A typology of music distribution models

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A considerable part of the value created by the recorded music industry has traditionally been based on distribution. In this talk I will examine how models which are relatively unconcerned with the distribution of recorded music are becoming increasingly important value generators in the contemporary music economy. The title of the talk promises that a typology of music distribution models will be presented and indeed I will make a brave and perhaps foolish attempt to fulfil that promise, even though the turbulent nature of the business is likely to make my suggestion obsolete before the end of this conference.

In the old world of physical distribution, consumers acquired music on plastic discs which they stored in cabinets made for this particular purpose. Some music listeners had a very strong sense of ownership of their disc collection – and not only to the discs but to the music stored on those discs. Music companies often reinforced this sense of ownership by using terms such as "buy", "own", "steal" in their corporate communication – terms which are associated to products which someone indeed can own.

When music distribution moved online moved online some years ago, most of these virtues and practices (acquisition, ownership, "digital album covers") from the physical world stayed on. For instance, the most successful model for online music retailing, "single-song download" (e.g.

iTunes Store) mimics the traditional music distribution logic (besides the unbundling of the album) and is easy to grasp for rights holders and consumers alike. Other services, such as eMusic's subscription service also mimicked the physical world by transforming the record-of-the-month model to the digital age.

But digitisation changes the way information is created, distributed and shared – much more than what is suggested by these relatively conservative examples. It enhances the connectivity of communication networks and makes it easier to transfer information from one network node to another. But as an immediate consequence, it also becomes increasingly difficult to control the flow of information.

The music industry's obsession with ownership and materiality is weakening and the focus is increasingly shifted over to *experience* of music. This transformation has been going on for quite a while now and we are beginning to realize its consequences. For instance, music has been and continues to be an efficient tool for communication. But when recorded music loses its materiality, people who want to have musical conversations with friends and with the world, increasingly depend on real-time information about their musical experiences, rather than on the historical record collections in their living room cabinets.

One way is to think about this transformation is in terms of acquisition and access. The illusion in the mind of consumers that it is possible to acquire and own their favorite songs is slowly replaced by a desire to be able to access that song, everywhere, anytime. "Experience and access" replace "materiality and ownership".

Experiences are usually packaged and sold as services rather than as products, and the contemporary music economy increasingly shares features with service industries such as hotels, restaurants and banks, rather than with product industries such as chocolate bars, toothpaste and socks.

The service concept is not new to music distribution, as most broadcast radio channels can be classified as advertising funded music services. However, by packaging music as an online service, it is possible to borrow some of the innovations which have originated in other online businesses. For instance, the now well-established *Freemium* model which more or less standard for online

services of every kind or various kinds of indirect revenue sources such as advertising and subsidies via bundling with other services.

Literally hundreds of online music services have been launched during the last decade. The dilemma for these new services is that they have to be good enough to be able to compete with free but illegally distributed music from file-sharing networks, and at the same time they cannot be too competitive, because then they will cannibalize on the rights holders' existing models which they so desperately continue to hang on to.

It is interesting to observe how these services compete. Where is the frontline? Why does a consumer choose one service rather than the other? If we go back in time, just a couple of years, the competition between online music services was focused on the number of songs in the catalogue. The more songs, the better the service.

Today, I would argue that most users of online music services don't know and don't care how many songs are available from different service providers. Increasingly we are moving towards a situation where the catalogues are more or less identical and the size of the catalogues no longer has any relevance in the competition between online music services.

Another potential area for competition is the compatibility of the music provided by different services. Consumers want to know that the music provided by their service of choice can be used in many different settings; in their car, in their home, during their workout, etc. We probably all remember 2007-2009 when the issue of DRM (Digital Rights Management) was the subject of hot debate? The core of the debate was whether music services, and songs provided by a music service, could be moved between different devices and platforms. Although DRM is no longer as debated as a few years ago, this development is still on-going, but it is nevertheless obvious that we are moving towards a situation where all services are compatible with all devices. It will soon – if it isn't already – be impossible to stay in the market with a service that isn't available on every conceivable platform.

Taken together, we are moving towards a situation where "access" is about to become a commodity. Commodity products and services all share some certain characteristics. Since commodities are identical, competition is focused on price. The market dynamics work

reasonably well, the different music services will increase their efficiency, prices will drop and profit margins will shrink and the market for online music services will be an even less attractive market to be in than it is today.

So how do music service providers cope with this situation? They try to find new areas where they can differentiate and compete. Since it is increasingly difficult to compete with "access" and "exclusive content", the frontline has move on to "context". The competition is increasingly based on providing efficient and innovative tools and resources which allow users to "do things" with music rather than providing access to the music in itself. There are numerous different versions of such contextual features offered by online music services:

Organize. The challenge in today's music world is not accessing music; it is finding what you are looking for. Either in the music listener's own local library, music in the catalogue of the music subscription service, or music simply not yet downloaded but available somewhere on the Internet. A simple feature or service of this type may for instance automatically create a playlist for specific purposes based on music available.

Discover. Most people don't care that much about music but simply want to listen to good tunes without having to think too hard. Formatted radio remains popular for a reason. Ideally, discovery services introduce consumers to music they do not know of but which fit their musical taste. The song selection may be created on the basis of an algorithm, on a programmer's or a curator's judgment or simply on what the music listeners' friends listen to.

Communicate. As mentioned above, music remains an important tool for communication, and social media provide an excellent platform for sharing and talking music with friends. This practice fits well with the Discovery services as music listener's follow their friends' musical habits for inspiration of what they might enjoy.

The supply of contextual services is obviously not limited to these three categories - they only serve as illustrative examples. Contextual features (which perhaps is a better term than services) are often integrated with services which also provide basic access to content. The point I am trying to make is that the value which is provided in the contemporary music economy is increasingly based on providing a context to the music, rather than providing access to the music.

This is a problem for rights holders since their businesses are primarily based on capturing a portion of the value generated by "access", and they haven't yet quite figured out how to capture a portion of the value generated by "context".

If services provide both content *and* context it might be tempting to think that this is not such a big problem. As long as there is a license involved and as long as that license remains the basis for the service, rights holders will have a fairly strong negotiating position towards online service providers – as we have been able to follow in several cases. However, another type of contextual services is emerging which may worsen the rights holders' problem. This type of contextual service provides the context but is unconcerned with how the content has been acquired or accessed.

Examples of this type of service are the online "locker" services which allow users to upload their music to an Internet-based data storage and listen to that music from different computers and devices. Currently, there are several locker services available, such as: MP3Tunes/Air band or Dropbox/BoxyTunes as well as the recently launched Amazon's "Cloud Drive/Player" and the "Music Beta" from the online context giant number one – Google.

A service such as Music Beta is more or less identical to Spotify, with one major difference. There is no relationship with the rights holders and Google, and hence rights holders are not invited to share Google's revenues from advertising or from the monthly subscription fees.

EMI tried to get a piece of these revenues by suing MP3Tunes for copyright infringement. Their claim was that the uploading of music to the locker should be considered as distribution and that consequently royalties should be paid by the service provider to EMI. This legal adventure was unsuccessful, but there may be another approach to the problem. Many European countries have since several years back a bland media tax on recordable CDs, DVDs, etc. Some of these countries (e.g. Finland, Switzerland) have already, or are about to, implement taxes on external hard disk drives. Since cloud based data storage provide the same function as an external HDD, it will be interesting to see whether rights holders will attempt to extend blank media levies to include cloud based drives as well. Such an argument would indeed be rational and it would also be a way for rights holders to capture a portion of the value created by contextual services without arguing the case of copyright infringement. If one continues on that path it would be

possible to foresee the taxation of other online services as well, perhaps eventually also including the long pursued provisioning of broadband Internet.

Yet another type of contextual service allows users to *play*. "Playing music" in the old days primarily involved some kind of musical instrument – but what is almost equally interesting is the range of online tools that allow users to play *with* music. (The relationship between "play" and "music" is indeed an interesting topic for discussion which unfortunately lies beyond the scope of this talk.) Anyhow these products and services allow consumers to create music, to play with music, to remix others' music and to distribute music. While the other contextual services discussed above have very limited impact on music distribution, this type of contextual services changes the rules of music distribution entirely.

Digital tools which allow non-professionals to make music and play with music has been around for a while. Perhaps anyone remembers Music 2000 for PlayStation by Jester Interactive from a decade ago or maybe you have tried uJam, a German/US online music service which basically does the same thing as the good old Music 2000.

A quick survey of Apple's mobile software platform iOS shows that a majority of the most successful music applications (free and paid) are not for listening, but for making and playing with music. Data on how much revenues these music apps have generated is not readily available, but based on reports from Apple in March 2011, 2 billion USD had been paid by Apple to app developers since the launch of the iOS platform (31 months ago). Based on information that music apps constitute approximately 5-10% of the all the apps downloaded from iTunes, one might assume that these music apps have generated approximately 100-200 million USD to the developers. Perhaps not that much compared to the entire music industry, but a substantial amount nevertheless.

During the last decade, the global recorded music industry has shrunk by almost 50 per cent. At the same time, the total entertainment industry, in spite of difficulties caused by piracy and digitisation, has not shrunk at all during that period, but grown by more than 60 per cent. The recorded music industry which once was the second largest entertainment sector accounting for 22 per cent of the consumer spending on entertainment media is now the smallest, accounting for only six per cent.

In the light of this development, it makes sense to take the emerging contextual music service business seriously and to ask questions such as how is it possible to grow this business and how can music rights holders capture some of the value which is created?

During the last couple of years we have seen some cases where artists, composers and rights holders have tried to get into this business, with various intentions in mind and with various degrees of success. Let me show you two examples from two European artists who in different ways have tried to engage their fans in their creative processes.

The Swedish pop artist Robyn has for instance created a rhythm tool which invites fans to play with sounds and images in collaboration with other fans. What kind of value is created by this initiative? It is plausible to assume that the rhythm tool strengthens the relationship between Robyn and her fans which in turn will lead to an increased propensity to pay for her other "products" such as merchandise, concerts and recorded music.

Another female pop artist is Imogen Heap from the UK. Heap is probably one of the mainstream artists who have taken the strategy to engage with her fans the furthest. During the last couple of years Heap have done several different projects intended to engage the fans in her creative process. She has for instance invited fans to remix her music with the promise (not yet fulfilled though) that the remixes will be released as an album and that the potential revenues will be shared between fans and Heap. She has encouraged fans to contribute to her official biography by tweeting their thoughts and impressions of the star they admire. During the spring of this year she has launched a new project which will eventually be developed into her new album. In this project Heap creates one song at a time and so far one song has been released. What makes this interesting is how she has invited her fans to contribute with sounds, words, images, videos which Heap uses as building blocks in the making of the first song – "Lifeline".

It should be noted that while Heap does indeed compensate fans whose sounds are used in the song, it can be perceived as a bit controversial that she lets her fans contribute to the production of a product which she then sells back to them for €3 a pop. Or maybe it's simply a clever business concept.

So is it possible to boil down all this to some kind of typology of music distribution models? One way to classify the different models for music distribution is to use the concepts discussed during this talk: "ownership", "access", "context" and "play". The different services which have been mentioned can be positioned along this axis. Looking at the development of these services I would argue that most of them currently are moving gradually closer to the "context" and the "play" models. They are moving away from the increasingly commoditized parts of online music distribution and retailing and towards those parts where differentiation is possible.

So, let's conclude: In this talk I have argued that the music industry has evolved from a traditional model based on acquisition and ownership via a model based on access and towards a model based on context and play. Rights holders solely focused on capturing a portion of the value generated by providing access to music run a risk of becoming short-circuited by contextual services which are disconnected from the rights holders' licensing businesses. In order for rights holders to remain relevant and avoid marginalization in the music industrial system it is necessary for them to enter the emerging "context business". The question whether this should be done by lobbying for levies on cloud drives; by engaging fans in crowd-inspired song-writing; by acquiring a start-up already active in the context business; or by any other means; ought to be fairly high on the music companies' executive agenda.