their own sources of music, outside of the controlled domains of major music labels. The industry's response: criminalize its own customers, equating them with those hard-core piracy operations that produce billions of counterfeit CDs and DVDs in some Mongolian pressing plant. Talk about warping public perception!

In any case, history has already shown a pretty good path out of this dilemma, in the shape of the blanket licenses that public performance societies such as SACEM or BMI and ASCAP (which were formed precisely for this reason) have been providing for over 100 years now – France's SACEM launched in 1851. Rather than asking each and every user (or each service provider) to get individual permissions for each individual musical work, the industry – often aided by some not-so-gentle government pressure – instituted a negotiated, default, and standardized license that is available to everyone who cares to be licensed.

Even though they can be improved upon, these existing public performance blanket licenses, granted by copyright collectives, are generally easy to get as well as economically realistic, and they can cover just about every usage scenario. At least, they used to, until the advent of the Internet.

This sometimes clumsy but legally straightforward system, administered via national performing rights organizations such as ASCAP, BUMA, and SACEM, has allowed listeners to enjoy the benefits of public performances in clubs, restaurants, concert venues, and radio for quite some time now. Collective blanket licenses, although often contested and sometimes renegotiated by the involved parties, provide all-inclusive access for the users and to a very large degree solve the problem at hand: enabling every user – and the companies that serve them – to be legal while filling up a nice pool of money on a recurring basis. A win-win-win, really, until now.

A NEW BLANKET LICENSE FOR THE USE OF MUSIC ON THE NET

It is becoming more obvious by the minute: What we need is a new blanket license for the use of music on digital networks, voluntarily agreed upon and provided by the creators and their representatives, and a fair way to split it up: Music Like Water. And I believe that this new license is very likely to be the music industry's only realistic option to create a new basis for re-monetizing music in the age of uncontrolled distribution. But take note: The flat rate is just the beginning of a new music ecosystem in which many new revenue streams will become available.

The end of control of distribution is here now, just like the end of control of public performance (a.k.a. broadcasting) arrived 100 years ago, forcing the music industry to adjust.

The fact is that a blanket-license scenario works just fine for the use of music on cable TV and for radio (and yes, eventually for Internet radio as well). And a flat fee-based model for basic water, power, and wireless services works well, too: Pretty much everyone can become a legalized user, and those who don't (for whatever reason) can easily be absorbed without breaking the system.

Depending whether we're discussing unique, tangible atoms or losslessly reproduced bits and bytes, a flat fee either ensures my basic connection (as with water) or includes unlimited use (as with TV). And this is indeed a fundamental difference we should note: Water is not freely reproduced; unlike copies of music files, a liter of water used in one location can no longer be used somewhere else. The reproduction cost of digital music is, however, essentially zero, and we must therefore not provide just flat-rate access but also flat-rate consumption – unlike water where the access is flat-rated but the use is not. Bits and bytes require licensed ubiquity.

With many flat rates, the payments are woven into other service offerings and therefore become less obtrusive, morphing into an accepted and even expected mode of getting what you want without having to make a new decision every single time (such as iTunes still requires). No excessive granularity can be employed (e.g., counting how many hours of TV you watch, or how many people are actually sitting in front of the tube), few restrictions on usage are imposed (e.g., there are no extra charges if you get more than the usual number of emails on your BlackBerry), and no substantial harm is done if some determined users really do circumvent the system (such as freeloading on cable TV).

ATTENTION IS THE NEW DISTRIBUTION

In the immediate future of music we need to get our heads around the fact that the less control we impose on the users of content the better. In music, our goal will always have be to attract and retain large and engaged audiences – to enthrall the highest possible number of interested people, and by extension to have everyone share their music discoveries with others, thereby driving exposure through the roof. Again, since all audio files are now freely available anyway, the more we control, limit, or otherwise inhibit the sharing process, the less attention we will get to take advantage of: Attention is indeed the new distribution. And real money will be paid for real attention.

Based on the realization that it is no longer just the copies of sound files (or pieces of plastic) that we want to monetize, but the entire range of assets that the artist's brand represents, we simply can no longer ignore the powerful solution that the flat rate for music represents.

Granted, a sharp-minded reader may retort that we are now simply moving from controlling distribution to controlling attention. That isn't entirely wrong but it's probably wishful thinking. While the large music and media companies were indeed able to control distribution with iron fists that clung to their exclusive copyright ownership, attention must be earned, kept, and maintained – again and again. And only the most daring wordsmith would still call that "control."

Instead, I believe the users are now controlling whether a media provider still qualifies to get their attention, every time they click. They're dealing in trust, in other words. That's tough luck for large companies that look for large margins at low costs, and I think they are not very likely to engage in music ventures, going forward, for that very reason.

MUSIC THAT FEELS FREE – BUT GENERATES REAL REVENUES

So, the key question remains (and I will investigate this more extensively in my next book "The End of Control"): How will content creators actually monetize this attention and turn it into real dollars, euros, kroners, rupees, or yen?

CLICKING IS THE NEW BUYING

Let's start by giving everyone "feels like free" access to music (and later, other media). Access that in itself already generates real money, be it through subscriptions, advertising, bundling, sponsorship, product tie-ins, or by simply generating traffic in the context of another service or product (see Gmail or Google Adwords).

Radio now generates billions of dollars in ad revenues based on

CLICKING

IS THE NEW BUYING

music licensed via the now-compulsory music license. In fact, radio churns out more cash than the recorded music industry itself! In 2006 Kagan Research projected that U.S. radio revenues would grow to as much as $25 billion in 2011. Bizarrely, though, by the time the rights holders got around to actually licensing radio (in the U.S.), they were no longer able to argue that the use of the recording should be paid for (just like the use of the composition). And so, in the U.S., the overall flow of money from radio remains less than it would have been if a license had been made available much earlier. Take note, lawmakers.

The flat-rate-licensed usage of music on digital networks, be it for streaming or downloading, would quickly generate billions of dollars of revenue that could efficiently be distributed to the creators. These creators are now ill-served by the way their representatives refuse such licenses and deny the use of music more often than allowing it.

The music industry must move toward allowing the use of music on a blanket basis rather than asking for individual admission deals. In other words: Give up control of those entry gates.

GERD LEONHARD ON THE WEB

PERSONAL WEB-SITE AND BLOG: www.mediafuturist.com
NEWSLETTER SIGN UP: www.gerdsnews.com
Future talk videos: www.futuretalks.com
or http://mc.conversationsnetwork.org
YOUTUBE CHANNEL: www.gerdtube.com

CONTACT INFORMATION:
gleonhard@pobox.com or gerd@gerdleonhard.com

MUSIC 2.0 IS A POWERFUL COLLECTION OF FUTURIST GERD LEONHARD'S MOST PROVOCATIVE BLOGPOSTS AND OTHER ESSAYS ON THE FUTURE OF MUSIC, DESCRIBING A NEW, NETWORKED GENERATION OF THE MUSIC BUSINESS THAT IS DRIVEN BY THE INTERNET.

WHY YOU SHOULD READ THIS BOOK

If you are interested in shaping this new music industry, if you are a record label owner, publisher, producer, music professional, musician, composer, media executive or investor, this book is for you. From "Music Like Water" to "Feels Like Free," Gerd offers inspiring visions and clear paths to the Future of Music.

ABOUT GERD LEONHARD –
MUSIC & MEDIA FUTURIST, AUTHOR, ENTREPRENEUR

The *Wall Street Journal* calls Gerd one of the world's leading media futurists. He is widely known as an industry innovator and as the co-author of the influential book *The Future of Music*. Gerd's background is in music (Quincy Jones Award Winner and Berklee College of Music graduate) as well as in technology and the Internet. Gerd's work focuses on the overlapping zones of music/content, technology, communications and culture, and he is considered an expert on topics such as Web/Media 2.0, social networking, copyright, online content commerce models, convergence, mobile entertainment, and Advertising2.0. Gerd's speaking appearances are renowned for his hard-hitting, provocative, yet inspiring and motivational style, and with over 50 engagements in the past two years Gerd has addressed global audiences in the media and communications industry.

WWW.MEDIAFUTURIST.COM

GERD@GERDLEONHARD.COM

FOR VIDEOS GO TO: WWW.FUTURETALKS.COM

6 418547 015526