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Music Industry Report

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The music industry was the first silo to experience the effects of the move to cross-platform media. The top five key challenges facing the music business in the aftermath are presented in this report with their respective solutions based on the findings of our discussion.

1. Problem: Traditional rights don't extend to online content, downloads or ancillary devices

Music producers need to be able to effectively monetize all additional media with additional amounts of relative revenue streams. Currently broadcasters ask for umbrella rights that generate multiple revenue streams on multiple platforms. Unfortunately they are unwilling to pay extra to content providers and share in this revenue source.

Solution: A/ Subscription based model

This user-based model will be the walled gardens of the future. The consumer exercises choice; when a service has layers, offers ease of use combined with high quality, it will be highly desirable. The demand created for this type of service is due to the fact that people are willing to pay a price for a perfect service. Apple's iTunes, HBO and Netflix are examples of this.

Solution: B/ Ad supported content

Brand supported content is being created in a very subtle and smart way. An example would be: LSTUDIO, 'brought to you by Lexus' which has garnered much success with *Web Therapy* starring Lisa Kudrow. It is now being turned into a tv-series having built such a strong online audience. Many other successful models exist.

Content makers have to bring ISP's into the equation. Google could be brought in as an investor/partner to share revenue.

Solution: C/ Monetize untraditional assets

The industry needs to figure out how to monetize all the assets that pertain to a brand that are not traditionally thought of - such as: wikipedia hits and online photographs, etc. Revenue shares could be calculated on a CPC model.

Solution: D/ ISP's should pay content providers for the additional revenue streams

2. Problem: Music has moved from a 'product' to a 'service'

CD sales have diminished so significantly that now no one business model exists. Previously labels paid out 12%-15% royalties to artists and artists made 90% of their revenue from touring and merchandise sales. Now record labels want a piece of all revenue including concerts and merchandise sales, this is referred to as multi-rights (360 Deals).

Solution: one of the solutions is for ISP's to pay for content

3. Problem: ISP's have no accountability

Internet service providers pay broadcasters for content on cable but not for content streaming on the internet. As consumers, we pay dearly for cable, online and mobile access. The ISP's are increasing their profit margins significantly by obtaining this 'free' content from the broadcasters and IP creators and then charging consumers to watch.

ISP's use value added concepts like exclusive access to special content as incentive to consumers, but this does not actually help funnel revenue back to content producers. Some mobile providers (who are also ISP's) have a partnership with music providers and offer customers first dibs on concert ticket sales.

Solution: A/ Funnel some money back from ISP's

A condition of license should be policed and content providers would be paid a share that ISP's would have to pay into ... perhaps based on the same system as the SOCAN model - or the 'Neighbouring Rights' model.

Charging ISP's across the board would be an efficient way, since everything is moving to the 'cloud'. With everything bundled together, it would make it easier for ISP's to pay out. European markets are ahead of the curve because this concept already exists and as a result, more money is being generated than ever before. This is helping compensate for all the 'theft' of the past.

Ideally the concept should remain about free enterprise and part B/ answers how we may achieve this by forming creative clusters.

Measurability:

ISPs know exactly what's going on in terms of the highest resolution snapshot. Technology to read the data from the various sources could be used to monitor and deliver revenue sharing. This is the general consensus of where we're heading.

B/ Solution: Form CREATIVE CLUSTERS

Artists collaborate to create: songs, tv series, games, apps, etc. around a brand.

The top two most interesting examples of this in the past year:

Arcade fire collaboration with comedian Milton Jones

Bjork's collaboration with interactive artist Scott Snibbe, releasing all the tracks of her next album on an iPad app.

In working to create creative clusters, currently one faces a funding issue because each silo has their own set of tax credits making applications cumbersome and complicated. More broad sector funding rather than individual silo funding would help foster these endeavours.

The music industry views digital distribution as a viable platform, where the funding agency, Factor recognizes iTunes as a legitimate distributor. Previously you had to have a physical distributor and actually get your records in a store in order to apply. Film and television digital distribution hopefully will draw a parallel to this model and begin to recognize digital channels as legitimate broadcasters. This would enable projects to be funded without needing to have a 'traditional' broadcaster or studio attached, Kickstarter.com and the twitter handle, 'shit my dad says' are examples of the industry slowly moving in this direction.

C/ Solution: The virtual credit system can be monetized

In thinking long term, considering that purchases are no longer 'physical', we can start thinking creatively about capitalizing on the virtual credit system. Big incentives are offered as motivators to consumers when online scenarios are created enticingly and with social engagement.

4. Problem: Weak internet copyright laws and royalty issues

There exists a lag of getting money for royalties and essentially nothing is being paid out. The pending new legislation for the copyright act doesn't provide adequate protection to artists.

Solution: Streamline our licenses

This will reflect usage on all platforms and make one rights agreement, much like pooling all our resources. This would make it easy for payment of usage fees and all rights would be controlled in one place.

5. Problem: The belief that music has no monetary value

The industry finds it difficult to monetize content because so much is 'free'. This generation knows music has cultural value, but not necessarily monetary value. There exists a misperception that music creators are hobbyists working out of their basements. Consumers do not attach value to music because of this notion, and therefore they do not regard it as 'stealing' – but refer to it 'sharing'. This is also reinforced, since online music it is no longer thought of as a physical product.

It is at this point that this problem becomes an issue of ISP's building businesses on the backs of producers.

Solution: A/ Educate the public on the value of music by fans sharing their story

Fans share their story with other fans about all the ways in which they support their favourite artists.

Solution: B/ Build solid relationships with your fans

The most effective way to prevent music theft is by building solid relationships and connecting with your fan base. This creates a loyal following that acts collectively to protect the brand from pirating. It's not the artists' place to do this otherwise it has a negative impact (as in the case of Metallica).

Solution: C/ Dispel the myth of music as 'marketing'

Finally, music budgets for film and television have become decimated due to the severity of the loss of profits caused by the move to cross-platform. The trickle down effect is that they offer the 'placement of music' in their movies and shows as an aspect of marketing in exchange for promotion. Although this concept does have some measurability and adds value – it's not always the *right* value.

Q: So how do we maintain our Canadian Content in all of this?

A: This will become an extinct notion. In the same respect that there is no 'Canadian Music genre' we should not ghettoize our content. Aggregating all Canadian content would be a bad idea. Context is necessary, say for example if skateboarder, Tony Hawk has a game built around his brand, he will be endorsed by whichever band you pair him with.