



CHANGE OF PARADISCM

RESEARCH ON THE FEASIBILITY
OF A FLAT RATE FOR DIGITAL
MUSIC

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AUTHOR:
IMRE STAM

SUPERVISOR:
HANS VAN DULKEN

HKU
UTRECHT SCHOOL OF THE ARTS

MASTER OF ARTS
IN ARTS MANAGEMENT
PATHWAY: MUSIC

Foreword

This research is the final project of my wish to specialize in the music industry, fulfilled as a Master student of Arts- and Economics. These last four months were a professionalized exploration of a domain that raised my general interest earlier. Consequently I have conducted this research with pleasure.

Regarding the report I want to make two statements

- ▶ To my personal disappointment I did not manage to conduct an interview with an expert at an ISP or Telco within the scope of the research. I did eventually make contact and got introduced to a proper expert, but the timeframe, the expert's holiday and my trip to Tokyo hindered an interview. Regarding the significant role that such a stakeholder would take in a flat rate for digital music, it is a sizable loss.
- ▶ Secondly I want to stress that a substantial part of the research is based on expert interviews. Benefits of interviews are the vast qualitative nature and up to date information. Downsides on the other hand are subjective visions and the image of a random picture in time. These factors proportionally influence the strengths and weaknesses of the report.

Recapitulating; the report is a representation of my findings during this period, within my reach, at this particular moment.

I would like to conclude expressing my gratitude to all the experts that took the effort to receive me and share their vision with me.

Special thanks go out to Norbert Plantinga, for his sincere interest in my research and helpfulness introducing me with his contacts in Tokyo, Japan.

Besides the experts, I have to thank my supervisor Hans van Dulken for expressing his trust in me, leaving room to conduct the research in less conventional methods.

Other thanks go out to my friend, the wind, who blesses me with his touch confirming my existence and most of all to music, fulfilling that existence from the deepest valley to the highest mountain top.

Rock on.

Executive Summary

The music industry is in need of innovation. The digital distribution of content is undergoing a shift of sociotechnical paradigm. Due to the uncoupling of time and space and low costs of reproduction, the traditional supply chain is undermined by the empowerment of consumers.

A remodeling of the supply chain should adapt to

- ▶ Digital distribution
- ▶ Free content
- ▶ Social, online, sharing networks

A flat rate for digital music is a theory strongly adapting to the modern game rules. It aims for a healthy online music ecosystem rightfully compensating the artists.

Despite the constructive nature of the flat rate theory it is questionable if such a system is either desirable or feasible at this point in time.

The greatest resistance towards a flat rate model derives from its generic nature. It is not considered beneficial for all stakeholders to have users pay for consumption of music when they might not. That is regarded a tax on music, which is not reflected on as a necessity of life.

Secondly great significance is assigned to the separation of an infrastructure and services on the infrastructure. Interference of service providers offering content delivery is considered discouraging market mechanism and thus weakening competition and innovation.

Moreover, it would be more likely to have a flat rate model implemented on a European level standardizing international agreements on audio as well as film and text with rights holders, collecting societies, databases and copyright legislation.

On top, interference of service providers would result in a closed push system while modern times prove that open systems, free choice and collaboration are more likely to be successful.

More feasible and desirable elements in innovational distribution of digital music are

- ▶ Access
- ▶ Feels Like Free

Access

Not only access to internet, which is practically regarded a necessity of life, but also access to content is underlining the networked structure of society. Ownership is becoming irrelevant, access is key. A business model facilitating access is based on usage right and should result in triple A services: Anything, Anytime, Anyplace. Usage right will thus replace downloading of media content. Therefore a broad library of content should be accessible all the time, from everywhere, with any device.

Feels Like Free

Access oriented services transit music from physical products to digital services and payments should adapt accordingly to fulfill the sociotechnical shift of paradigm. Costs of reproduction nearly vanished and payment should not be applied to the product, but to the service: access.

Access will be compensated, but the empowerment of users and competition of free content leaves little margin for play. Success lies in creative revenue models where the feel of free is preserved for users. This can be achieved by monthly or annual subscriptions, partnerships with media companies or service providers and advertisement models or hybrid models where a combination of subscription and advertisements reduce subscription fees.

▶ Mobile technology

Mobile devices will be the catalyst behind the success of triple A streaming services, propelling the digital music market to adulthood. Nevertheless, present mobile devices and mobile internet connections are technically incapable of continuously connected streaming services. Neither are present day batteries capable continuous web connections.

▶ Entrepreneur

Facilitating digital music to social, online, sharing networks is a challenge for innovational companies or cultural entrepreneurs to master. Music companies and other stakeholders are focused leaving opportunities on this market for innovative companies and entrepreneurs to move in.

▶ Bridging

The time to bridge until mobile devices propel the digital music industry must be used by innovators, rights owners and collecting societies to rewrite their business models regarding revenue sharing and rights management preparing for and stimulating innovational distribution models. Opening up to innovation is essential to profit from the mobile boost of digital music.

▶ Public license

To that aid, a public license for digital music could possible drive more initiatives to start offering digital music services. A public license reduces entry barriers for the market, stimulating competition and thus innovation reviving the digital music market with suitable business models for high demanding users.

Further research on a public license for digital music is advised.

Contents

Foreword.....	2
Executive Summary.....	3
Introduction.....	8
1. Historical perspective.....	9
Let us start at the beginning.....	9
Here comes radio.....	10
Inventing the compact disc.....	10
The world wide web.....	12
A-La-Carte downloads.....	17
Add supported services.....	18
Subscription services.....	19
Recap.....	20
2. A flat rate model.....	22
Phase 1: Media Theory.....	22
Phase 2: Supply chain remodeling.....	24
Phase 3: 'Music Like Water' theory.....	25
Recap.....	28
3. Cases.....	29
Isle Of Man.....	30
TDC Denmark.....	31
Google China Music Search.....	33
Recap.....	35
4. Experts.....	36
Overview.....	39
A. Stakeholders.....	40
B. Communal key issues.....	44
Access.....	44
Mobile.....	45
Entrepreneur & Service.....	46
Buma Stemra.....	47
C. Differing key issues.....	50
Flat Rate.....	50
Internet Service Providers & Telco's.....	53

Music Companies.....	54
D. Critical Issues & Bottlenecks	56
Implementation.....	56
Practical Issues.....	58
Cultural issues	59
Management summary expert interviews.....	61
5. Digital Music In Japan	64
The Japanese Market.....	65
Mobile mayhem	65
Music industry developments	67
Mobile Service	69
Label Mobile.....	70
Blueprint for Europe.....	71
Flat Rate in Japan.....	71
Recap.....	73
6. A flat rate review for digital music and recommendations	75
Evolution	75
Music as a service, not a product.....	76
Stakeholders.....	77
Flat rate flop.....	77
Music companies	78
Competition triggers innovation.....	78
Critical issues	78
Lead by example: Japan	80
Feels Like Free.....	81
Public license.....	81
Recommendations Music Companies.....	83
Recommendations Cultural Entrepreneur.....	84
Suggestions for future research	85
Literature.....	86
Appendix.....	Error! Bookmark not defined.
Methods	Error! Bookmark not defined.
Planning.....	Error! Bookmark not defined.
Feasibility research	Error! Bookmark not defined.
Methods.....	Error! Bookmark not defined.

Experts..... **Error! Bookmark not defined.**
General letter requesting interview **Error! Bookmark not defined.**
Interview reports..... **Error! Bookmark not defined.**

Introduction

The conducted research that resulted in this report was my final project as a Master of Arts in Arts Management student. I have personally chosen the subject matter due to a strong interest in the current transition that the music industry is undergoing. The research commenced in April and lasted four more months. The ultimate moment of delivery was early August. As stated in the foreword, the report is a picture of my findings during this period at this particular moment.

Point of departing for the research is the shakeup of the music industry as we know it, propelled by a decline in physical sales and growing use of digital media. It is tried to grasp the essentials of this transition and to examine a possible supporting model for digital music distribution, beneficial to all stakeholders.

Ten Dutch experts in the professional field have been interviewed and a trip to Tokyo was undertaken to perform a quick scan of the Japanese digital music market, furthermore interviewing five employees of Universal Music Japan.

Central question

A flat rate for digital music is a fair and proper business model for most of the parties involved, anticipating on the current and future distributional discrepancies in the music industry.

An introduction of the music industry is reviewed in the chapter *Historical perspective*, followed by a brief description of new media literature in the chapter *Flat rate*. The third chapter *Cases* illustrates these theories with three modern examples of innovative business models, supporting the findings in the first two chapters.

The results of the expert interviews build on the previous chapters and are brought together in the *Experts* chapter. *Digital music in Japan* outlines a quick scan of the Japanese digital music market.

The chapter *Flat rate review* concludes the overall picture of the findings regarding a flat rate for digital music, concluding with recommendations for music companies and the cultural entrepreneur.

Hopefully you enjoy reading the report and acknowledge the relevance of the research.

Imre Stam

I. Historical perspective

"If you look back at the history of selling records, tapes and CDs from the 1890s to the present, you'll see waves of incredible expansion and then troughs of crisis. "

Rob Bowman, Grammy-winning music historian and professor of ethnomusicology at

A basic view on the music industry is depicted in this chapter to get a perspective grip on the current status of the music industry. An overview of this industry is necessary to make a diagnose further down the research. Some events are explained to describe the characteristics of evolutions in this industry. A more thorough description of the current situation forms the foundation for the body of knowledge necessary to lead this industry to the next level.

Let us start at the beginning

Until late in the 19th century, music was a unique service. A musician or band could play a music piece for a single person or a group of people whether at home, at a venue or just on the street corner. But always live. The music was uniquely, every single time that it was played.

Music was per definition a unique live performance, a service.

"You could not step twice into the same river; for other waters are ever flowing on to you". (Heraclitus, On the universe, 540 BC - 480 BC).

In 1878 a deaf inventor named Thomas Alva Edison invented a piece of machinery that could record sound waves and play them again. The machine was called the phonograph and was later developed into the gramophone.

From that moment on, music could be recorded and played without the presence of musicians.

From that moment on music was recorded, played and sold as a product.

Here comes radio

Music products were being sold for a while now and it made a real industry of musicians, record labels, publishers, distributors and so forth.

In the 1920's a new medium was introduced: radio, transmitting and receiving sound waves over the air.

This was considered a great threat by the music industry at the time, because why would people buy records if it was transmitted for free? Therefore, most of the records were 'not licensed for radio play' in those days.

Music was only played live in the studio because the radio stations were not allowed to play records. Furthermore, the songs were initially more important than the singer, so hired vocalists sang the music in the studio.

Years of resistance, legal posturing and governmental involvement was needed before the first radio stations were licensed to play records in shows as *Your Hit Parade*¹ (1935-1949).

Surprisingly, when the record companies eventually licensed radio for record play it proved to be a huge catalyst for record sales. Transmitting radio brought a new era of bringing music to far greater audiences.

Inventing the compact disc

The innovative gramophone stayed the dominant music hardware until the eighties. The compact cassette was introduced in the sixties already, but sales really took off when the *walkman* was introduced by Sony in 1979.

The cassette was a strong alternative to the gramophone mostly for its compact size and re-recordable functionality.

Not long after the success of the compact cassette a new format was introduced; the compact disc (CD) entered the markets in 1982. The CD is a disc to store digital data and thus strongly improved the quality of the sound at the time. It did not take a long time for the CD to become the most popular medium for music. The CD remains the dominant physical medium for recorded music to this day, peaking in 2000 selling 2,5 billion units worldwide.²

Illustrated by the chart on the following page: new technologies generally replace older ones, but every time expanding the total market.

¹ <http://mog.com/davesonic/blog/127818>

² IFPI, The recording industry world sales, 2001

UNITS SHIPPED

In billions of 2006 dollars

Technology drives the market. Hello, Walkman. So long, 8-tracks and albums. Hello, CDs. Adios, cassette tapes.

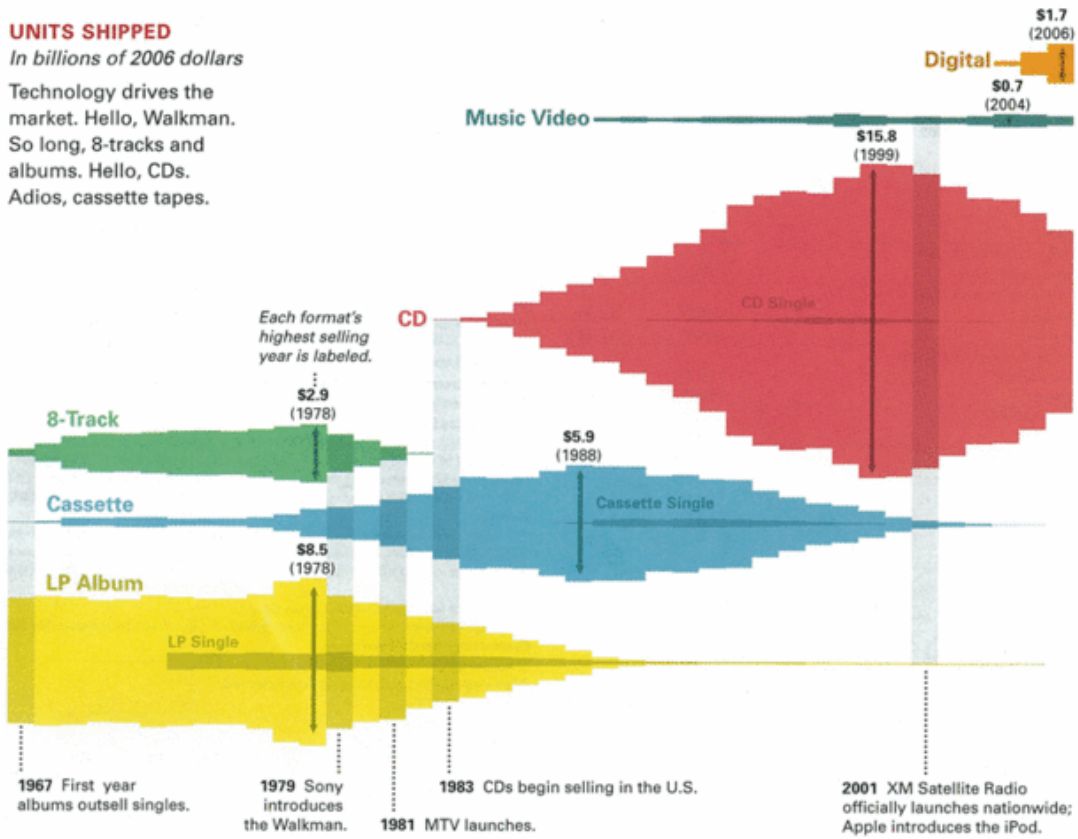


PHOTO: NATIONAL GEOGRAPHIC PHOTOGRAPHER MARK THIESSEN. ART BY JONATHAN AVERY. SOURCE: RECORDING INDUSTRY ASSOCIATION OF AMERICA 3

Source: Recording Industry Association of America

New music mediums cannibalize old music mediums rather evenly at first, expanding the total market at a later stage.

³ <http://www.hear2.com/2007/12/ah-how-things-c.html>

The world wide web

While the compact disc and minidisc were already digital formats, the distribution of these mediums remained consistent with the analogue distribution forms

The quite recent digital revolution and use of internet has already had a more severe impact on the music industry in comparison to the introduction of broad radio transmission and the development and distribution of CD's. It is made possible in the developed countries for personal computers to commoditize and be connected to a worldwide network. Along with the digitalization of content this paved the possibility for immediate digital interaction and digital delivery of content.

As John B. Thompson explains in *The media and modernity* (1995), time was in the pre telecom world indissoluble coupled to space. For a certain experience to witness, people had to be at the same place, at the same time. This meant a face to face situation, perceived as 'here and now'. Only when time and space were combined, the same experience can be encountered. The coupling of space and time was also found in forms of communication. For a farmer to communicate with an urban area he was dependent on the space between him and the city, and the time that his message needed to travel this space, either by personal transportation or by letter. The letter had to be at the same place as the receiver to pass on the message.

The advent of telecommunication made this process differentiate. Early telecom and telegraph made possible for symbolic content and information to be transmitted over vast distances with little delay. Spatial distinction was enhanced and temporal delays virtually eliminated. Thompson describes this as the 'Uncoupling of time and space'. The uncoupling of time and space also led to the discovery of despatialized simultaneity. In other words, it became possible to witness events as simultaneous despite they occurred in localities that were spatially remote. The 'now' was no longer bound to a particular location. Simultaneity ultimately became a global phenomenon.

Today, distribution of music and access to music has transformed from traditional manufacturing, distribution and physical stores into server space and direct connections to the Internet.

Thompson's notion on time and space proves the time between production and distribution of music has diminished drastically. Music can be created, stored at a server and retrieved at any time, from any location.

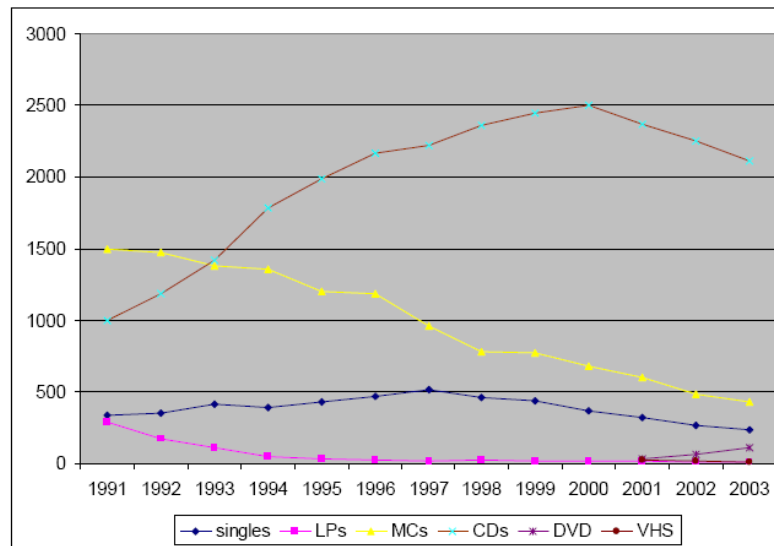
All and all, the cost of production and time needed for distribution in a traditional model have vanished.

The popularity and widespread use of the Internet and its digital distributional possibilities have drastically changed the traditional physical game of the music supply chain model.

The chart at the previous page shows us that new music mediums cannibalize old music mediums rather evenly at first. That development applied to the current shift from a physical market to a digital market, can be illustrated by the following chart.

Observation: the increased sales of CD's came to a stop in the year 2000, followed by a rapid decline.

Figure 1. World sales by format (units)



Source: IFPI The Recording Rndustry in Numbers 2001-2003; figures in millions.

An economist guide to digital music, 2004

Because of the start in digital distribution and the national registration of album sales per country is sometimes a total number and sometimes split into digital and physical sales, it is difficult to determine the physical sales worldwide in units after 2004.

The decline of music sales in revenues however is showed in the following table.

Bear in mind that the table even includes digital sales from 2004, and that prices of CD's have fallen significantly over the last years.

Record Sales (in billions, USD)⁴

Ⓔ1	2000	2001	2002	2003	2004	2005	2006	2007	% Growth	% Growth (Inflation adjusted)
Worldwide	36.9	33.7	32.2	32.0	33.6	33.5	31.8	29.9	▼ -19.0%	▼ -32.1%
US	14.0	13.4	12.6	11.8	12.2	12.3	11.5	10.4	▼ -25.7%	▼ -37.7%

Note: Table is a meta-analysis of eight *IFPI* annual reports

⁴ http://en.wikipedia.org/wiki/Music_Industry_in_the_21st_Century

Napster was one of the pioneering mainstream software programs to make large scaled worldwide online sharing of music possible. It was introduced in the second half of 1999 and the program made possible for Internet users around the world to search and connect to each other, downloading music files directly to their computer. The popularity of *Napster* grew immensely, serving over 25 million users worldwide in the first quarter of 2001⁵

The simultaneous figures of declining in music sales and rising popularity of Peer-to-peer (P2P) technology are very tempting to directly be perceived as related causally. However, the issue is not clarified yet and therefore I will not make any statements for this matter. The correlation between file sharing and decline of music sales is denied by several researches such as

- F. Oberholzer & K. Strumpf, *The Effect of File Sharing on Record Sales - An Empirical Analysis*, 2004, Harvard Business School & UNC Chapel Hill
- TNO, SEO, IViR, Ups and downs: *Economische en culturele gevolgen van file sharing voor muziek, film en games*, 2009, TNO
- E. Boorstin, *Music Sales in the Age of File Sharing*, 2004, Princeton University

Others do find a strong relation between a decline in music sales and file sharing such as

- S. Liebowitz, *Economists Examine File-Sharing and Music Sales*, 2005, MIT press
- Forrester, *European Digital Music*, 2004, Forrester research

The causal relation of file sharing and music sales will not be further researched or explained by the author. I will take a neutral stand on file sharing related to music sales and stick to the facts within my reach.

1. The primal two facts to summarize are the figures that show that the audience is significantly buying less physical CD's than ten years ago.
2. The second fact is that during the decline in physical music sales, the audience showed a strong growth and use of online music distribution⁶.

This underlines a shift in demand from physical to digital distribution.

The development that started with *Napster* grew to be one of the technological developments to change the music industry. (Lievrouw and Livingstone, 2006)

The use of P2P technology empowered the consumer strongly by the free access to an enormous collective well of music. To this day, P2P technology flourishes on the internet, but remaining a gigantic thorn in the eye of the music rights organizations.

⁵ http://en.wikipedia.org/wiki/File:Napster_Unique_Users.svg

⁶ Dr. R. Wallis, *Best Practice Cases in the Music Industry and their Relevance for Government Policies in Developing Countries*. WIPO-UNCTAD, 2001

The problem of current P2P models is the infringement of copyright. Most of the music online is freely copied without compensating the rights holders.

The rising demand for digital distribution models from consumers as well as the music industry professionals is growing strongly while CD sales keep declining.

According to Dr. Gary Graham (2006), partnerships between music companies and specialist online distribution companies are seen as the way to respond to the rising demand for digital distribution. The traditional sequential supply chain model of the music business will be transformed into a more virtual network structure, explained in the tables below.

Furthermore, the empowerment of consumers and artists will cause a more central and powerful role in the production and distribution of music.

Graham, 2006

Table 2 – Evolution from static to a dynamic choice of actors


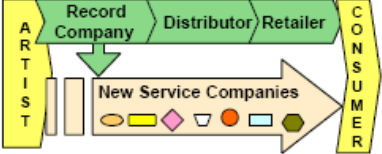
Choice of Actors	Static	Dynamic
	<p>Limited choice of actors (high vertical integration of record companies)</p> <p>Relationships mainly long-term</p>  <p>The choice of actors – traditional system</p>	<p>High flexibility in the choice of actors</p> <p>Relationships vary from:</p> <ul style="list-style-type: none"> ➤ long-term to short-term ➤ formal to informal <p>Relationships ad-hoc with an arising business opportunity</p>  <p>The choice of actors – new system</p>

Table two shows the traditional supply chain for music products (static). From the artist to reach the consumer there were a few indispensable key players to produce, distribute and sell the product. This model is also subject to the coupling of time and space (Thompson, 1995).


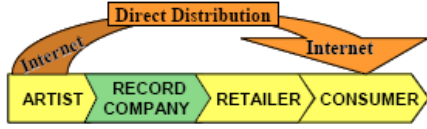
In the dynamic model (digital) the traditional model also remains existent, but can be surpassed by the artist directly reaching out to the audience directly using new service companies or via the record company. These services are yet to be explored and developed. An example of such services is the Dutch *Sellaband*⁷ initiative where the audience can buy shares of an artist or act they believe in. The collective group of ‘believers’ (shareholders) makes up the sum of money necessary for the artist to record an album. Promotion, distribution and sales or

⁷ <http://www.sellaband.com/>

other services can also be executed by intervening new (mostly free) services such as *Soundclout*⁸, *Bandcentral*⁹ and numerous more, heavily diversifying the model of the music supply chain.

Graham,2006

Table 3 Impacting on the governing mechanisms

<p>Governing Mechanism</p>	<p>Dominant position of major record companies because of:</p> <ul style="list-style-type: none"> ➤ Entry barriers due to high transaction and production costs ➤ Economies of scale and scope (competitive advantage due to high vertical integration) ➤ Control all distribution and marketing channels <p>Artists depend on record companies Consumers are restricted (in terms of choice of music)</p>  <p>The traditional governing mechanism</p>	<p>Elimination of the dominant position of record companies:</p> <ul style="list-style-type: none"> ➤ Low entry barriers due to decreased transaction and production costs ➤ Economies of scale and scope do not apply (vertical integration means no longer competitive advantage) ➤ Loss of gatekeeper position <p>Artists gain more control (over their music and activities) Consumers gain bargaining power</p>  <p>The new governing mechanism</p>
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In the dynamic model (digital) the power of the traditional key players has decreased because they are no longer irreplaceable.

The dominant position of record companies and retailers has decreased in the dynamic model for their irreplaceable location in the supply chain can be surpassed. The power of backwards- and forward integration of production, manufacturing and distributing is therefore less rewarding, also lowering the market entry barriers for new services. This results in the empowerment for artists and the audience to interact because they are no longer dependent on the traditional powerful key players in manufacturing and distribution.

⁸ <http://soundclout.com/>

⁹ <http://bandcentral.com/>

A-La-Carte downloads

After refusing late 90's requests by third parties, when record companies ultimately entered the digital arena the new services did not kick off as successful as hoped for. Failures were predecessors of the current services and failed because of a lack of user friendliness, high pricing, compatibility problems and expiration of tracks, meaning repurchase of a song was necessary when it was already paid for. None of these problems occurred with the illegal file sharing substitutes.

Most of the legal digital distribution services started of selling music songs on a 'pay-per-track' basis, also known as 'a-la-carte' downloads. The tracks each have a fixed price, currently 89 or 99 cents, both dollar and euro in general.

The first digital media store to prove the concept was viable was Apple's *iTunes Music Store*. The store opened up in April 2003 and provided an online virtual store for digital music purchasing.

Today, iTunes is the market leader in digital music accounting for approximately 70% of global digital music sales¹⁰. Besides music, the store also offers music videos, audio books and TV series. Other notable A-la-carte download services are Rhapsody, Amazon and Emusic.

A downside that occurred at such services the last few years is the discussion about Digital Rights Management (DRM) restrictions that are applied to the purchased songs.

DRM is an encryption enclosed in the files making tracking and restricting certain usage of these files possible.

Most of the download services each have their own DRM encryption limiting the right to burn files on a CD to a certain amount of times or limiting the use of files to a specific brand of music players.

For instance, Apple iTunes used its own DRM technology *FairPlay*, encoding files with an Advanced Audio Coding (AAC) format. These AAC files then can only be stored on Apple portable devices, and Apple's portable devices do not store files with other DRM coding. This caused a compatibility problem for the audience, making the use of such services, again, more inconvenient than illegal file sharing substitutes.

Nowadays the debate concerning the user unfriendly DRM restrictions led to most services offering songs DRM free, including the iTunes Store and also diversifying the pricing strategy¹¹.

In the end of 2008 a logo was presented by a group of UK download stores that should easily distinguish stores that sell DRM free content and devices that play can play all file formats.



¹⁰ http://www.wired.com/entertainment/music/news/2008/04/itunes_birthday

¹¹ <http://www.apple.com/pr/library/2009/01/06itunes.html>

Add supported services

If the audience might not be able or willing to pay for its demand of music, maybe there is an alternative. The alternative can be found in add supported music services. The model is not that complicated; while the audience can listen freely to streamed music, sometimes commercial messages of large corporations are transmitted. The business partner pays the music service advertising fees, which in turn pays the rights holders of the content. The advertiser indirectly pays for the music experience of the audience in this model. In theory this is a strong alternative to the current free access to music by the audience compensating the rights holders. Though, in reality not many add supported services seem to be very successful. *Qtrax* and *We7*, while still active, are still struggling to maintain. *Spiralfrog* already shut the service down in March 2009 due to high debts.¹²

A relatively young add supported service is the Sweden based *Spotify*¹³. Launched in Europe at the end of 2008, this service seems to know just what the audience wants, delivering music from all the major music companies, songs are never during a song interrupted by commercial messages and the user interface has the somewhat same look and feel as the successful iTunes Store (a-la-carte). The founder Niklas Zennström was already the founder of popular file-sharing software *Kazaa* and launched the successful P2P phone service *Skype*. When users of Spotify do not want to listen to music for free with ads, they can subscribe to the premium service for approximately 10 Euro per month, a service without advertisements.

Other new services using an advertising based business model are less direct in exchanging music for the advertisement. Two recent initiatives in the Netherlands with an advertisement model are *22tracks.com*¹⁴ and *muziek.nl*¹⁵.

Both services have a very different nature, but underline the search for fulfilling the demand for music.

22tracks is an initiative that gives respected opinion leaders in a number of musical genres charge over a playlist of 22 tracks within the genre. New tracks are regularly added and removed from each playlist by the leader of that particular genre. This gives users a reason to come back to the website, listen to music for free, discover new artists within their genre and maybe sometimes cross over listening to less familiar genres. This services the user with free music, reliable choice of tracks and great opportunity to discover new music. The service in the near future wants to use advertising on the website borders, to pay the rights holders and maintain the service.

¹² <http://www.paidcontent.org/entry/419-spiralfrog-shuts-down>

¹³ <http://www.spotify.com>

¹⁴ <http://22tracks.com>

¹⁵ <http://www.muziek.nl>

Muziek.nl is a service of complete different nature. Going live at the 14th of April 2009, the service focuses on the 35+ target group that was used to buying physical records, CD's and vinyl. The website wants to operate as a starting portal for all music for the target group. This means that all new releases are reviewed, exclusive articles, interviews and columns are available, the back catalog of reviews of old albums by the respected *Oor* magazine are available, a complete concert agenda with all the relevant artists, a web shop with merchandise, re-issues, box sets, limited editions and other audiophile material. Muziek.nl is an initiative by Dutch market leading major Universal Music cooperating with *Xingo*¹⁶, hosting the service independently. While universal initiated this platform for music lovers, all the other majors are represented as well, making the platform suitable for 'The real music lover'. The downsides of this platform are that classical music, hip-hop and dance music are not generally available on the website for these are not the genres of interest by the 'real music lover' apparently, and music buyer of 35+. Another downside is the lack of digital downloads, even though they are announced to be launched late 2009. This is a tricky issue, for muziek.nl is set up in cooperation with xingo, part of HiFi. HiFi logically specialized in selling high end hardware for music playing, might have little interest in digital downloads. Muziek.nl mainly wants to make revenues by advertisements on the webpage, facilitating all the other complete and extended music information to the target group for free.

Subscription services

Another way to currently buy music online is a subscription model. This means that the audience subscribes to a service and pays a monthly fee to the service to use an unlimited number of songs on the service.

A subscription service generally offers three models.

The first and cheapest model is a 'basic' service where all the songs within the library of the service can be listened to online with the use of streaming technology. This means that the songs do not have to be downloaded to the computer's hard disc before listening.

This is currently a pc usage model.

The second model is a 'to-go' offer. All the songs within the library can then be moved onto a mobile device, making it possible to carry the songs on the road.

This is currently a mobile model.

The third is the most expensive model, offering all the songs from the library to be downloaded to the hard drive of the user. The files do have DRM restrictions in many cases however, so the use of these files is somewhat restricted.

This is an ownership model.

¹⁶ <http://www.xingo.nl/>

Recap

From the moment that music could be recorded it was no longer a unique service, but it was played and sold as a product.

By the time radio was introduced to the public it was considered a great threat by the music industry. The general assumption was that free distribution of music would undermine the sales of LP's and most music was thus unlicensed for radio play. It took more than a decade to break through the existing paradigm.

Surprisingly, when the record companies eventually licensed radio for record play it proved to be a huge catalyst for record sales. Transmitting radio brought a new era of bringing music to far greater audiences.

Similarities with the current situation occur in a restricting attitude of music companies towards file sharing and the large, free reach of the medium.

The introduction of the compact disc was another technological artifact that propelled the music industry. After sheet music, gramophone, radio and cassette, once again it showed that new technologies generally replace older ones, every time expanding the total market.

Once again similarities can be found with the current situation, digital distribution replacing older technologies and expanding the overall market. Only this time, rights holders are not rightfully compensated, similar to the introduction of radio emission.

The internet proved a change of different stature. The distribution of information goods on a digital basis caused the uncoupling of space and time for the distribution of content. The cost of production and time between production and distribution diminished drastically. From that moment on physical music sales came to a stop and started to decline rapidly the last ten years. Software that facilitated the digital distribution of music files was pioneered by Napster which grew immensely popular within even a year.

The program made sharing of music files between users possible, quickly building the largest digital collective music library in the world. Sharing of the files was technically a violation of copyright legislation.

Despite the fact, digital file sharing grew incredibly popular and physical sales kept declining.

Digital distribution affects the traditional sequential supply chain transforming into a more virtual network structure. Initiatives using the modern supply chain are to be explored and developed, heavily diversifying the model of the supply chain. The weakening of the traditional supply chain resulted in empowerment of consumers and artists in the production and distribution of music.

Legal services distributing digital music currently come in three shapes.

The premium download sells ownership of songs for a set price per track. This is a digital prolongation of the traditional model. The most notable retailer is Apple's iTunes, supporting their hardware strategy. A weakness of the premium model is the abuse of digital rights management restricting the freedom of the use of songs by customers.

Advertisements are another way of generating revenues for the use of music products. Music is not downloaded in this model but offered to use for free, with the exposure of advertisements to the users. YouTube is the greatest example of this service, together with Spotify. A disadvantage is the constant targeting by advertisements during consumption.

A model that does not target advertisements but also does not sell music as a product is the subscription model. Songs can be used on a streaming basis or download basis, the last service more expensive due to ownership rights. This model is currently tested and developed by a number of suppliers. The disadvantage of subscription services is the current incompatibility with portable devices, so the cheaper streaming variant cannot be used on the go.

Downloads can be used on the go, but are often restricted to certain mobile devices due to adjustments to digital rights management.

None of these models really seem to be launched extremely successful or extremely innovative, leaving enough room for innovative music services in a modern value chain.

2. A flat rate model

2

"Today, it has become purely voluntary to pay for music, If I tell you to go listen to this band, you could pay, or you might not. It's pretty much up to you. So the music business has become a big tip jar."¹

Jim Griffin, Warner Music, Formerly Geffen Music's digital chief

The second chapter is divided in three subcategories for an apprehensive build up. The chapter relates the findings from the introduction chapter to literature for a diagnosis of the current situation in phase 1. A correcting design is described as a result in phase 2, followed by a possible prescriptive in phase 3.

The suggested theory in phase three will be the starting point for the field research.

Phase I: Media Theory

While music industry revenues are down more than ever, the demand for and use of music is higher than ever by immense use of P2P software, iPods and popularity of services like *Last.fm*¹⁷ and *YouTube*¹⁸.

The challenges of this discrepancy lie not in trying to sell more copies to consumers or punishing copyright pirates. The greatest challenge of the music industry is finding new ways of monetizing the popularity and use of music today with a variety of channels to harvest the opportunities presented.

The ways that new media are distributed and consumed are determined by three key elements according to Lievrouw and Livingstone (2002).

1. Technical artifacts and devices;

The development and market penetration of technology used to store and transmit media

2. Activities, practices and uses;

How media technology is adopted to compliment social trends

3. Social arrangements and organizations.

The social and organizational frameworks, that are in place to facilitate media consumption (i.e. laws, regulations, and supply chains).

¹⁷ <http://www.last.fm>

¹⁸ <http://www.youtube.com>

Thompson (1995) describes the direct relation between five aspects of mass communication, above the new media determinants of Lievrouw and Livingstone. The production and distribution of music is shaped by five aspects. If developments occur in one of these areas, direct impact another area is likely.

- Technical and institutional methods of production and distribution;
- 'Commoditization' of symbolic forms;
- Separate contexts between the production and reception of information;
- The reach of information through time and space;
- Information distribution of one-to-many.

When I apply these theories to the current music industry the following observations can be made.

First of all the technical methods of production and distribution have innovated drastically as a result of the digital revolution. At the same time a commoditization of mobile phones, internet access, storage capacities and bandwidth has influenced society its daily life almost irreversible, influencing society as a whole to a more networked structure.

The context between production and reception had already been dislocated by recording live music to a playable medium. Internet commoditization has at the same time increased this phenomenon by making reception of music available anytime via many channels; even a concert in Japan can be experienced live on your mobile device at the bus-stop in Amsterdam. Therefore production and reception have been influenced severely by the first two aspects.

This furthermore implies that the reach of information through time and space has nearly vanished, while information distribution of one-to-many has increased unlimitedly.

Using Thompson's aspects I conclude that giant leaps have been taken concerning speed and accessibility of information. This has not only influenced the behavior or structure of users and society, but also redefined key elements, one of which is *access*.

When taking a broader overview of the media using the determinants of Lievrouw and Livingstone the penetration of mobile devices, iPods, pda's, netbooks, iphones, wireless broadband connections is influencing the markets in a strong way. But also socially it has influenced the adaptation and use of these possibilities turning to a network society, globalizing and sharing information within networks.

Surprisingly, the facilitation complementing these trends have not resulted in a supply chain business model suiting the developments of a quick, connected, sharing, accessible network. Moreover, the regulations concerning copyright are now heavily pressured. Hence I conclude; the developments of a new media, and thus music, landscape walks with a limp.

Phase 2: Supply chain remodeling

Based on my observations the social arrangements and organization which is first and foremost the supply chain, should adapt to the external factors shaping the world of information as it evolves.

My most basic assumptions to form an adapted supply chain form these three simple ground rules:

- The most important change is the provable shift to digital consumption;
- The music industry digitally must compete with *free* content;
- The two assumptions stated above should be related to the social trend that an increasing audience will more and more use mobile devices to be online, connected in global networks and sharing all the time, everywhere.

Remodeling the supply chain business model has to be more than just digitalizing music products. The shift from paying for physical products to 'free' digital goods is a change of paradigm, changing music from the change from service to product as described in the introduction chapter, back from a product to a service again in the digital age due to marginal costs of reproduction and unlimited reach to consumers.

And like a service is exactly the way that music should be monetized according to futurists Jim Griffin or Gerd Leonhard (2005).

When music really has to transcend its limitations of current forms, it should be available to everyone, no matter how, where, when, at what price, paid by who. It should be accessible all the time, and feel like 'free'.

A grand transition of such form is called a shift of sociotechnical paradigm by Lievrouw and Livingstone because the network structures, actors and dynamics are changing social relations. Such transitions have profound economic consequences (Lievrouw and Livingstone, p.187).

The current transition undergone by the music industry is one of great relevance to the media and information industries, pioneering the way into the 21st century.

Phase 3: 'Music Like Water' theory

David Kusek and Gerd Leonhard introduced a theory in their 2005 book *The Future Of Music*. It was called the 'Music Like Water' manifesto (MLW).

It is roughly described how current developments have devaluated music by making it available for free everywhere. The way that 'record' companies responded to the development was still to try and sell packages of music to customers. This response is illustrated just as water is available from cranes everywhere; record companies still try to sell bottles of Evian water to the users.

They go even further when futurizing the use of music by a digital generation that grew up using mobile computers, availability of wireless broadband connections, mobile devices and constantly connected users of these networks. They explain how technological developments will constantly push the boundaries of connectivity and the commodity of mobile devices. Also the internet connection will be a cheap commodity paid for by everyone, just like water.

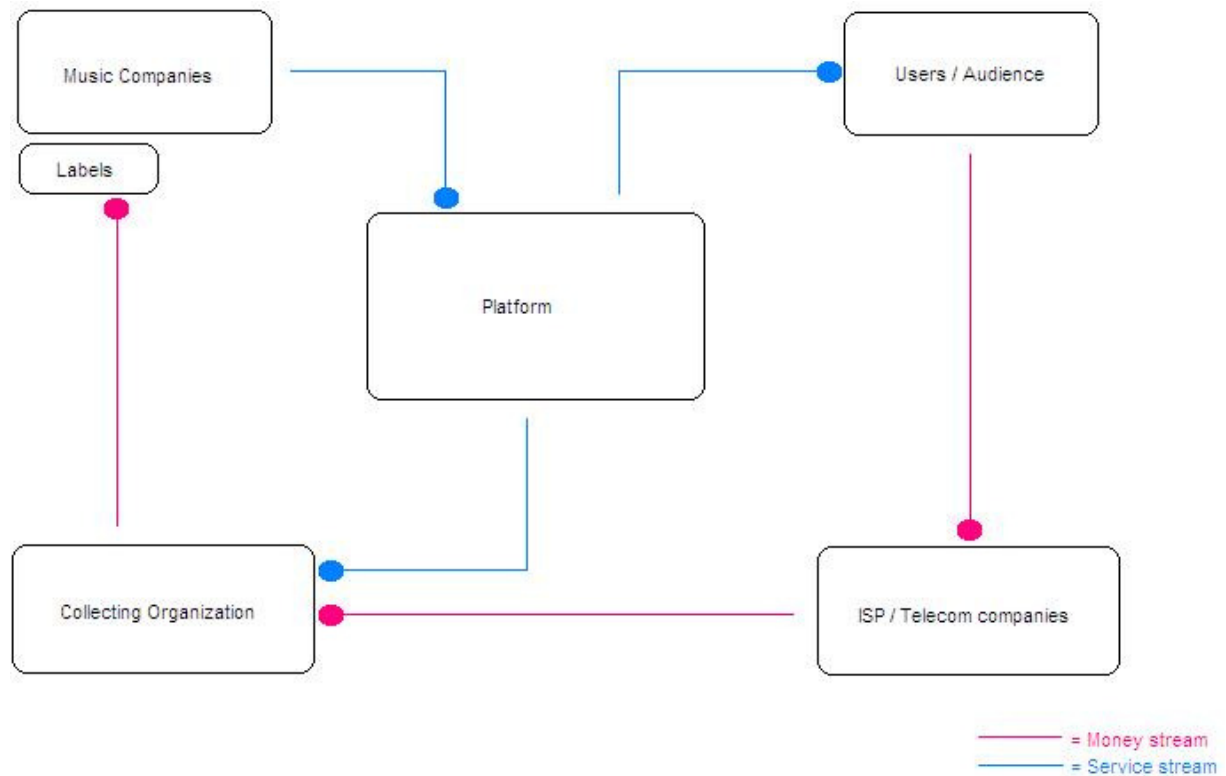
Water is paid for on a flat rate basis. Everybody pays for it and therefore everybody has access to it. Moreover, because everybody pays for it the price is very low, and the use of water is almost for free. At least, it feels like free. When you go to the toilet of a restaurant, you do not have to pay for the water to wash your hands with. Everybody pays for water, and everybody uses water.

The philosophy of Kusek and Leonhard is that this ubiquity water could also be applied to digital use of music.

"Since music is easily personalised and accessible, it permeates many other services and acts as 'glue' for activities on every level of society."

Dr George Michael Klimis

The system of music like water basically describes a world where users pay a flat rate for music, while having ubiquitous access to music. The flat rate music model theorized by Leonhard and Kusek will have a number of parties and functions involved.



Music Companies

The music companies deliver the catalog of today’s music and a century of recorded music. Besides exploiting music their core business is discovering talent, developing talent into artists, guiding artists professionally and promoting, marketing and sales for the artists.

The catalog should be collectively licensed using a public license meaning that every service that wants to use music with commercial intent can do so, when registered at a collecting organization.

Platform

A platform can be one or many services where music is distributed, presumably with streaming technology for all broadband speeds and mobile devices have no problem sending and receiving music flawlessly. Platforms can be services like Spotify, iTunes or another, but it is said to be more likely to have media giants like Google or future media giants servicing such a platform to attract traffic for other means.

Music should be unlimitedly available without restrictions.

Internet Service Provider (ISP) / Telecom Company

The idea of a true music like water model implicates that almost everybody is a music user and therefore everybody shares in the expenses. Because everybody shares in the expenses, the cost per user can be kept very low.

If the majority of users will share in a flat rate for qualitative, unrestricted, unlimited use of music it is logically to have the gatekeepers of the point of access to collect the fee, like a tollbooth. Internet Service Providers and Telecom Companies function as the access point to the internet and thus all online media and music services. Moreover, ISP's and telecom companies already have a complicated operational system in place with large numbers of customers paying a monthly fee for their services. The small extra amount for legitimate, qualitative, unrestricted and unlimited music can easily be added within these subscriptions.

Collecting organization and rights organization

Special collecting organizations receive the pool of money provided for music from telecom companies and ISP's. Through the use of technological means it is much easier to monitor how many times a song is played online so the dividing of money over the artists and their labels is more precise than it is today. The special collecting organization then pays out the labels.

Government

It is probably better to have governments interfere as little as possible with the music like water model. It is however likely that an inevitable step will be, for instance, the European Commission monitoring the rates per country. It makes little sense to have the exact same rate in Poland as the rate in the United Kingdom for they have different levels of wealth.

Government bodies could also play a role in the debate and adjustments concerning copyright legislation.

Recap

Three coherent key elements described by Lievrouw and Livingstone determine how new media are distributed. These are 1) technical artifacts, 2) practical use and 3) social arrangements. I have found that the first two elements have strongly progressed while the social arrangements for music distribution have developed little and unstable. On top of that, the relation between Thompson's five aspects of mass communication that shape production and distribution throw light on the noteworthy developments that have occurred in all five determinative areas of mass communication.

Two out of three main results of these developments I find are the changes in speed and accessibility of information. The third is a social trend towards an even more networked society. Rapid growth of *access* and *sharing of information* are the consequences of the evolution of how new media is produced and distributed. Surprisingly, the facilitation complementing these trends have not resulted in a stable adequate supply chain business model to complement these developments.

For a supply chain business model to suit the new media developments it should bear in mind the current game rules of music distribution I described in the introduction. First of all the greater part of music is distributed digitally. Secondly a modern business model has to compete with free models. Thirdly, the users are global connected sharing networks.

A theory that corresponds with these observations is *music like water*. This theory is a design to overcome the limp of the music industry and match the consumption pattern of the users today. It offers an alternative distribution system for music. It even elaborates on the thought that music has to change back to a service instead of a product. The system of music like water basically describes a world where users pay a flat rate for digital music, while having ubiquitous access to digital music. Music will then be flowing like water because if everybody pays for it, everybody can use it and share unrestrictedly.

Because digital music is consumed online it is efficient to have the internet service providers collect the fee integrated in the monthly subscription of its users.

In this model users will perceive like music is practically free, as water feels free, while music will be properly compensated.

3. Cases

"All roads lead to Rome"

3

The situation described in the first two chapters point towards a destination ahead: the reshaping of distribution and reshaping of revenue models for digital music. Although a destination may be probable, the road ahead is unknown. Predecessors can lead the way into the future, learning by trial and error. There is a variety of methods to harvest the opportunities at hand with regard of contemporary rules of the game.

This chapter explores three pioneering examples in which a different model of music distribution is monetized in a digital age. I have chosen to quickly throw a light on these specific cases for they each give different interpretation to their changing environment. I consider these cases new music pioneers.

- **Isle Of Man** Flat rate music test-bed
- **TDC Denmark** Music as a service
- **China Google** Music as a strategy

Isle Of Man¹⁹

Once upon a time, on an island far away...

But this is not a fairy tale. The *Isle Of Man* is a crown dependency country of the United Kingdom in the Irish Sea with some 80,000 inhabitants. The departments of Foreign Affairs and Defense are facilitated by the United Kingdom, but it is not part of the British Empire, nor the European Union. It acts as a self regulated country.

An Isle Of Man official announced at the *MidemNet* conference of January 2009 in Cannes that the island proposed a nationwide compulsory music license for broadband subscribers. In return, users are able to use unlimited amounts of music through all digital platforms legitimately, including peer-to-peer.

In short it means that everyone with an internet subscription will be paying a nominal fee as small as £1 to their service providers for unlimited digital music consumption, which will then be shared with the music industry.

There will be an op-out option for users claiming not to use digital music.

The idea may sound similar to the mandatory license fees for television owners to finance public broadcasting, in some European countries.

The money will, under the proposal, be sent to a special agency that will redistribute it to the rights holders, including music publishers and record labels.

Payments will be distributed based upon how often their music is streamed or downloaded on the internet. Privacy of the users will not be at stake for the general traffic on the infrastructure would be monitored.

This Isle Of Man is not ready for an implementation of the proposal yet, as talks with music companies have to lead to an agreement. The Isle Of Man could however function as an ideal test-bed for similar revenue models and be an exemplary best practice longed for by the music industry.



¹⁹ <http://musically.com/blog/2009/01/18/midemnet-2009-liveblog-music-isps-debate/>

<http://arstechnica.com/media/news/2009/01/isle-of-man-gets-unlimited-music-downloads-with-blanket-fee.ars>

TDC Denmark²⁰

Denmark's largest telecom and internet service provider wanted to 'create a revolutionary music service to strengthen its market position and reputation as a visionary market leader'. (designit.com)

The bundled service, called TDC Play, was launched in April of 2008 and little over a year later TDC was awarded by the *Mobile Entertainment Forum* for best music service.

Due to an agreement amongst TDC, several music companies and the rights organization *KODA*, the service offers TDC's 500.000 mobile and broadband subscribers unlimited access to 3 million tracks with no additional charge than the standard subscription. Dual delivery to both mobile phones and broadband connections are facilitated and additional community features such as playlist sharing and *Facebook*²¹ widgets are available.

The tracks however, are protected and can only be played as long as you remain a TDC customer. Naturally, this has been the strategic viewpoint of TDC which proved to work according to IFPI's annual Digital Music Report of 2009. The mobile and broadband markets in Denmark are highly mature and therefore the focus lies more on customer retention than customer acquisition. Senior executive vice president and chief strategy officer Eva Berneke revealed that the 'churn' (the rate at which customers drop the service in favor of a competitor) dropped by some 30 to 40 percent on mobile subscriptions and up to 60 percent on broadband subscriptions since the launch of TDC Play.

At the launch of the music service in April of 2008 TDC's chief executive Jens Alder said: *'Today it is not enough just to offer a smart cell phone or a fast broad band access line. Therefore, we are investing in making music available to our customers, and we believe that we will benefit from it financially and get more satisfied customers'*

Current head of TDC Music Søren Tvilsted says that since the launch of the music service not just caused growth of the interest in music but represents a new pattern of consumption in regard to downloading. The statistics have shown a resurgence of interest in albums. The ratio that Play shows is one album for every three single downloads, in contrast to the general one album to twenty single downloads.

A proposition such as TDC's Play could also compete with pirate sites that offer various qualities of free DRM free unauthorized songs, in contrast artists receive payment when their music is downloaded on TDC Play.

²⁰ http://eon.businesswire.com/portal/site/eon/permalink/?ndmViewId=news_view&newsId=20090625005447&newsLang=en
<http://www.ifpi.org/content/library/DMR2009.pdf> <http://www.boomboom.dk/>

²¹ Social networking site: <http://www.facebook.com>

Furthermore, the engagement of an Internet Service Providers gives them an angle to worry about competitors such as pirate sites. This is underlined by the precautionary measure by TDC to block access to the infamous Swedish 'ThePirateBay' after a first Danish court order in January of this year.

The success of TDC Play has not gone under the radar and other service providers such as BSkyB (United Kingdom) and SFR (France) will soon offer similar services. Nokia has introduced Nokia Comes With Music, offering a phone package including access to a large library of specified music companies. Sony Erriccson will introduce such a service by the end of this year. Finnish internet service provider DNA launched a bundled music service in December 2008 and Swedish Telco TeliaSonera introduced Telia Musik in six countries.

The example of TDC Denmark proves that service providers and Telco's could substantially benefit from engaging partnerships with music companies for music distribution. Moreover the music industry as a whole could benefit from these additional business models.

The creativity and innovational angle of such services pave the way and lay out new benchmarks for digital music distribution models.

Google China Music Search²²

After seven months of testing, Google China officially launched a music search engine on March 30th, making it possible for domestic users to stream or download legal music for free.

The strategic move by Google is to move in on the dominant search engine in China: *Baidu.com*, which has been facilitating easy access to free mp3's for years, many of which are unauthorized. Global dominator Google thinks that the music offer is the reason for Baidu having the largest market share in China (62%) leaving Google far behind (28%).



"We were missing one piece ... we didn't have music."
 Lee Kai-Fu, president of Google in greater China

The service will be offering more than a million tracks within a few months after launch from more than 140 independent labels, several publishers and all four major labels: Universal, Warner, EMI and Sony. The reason for these labels to partner up with Google in this unconventional business model is, according to Warner Music Asia Pacific's president: "*Until now, the online market in China has been completely unmonetized by the music business.*" The Chinese market is plagued by piracy according to the IFPI (the *International Federation of the Phonographic Industry*) saying that 99% of all music files distributed in China were pirated last year.

Furthermore he adds that this is an opportunity to let advertisers accurately target specific demographic groups on the Chinese market, where diffuse local ad markets and a state television monopoly made that hard. On top of that, the service will let record companies track which songs and artists are popular. Until now that was a difficult task due to unreliable data, said by Sandy Monteiro, Universal Music Group Senior Vice President for South East Asia.

Google's music service directly targets the Baidu music audience, by offering higher quality licensed tracks. The tracks are embedded with digital watermarks collecting valuable data to generate revenues from advertising.

Google has teamed up with Chinese music website *Top100.cn* to launch the service.

²² Techcrunch: <http://www.techcrunch.com/2009/03/30/google-china-signs-big-music-for-free-mp3-search-engine/>
 Wall Street Journal: <http://online.wsj.com/article/SB123841495337969485.html>

Not a product, but a service

Approximately half of the revenues from banner ads placed on the page that users see when listening or downloading music will go to the music companies. The remainder will go to Top100.cn, in which Google has an unknown stake.

The great benefit for Google will be the increased traffic on its Chinese site and revenues from its search ads on the search page.

The service is only available in China and Google currently has no plans to expand the service to other markets. Google's music service even has a technological innovation called the *Songscreener*, enabling users to discover songs based on mood, language, genre, age, tone and timbre.



23

This example excellently uses a business model competing with free, while all stakeholders benefit.

Google increases its traffic, thus market share, thus revenues.

Record companies monetize the digital hunger for music in a small market with enormous potential and receive valuable data about their target market while consumers get access to high quality, free, licensed music.

²³ <http://www.google.cn/music/songscreener>

Recap

The examples each illustrate that a creative diversity of methods can be used to monetize digital music in various ways, in this case as a test-bed, service or strategy. The case of TDC Denmark even exposes new digital consumption; a pattern with the strong resurgence of album downloads. The Denmark example as well as the Chinese also have the strength of competing with pirate sites. These examples would immediately cannibalize pirates offering music for free, which is the primary reason for youngster to download pirated music according to the research conducted by the University of Hertfordshire: *Music experience and behavior in young people*²⁴. Apart from the differences, these innovative cases more importantly show a similarity: digital music is not sold as a product in these cases. It is considered a service and monetized from that perspective. Music functions as a lubricant and benefits the entrepreneurial attitude of the company reaching out for market share, an advertisement market, branding or customer loyalty, benefitting all stakeholders. Different interpretations are given to the perspective of constructive benefits in the changing environment

²⁴ UK Music & University of Hertfordshire, *Music Experience and Behavior In Young People*, 2009

4. Experts

4

“Do not believe in anything simply because you have heard it. Do not believe in anything simply because it is spoken and rumored by many. Do not believe in anything simply because it is found written in your religious books. Do not believe in anything merely on the authority of your teachers and elders. Do not believe in traditions because they have been handed down for many generations. But after observation and analysis, when you find that anything agrees with reason and is conducive to the good and benefit of one and all, then accept it and live up to it.”

Buddha

The findings in the first three chapters are successively based on a historical perspective, media literature and desk research to come to premises. Professional life on the other hand often differs strongly from conclusions drawn by theory. To match and examine the current views within the music industry I have conducted face to face conversations with a number of music industry professionals to come to an overall sketch of movements and critical issues in the industry.

The experts with whom I have had the pleasure of conversing with in chronological order are listed on the following pages.

▶ Norbert Plantinga Universal Music Netherlands, Managing Director

Currently managing director in the Netherlands for the largest music company in the world. Norbert. Plantinga has international experience in the music industry and held posts at other major record companies EMI Music and Sony Music.

▶ Bob Smits Brighthouse, Director

Brighthouse is a daughter of the company Imtech which provides ICT services. As a director, Bob Smits leads project managers working on strategic transformation projects.

▶ Niels Aalberts Artist manager

Besides being a senior lecturer of Music Management at the Utrecht School for the Arts, Niels Aalberts is a centipede in music marketing, management and promotion due to a broad foundation in the music industry. Currently also manager for Dutch talent *Kyteman* and actively aiding starting musicians with his blog www.EHPO.net.

▶ Jurriaan Sandkuyl Samsung, Sales representative

As a music management graduate Jurriaan Sandkuyl found his way working for one of the largest phone companies in the world. He wrote a thesis in 2008 suggesting research on a flat rate for digital music '*De toekomst van het betaald downloaden van muziek*'.

▶ Mars Mertens Buma|Stemra, Business Development

Mars Mertens is responsible for general business development at Buma|Stemra. This includes amongst others new online developments and general developments like music in games. Previously, he worked at the international independent record label and distributor PIAS for 15 years.

▶ Anonymous source (AS) Large digital music retailer, Dutch representative

The anonymous source did not wish to speak on a personal or corporate term. He was willing to speak to me on an anonymous basis, about general developments. The anonymous source is an employee of a large digital music retailer and has worked in the music industry at record companies previously.

- ▶ Ard Boer New Music Labs, Owner

New music labs is a creative laboratory for the music industry, developing new tools for maintaining and expanding the artists' fan base. Furthermore they think about new strategies for production, promotion, marketing, distribution and performance to create best practices. (From the website: <http://www.newmusiclabs.com/>)

- ▶ Valentine Kreykamp Spotify, Market researcher

Currently Valentine Kreykamp is working as an independent creative director developing and directing broadcast branding, event and design projects with her own company Rocksteadyimages. She was contacted by representatives of Spotify to conduct a research and engage contact on how to introduce Spotify on the Dutch market with regard of partnerships and advertisement revenues. Previously she was coordinator and senior creative On-Air at MTV Benelux.

- ▶ Lykle De Vries New Music Labs, Owner

Besides being co-owner and founder of New Music Labs (<http://www.newmusiclabs.com>) Lykle De Vries is together with Ard Boer the founder of the Podcast 'Lopend vuur', supporting musicians in a digital era. Furthermore he has created 'the pitch' which is cooperation with Sony Music where musicians write their own business plan and pitch that, possible winning a 20.000 Euro investment to pursue that business plan.

- ▶ Joris Van Heukelom Ilse Media, CEO

Joris van Heukelom is the Chief Executive Officer at Ilse Media, a daughter company of publisher Sanoma. Previously he worked at Telco KPN, responsible for content on the consumer market and held post as vice president at MTV Networks Benelux for approximately eight years.

Five additional experts were interviewed in Tokyo, Japan:

- ▶ Kimitaka Kato Universal Music Japan, Managing Director
- ▶ Ryoichi Miyamae Universal Music Japan, Head of Sales Marketing & Digital
- ▶ Seiken Doi Universal Music Japan, Sales Marketing & Digital
- ▶ Takeshi Okada Universal Music Japan, Sales Marketing & Digital
- ▶ Hikari Yamanaka Universal Music Japan, International Exploitations

Overview

The interviews produced insights from a number of perspectives. Some issues were reflected on similarly by the experts, other subjects were disputed or considered upon from a stakeholder's perspective.

The chapter will begin with a reflection on the role of each stakeholder, before digging into the issues of the expert interviews. The chapter is concluded with a review of critical issues and bottlenecks.

A. Stakeholders

B. Communal key issues

- ▶ Access
- ▶ Mobile
- ▶ Rights owners and collecting agencies
- ▶ Entrepreneurs & Service
- ▶ Buma|Stemra

C. Differing key issues

- ▶ Flat rate
- ▶ ISP & Telco's
- ▶ Music Companies

D. Critical issues and Bottlenecks

A. Stakeholders

The landscape of interest sketches a large number of parties involved in the innovation of the music industry. The mean list of stakeholders that were mentioned by the consulted experts in random order is the following:

- ▶ Music Companies, Publishers and Rights Holders
- ▶ Content Delivery (digital distributor)
- ▶ Collecting Agencies (Buma|Stemra/SENA)
- ▶ Artists
- ▶ Consumers
- ▶ Service Provider & Telco
- ▶ Government

Each one of the above has an interest in successful distribution of recorded music. Some say one has a stronger or less relevant position, while another holds a key position. Despite some key players, the overall impression is that the shakeup of the music industry has undermined traditional power blocks. To overcome the setbacks and implement true innovational distribution models, the keyword is harmony. Each one of the stakeholders must open up a little to the other stakeholders to generate an overall benefit from sharing a mutual interest.

Artists & Consumers

The two most important stakeholders in the distribution chain of music are the artists and the consumers. The fundamental idea of music distribution starts with the creative process of the artist producing music. It is essentially the father of all following events. Therefore it is of the utmost importance that the interest and goal of a professional artist is the top priority in the distribution of its music. The goals of artists may vary but generally come down to one or all three of: making music, reaching an audience and receiving compensation.

*“A rising tide
lifts all ships”*

On the other end of the spectrum there is an audience enjoying music. They pay for concert tickets, merchandise, CD's or MP3's and have gained substantial power due to a variety of consumption methods. They are the stakeholder that stirred up all traditional work ways. The audience has expressed itself by showing a growing interest in live performances and popularity of digital music consumption. The variety of methods through which consumers have access to authorized and unauthorized music empowers them strongly, compared to their bondage to physical products ten or so years ago. Consumers are the aim of music distribution and considering their empowered position they must be handled with great care and preferably impeccably fulfilled in their demands.

Music companies, Publishers and Rights holders

The music rights holders, often the music companies, are considered an important stakeholder by nearly all experts because of their large interest in the exploitation of these rights. The benefit they can achieve by successful distribution should drive them to stimulate progression. On the other hand the rights holders are powerful players that can block initiatives to deploy, since service companies are dependent on the content they can deliver. For that reason the rights holders have a key position in the distribution chain. They are known to block new initiatives because they are afraid to lose control over their content and current models, but according to the anonymous source (AS), the repertoire owner needs a mindset where a diversified model generate revenues, not mainly record sales. At this point they are waiting for a party with the perfect model. He suggests that the repertoire owners start developing a model themselves, with or without other stakeholders that would benefit all parties involved.

“the repertoire owner needs a mindset where a diversified model generate revenues, not mainly record sales”

Music companies however already show an untraditional outlet for digital music in Google’s video service *YouTube*. The streaming video service started in 2005, today showing hundreds of millions video’s per day, uploading 10 hours of user generated content per minute²⁵. Once notorious for facilitating unauthorized copyrighted material, YouTube struck an agreement with some major music companies. The music companies are sharing in advertisement revenues posted alongside their content while YouTube developed software to track down and remove unauthorized music in the video service²⁶.

The revenue streams from YouTube advertisements are profitable to the music companies whilst exact figures are covered in mystery. Music companies benefit from revenues that are not shared with collecting agencies, or even artists, depending on the specific agreements.

Collecting societies

The collecting societies are representing bodies for the composers, songwriters and publishers, collecting income from parties duplicating and reproducing copyrighted music (Buma|Stemra) and collecting income from neighboring copyrights (SENA).

The collecting societies are stakeholders in new business models for they have to agree in the models of compensation for their members. There have to be agreements among the right holders and the collecting societies accordingly. To Mars Mertens, business development at Buma|Stemra, this exact point is the largest bottleneck for innovative digital business models; the cooperation between collecting agencies and music companies. The AS shares that opinion and adds that both the music companies and the collecting agencies have to adjust their revenue models, opening up to other stakeholders.

More in paragraph Buma|Stemra further on in this chapter.

²⁵ http://www.youtube.com/t/fact_sheet

²⁶ <http://www.nytimes.com/2006/10/19/technology/19net.html>

Content Delivery

It is a tedious phrase for a digital retailer. The content delivery company is however an important stakeholder that can offer its services in a variety of ways. The company has direct contact with the consumers and the success of the service depends on the proposition of the service. Availability, speed, price, ease of use and other demands of the consumer must be fulfilled. The content delivery company is an important stakeholder because it is an important promotion and sales channel for the music companies. The mutual interest of the company is that it needs the content of the rights holders to exploit their core business. The content delivery company can be an existing company, satellite company, an entrepreneurial venture or even an internet service provider or Telco.

Internet service providers & Telco

Most of the experts have qualified service providers a stakeholder in innovative business models for the music industry, be it with reluctance. Few of the experts were genuinely enthusiastic about a model that included internet service providers or Telco's, but most of them did find that the digitalization of media content and shift to mobile internet gave them an influential position in distribution of content. For music companies they could pose an ally in the controlled delivery of copyrighted content and the fight against online piracy. On the other hand service companies such as TDC in Denmark have proven to play a significant role that benefits the provider, consumer and rights holder.

Telco's such as Nokia already introduced business strategies including music content and Jurriaan Sandkuyl confirms that Samsung is also moving to content delivery. He explains that the mobile market is getting saturated and consumers practically all have mobile phones. Technological advancements will drive the market, but the real business opportunity lies in the functionalities of the mobile devices he adds. Mobile navigators need maps, mobile video players need film, and mobile music players need music. Overall, the service providers and hardware producers are realizing that content is narrowly linked.


Internet service providers and Telco's will be elaborated on further on in this chapter.

Government

The majority of consulted experts agreed that interference by governmental organizations is undesirable and is not really a stakeholder in innovative business models. However, there are some issues that could be addressed that imply the need for action by governmental bodies. Copyright legislation for instance has a justifiable background, says Lykle de Vries, but you can wonder who it is helping at present day. The old fashioned copyright legislation in some cases even limits the reach and opportunities of artists abroad, it can retract cultural goods from the public domain and reduces the drive for innovation amongst artists. Joris van Heukelom agrees that the current right system has its flaws, but is currently being tackled by the internet. An old model that in some cases obstructs rather than aids can be revised or modernized at a certain time. Lykle says that it is very difficult material and he

does not have a solution, but shortening the period of reserved right from 50 to 20 years could be a start. A more radical option would be to discard copyright and rearrange legislation on fair competition, preventing cartels.

Moreover, innovations in digital business models should eventually ideally be implemented on a European level. That means that agreements with collecting societies should take place for ever country. European government could play a facilitating role for that matter.



“The old fashioned copyright legislation in some cases even limits the reach and opportunities of artists abroad, it can retract cultural goods from the public domain and reduces the drive for innovation amongst artists”

B. Communal key issues

Access

Access proved a keyword in practically every expert meeting.

Digital business models require users to have access to the internet first of all. Internet access is almost a necessity of life, says Bob Smits. That statement was quickly strengthened by the European parliament on June 6th re-adopting amendment 138/46, valuing internet access as a fundamental right. The amendment crushed the *'three strikes you're out'* -bill proposed by French President Nicolas Sarkozy, opting to disconnect internet users after three misconducts.

Lykle de Vries agrees that internet access is a necessity and postulates that the price of internet access should ideally cost no more than water.

Digital distribution using the internet should also be a model of access. All of the experts agree that for a success, music should be available to consumers on a triple-A basis:

- ▶ Anything
- ▶ Anytime
- ▶ Anyplace

"With all access to the world in your pocket, why store it yourself?"

On top of that, personal storage will become redundant, thinks Norbert Plantinga. With all access to the world in your pocket, why store it yourself?

This implies that usage right will replace ownership eventually, when technical specifications allow infallible streaming services to be offered mainstream. Former digital media *products* will then be consumed as digital media *services*. This is a greater transition than perceived at first glance and might take a few years for users to adopt, but Valentine Kreykamp, Mars Mertens and the Anonymous Source (AS) are convinced that users will rapidly switch and accept the benefits of usage right when their want is being fulfilled.

In essence, the difference between ownership and usage right is that ownership gives the consumer the right to do with a product whatever he or she pleases. A CD can be used as a coaster or a Frisbee. The same goes for digital ownership, the owner can own, hold, copy, delete, mail, burn a file to CD etcetera. Usage right however licenses a consumer solely to use it. In the case of music, listen to it. The compensation for rights holders of usage is lower than ownership, making it less expensive to offer streaming services. In functionality for the users however, there is little difference when users can purchase services that allow infallible unlimited streaming of music.

The AS even suggests that you should not explain the difference between usage right and ownership to the users, for they might not even understand the difference. They just need a good service for a good price.

Niels Aalberts agrees that access will replace ownership in the digital consumption, but stresses that the perspective of the artist and consumer are the key perspectives for all developments in the music industry.

Mobile

Mobile technology keeps developing at a quick pass. The introduction of the iPhone speeded up the adoption of consumers using their mobile phone as multi-purpose devices, enabling a music player and mobile internet with great user friendliness.

The experts are unanimously convinced that mobile phones are going to be a major factor in the consumption of music, something unlike ever seen before. This is coherent with the literature study suggesting that adaptation of new technological artifacts first cannibalizes older formats, to further propel the music industry expanding the total market.

The AS says it is an essential step to success, for it eliminates the functional difference between usage right and ownership.

But even though mobile web functionality is expanding, internet and mobile is not yet the same says Bob Smits, something refuted by Kimitaka Kato (Japan) who states the exact opposite. Japanese users will have just started considering their mobiles as their desktop. Mobile is online per se. The success of the iPhone, he thinks, is caused by the user friendliness first of all, but most of all the large number of various applications available.

CEO of Ilse Media, Joris van Heukelom, is convinced that the transfer of music consumption from online to mobile will throw a second gigantic blow to the music business, a second wave of failure to the traditional music industry. He says unauthorized music consumption will keep growing at a faster pass online than the rise of legitimate business models, and that trend will be propelled by online mobile music consumption. With this in mind, he is convinced that digital music should cost no more than 'free' to make a profitable service competing with unauthorized music distribution.

One of the first to enter the mobile market will be the up and coming music service of today: Spotify. Spotify is currently on the internet available in Sweden, Spain and the UK. The add-supported streaming service has been granted permission by Apple to develop an application to enroll the music streaming service on the iPhone, according to Valentine Kreykamp. She says the application is expected to be available in the entered markets (Sweden, UK and Spain) by the third or fourth quarter of 2009.

It could surprise people that Apple, owner of digital distributing market leader iTunes, has opened up its system to Spotify, the greatest competitor in sight. On the other hand it supports the general assumption that Apple primarily focuses on the much more profitable hardware market of iPods and iPhones rather than content. The more quality services available on the iPhone, the stronger the brand and its leading position become, making it the dominant hardware for mobile internet. This does mean, on the other hand, that there is room for other competitors on content delivery.

Niels Aalberts considers the expected launch of Spotify on the iPhone a major breakthrough, essentially being the first to offer an Anything, Anytime, Anyplace music service.

“The price of permanent access to mobile internet and the capacity of mobile phone batteries to endure a constant connection, must be overcome first to free the way for mainstream success of mobile

Jurriaan Sandkuyl tames the expectations, saying that at this point the technology of mobile phones is not advanced enough to ensure great success. For mobile streaming services it is necessary to be connected online constantly and raises two technical issues to the table.

First of all it is still expensive for phone companies to provide high mobile internet speed, especially with a constant connection. Therefore the phone company, and eventually the consumer, will have to compensate this, slowing down the growth of mobile streaming services.

The second obstacle is the capacity of battery life. At this point the battery of a mobile phone with a constant internet connection would be empty within a day, also slowing down the growth of mobile streaming services. These two technological problems, the price of permanent access to mobile internet and the capacity of mobile phone batteries to endure a constant connection, must be overcome first to free the way for mainstream success of mobile streaming services.

Entrepreneur & Service

“Innovations come from the market”, “an infrastructure and its services should be separated”, “music companies and service providers are focusing on their core business”.

These three phrases, among many others, illustrate the vision of the experts.

The big picture is that they do see innovation, they do see new business models, they do see that we are standing “at the beginning of a total revolution of content and distribution”, described by the AS.

And practically all of them expect these innovations to come from entrepreneurs and independent companies, not from a harmonious model initiated or developed by any or a collective of the stakeholders itself.

The music industry is waiting to be regenerated by a third party.

The keys of success lie in simplicity like in the beginning days of Napster when a single program made by far the largest collective music library available within a year, using the collective power of the people.

Today we see that users want unlimited access, a flat fee, no DRM restrictions in a P2P environment says Thierry van Engelen (Head of Digital, Universal Music Netherlands). For success, he adds, it is critical that all the majors are involved, the retail margins are sufficient and that the collecting organizations are on board.

The most anticipated entrepreneurial service of this moment is Spotify. The good news show surrounding Spotify concerns the technological streaming advancements, the extensive library with all majors and many independents

on board and its ease of use including community functions such as sharing of playlists. The proposition adds to the current success offering free add supported streaming, premium month or annual subscription or a day pass.

Spotify won the TechCrunch *New Best Startup* award and the *Grand Prix* in London in July of this year²⁷.

Later that month it released a demo application for iPhone users making it possible for Spotify users to listen to the music and use their playlists on the iPhone²⁸ and to top it off it announced a distribution deal with IODA²⁹, adding two million more tracks to the service.

“There is a need for best practices to lobby and influence policy- and decision makers”

On a semi global scale another name that passed the revue in some interviews was Google.

Google is considered a giant and influential internet and media company that has the technology to develop a successful music service. Furthermore it has trust of users and knowledge to launch a music service successfully and it has a strong specialization in advertisement business models. At this point however, despite its role in the Chinese music market, Google is currently investing more in hardware developments competing with the iPhone, using their the Google phone and investing in software developments competing with Microsoft on operating software.

For the Dutch market however it is not necessary that a giant international player enters the market. A local party could be just as successful here according to Thierry van Engelen. We should service the Dutch market with local parties to set examples. There is a need for best practices to lobby and influence policy- and decision makers.

Buma|Stemra

The general sentiment towards the collecting agency Buma|Stemra is a bit depressing. They are considered very closed organizations, difficult to work with because of size and rigid attitude. They are not famous for renewal or flexibility and therefore many find it tiring organizations, spending a lot of money on the wrong things without benefitting their members; the artists.

It cannot be all as dramatic as this quick sketch, but it illustrates that the relations within the industry and the image are far from ideal.

It serves a functional purpose to have an entity collecting for the artists, that is undisputed by the interviewees. But the work ways of the collecting society are not benefitting the artists. Some quick examples of unwillingness to

²⁷ <http://uk.techcrunch.com/2009/07/09/the-europas-the-winners-and-finalists/>

²⁸ <http://www.dutchcowboys.nl/marketing/17515>

²⁹ <http://uk.techcrunch.com/2009/07/21/spotify-strikes-deal-with-ioda-adds-2-million-more-tracks/>

innovate are the obligation to hand over the rights of the complete repertoire as an artist. Thus making the artist have to pay the agency for putting music on their artist website or for instance when writing a song for charity.

“The role of Buma|Stemra should preferably be limited to a purely monitoring function”

When radio stations digitalized their databases it became possible for Buma|Stemra to get precise information on plays and thus to collect per second. Unfortunately, up until a few years ago, Buma|Stemra preferred to stick with the old methods of collecting a calculated *lump sum* because it raised more money. Revenue was more important than innovation and precision. Furthermore they use the money for investment funds unasked, taking longer to pay out the artists. Some of these issues have been solved by now, but the general opinion is that their flexibility to service the members is not top-priority. The closed structure of the company is a result of the fear to lose control and that hindered new initiatives to reach an agreement with Buma|Stemra.

Niels Aalberts suggests that they go sit on the bench for a minute and just settle to the present circumstances, for they obstruct more than they construct. It is a good organization in essence he says, but the problem is that they have a definitive say. Their role should preferably be limited to a purely monitoring function.

The reason for most of the problems, says Ard Boer, is that they were handed a lawful monopoly is the past. It was a blessing at the time to have one organization representing the artists. Today however, the organization is old fashion ate.

Joris van Heukelom disputes the monopoly position of Buma|Stemra. It is an association looking after the interests of its members, sure it is a difficult party he adds, but that is a given.

Lykle de Vries does feel very strongly about the problematic monopoly position of Buma|Stemra. It is that lack of competition that does not stimulate them to innovate in the current model. A form of competition should take off to force Buma|Stemra to innovate. They have to start investing like crazy in tools and systematic for pay out models and very complex distribution codes for composers, radio, artists, co operations and more.

To top it off, the first collecting society that will start collecting revenue for artists that registered with a non-commercial creative commons license, breaks that market open.

Mars Mertens, business development at Buma|Stemra, disputes the lack of innovation at Buma|Stemra and points out that Buma|Stemra practically had a deal with *Kazaa* in 1999. The music companies have mostly been obstructing such agreements due to demands of high advances, he says.

Buma|Stemra is innovating, applauds new business models and had a contract ready for Spotify if they were to strike a deal in the Netherlands earlier this year.

Anticipating on the future, the organization is set up on a track basis already and Mars Mertens has developed three functionalities with five revenue models, which leaves fifteen combinations covering practically all business models at this time.

Functionality		Essence
1	Permanent	- Download ownership
2	Linear	- Radio or streaming broadcast
3	Interactive	- On demand streaming

Revenue model		Essence
A.	Free	- Third party pays
B.	Consumer payment	- Premium download
C.	Usage	- Use of subscriptions, calculated in seconds
D.	Per time unit	- Payment per minute
E.	No revenues	- Promotional

A combination of a number and a letter determines the distribution codes for compensation of the songwriter or composer, preferably calculated per second of use. That way a song that is listened to for the full six minutes is compensated more thoroughly than a song skipped after thirty seconds.

This example illustrates that Buma|Stemra is in fact working on facilitation of innovative business models, but cannot disguise the problematic image and tough political position of the collecting society.

C. Differing key issues

Flat Rate

Generic fee

The flat rate model is reflected on from a different perspective by the experts, with an overall tendency opposing the theory.

The number one argument opposing the proposed system is the character of a generic levy itself. By standardizing a flat rate it enforces consumers to pay for something before even using it. First of all users could fight back saying that they do not consume music online and that they are not willing to pay. They probably lie, says Niels Aalberts, but they will start making trouble and nobody benefits from angry consumers. To Bob Smits, music distribution online is nothing more than a carrier just like a CD. So a flat rate for music on internet subscriptions implies a tax levy on the carrier similar to the current tax on blank discs, which is also condemnable. He adds that the implementation of a flat rate risks undoing the current blessing of online distribution: breaking down the power blocks in the media landscape. The internet has empowered consumers and artists at the cost of the powerful media companies which he fears will be somewhat restored when a flat rate is implemented. Music is a specific service and users should pay for their consumption accordingly he says, not the right to consume when they might not even. In line with specific service he advocates a system of micropayments, where users pay exactly for every second they listen to music, every article of news they read and every film they see online. Very few people agreed with that model during the research, neither do I envision that as a strong business model in present day. Paying for digital media consumption on a specific basis is still a barely innovative, traditional manner of product consumption and thus severely subject to piracy.

“Most people in this country find it important enough to have a well regulated infrastructure of roads and we pay tax for that. But whether you own a Mercedes, Fiat or no car at all, that is an individual choice”

Lykle de Vries and Ard Boer both could not see the use of a service provider in a music distribution model. Why would service providers join in the music distribution, that makes no sense, says Ard Boer. It is complicated, offers few benefits for the provider and only integrates another party on the negotiating table.

Lykle de Vries makes a metaphor of a generic levy by using transportation. Most people in this country find it important enough to have a well regulated infrastructure of roads and we pay tax for that. But whether you own a Mercedes, Fiat or no car at all, that is an individual choice. Depending upon the value you give to driving an expensive car or not. The same goes for internet, he says, we could agree on paying tax for a reliable good internet infrastructure when most of us find that important, but whether you barely use your computer or want to surf and consume paid goods all day, that should be your choice.

Infrastructure and service

The experts think that it is best to separate infrastructure and service.

The core business of a service provider should be facilitating a reliable infrastructure for internet or mobile internet and not diversify their business into content delivery. That is most strongly explained by Bob Smits, by looking the national railroads, telecom providers and energy companies that have undergone the same fate. Infrastructure is a basic service and additional services should not be offered via the same company. The model of services and infrastructure delivery can be tempting but is not sustainable on the long term, separation is important he says. Secondly service providers offering services are in a conflict of interest for they do not stimulate a free market, possible pushing their own services and neglecting similar third party services from a business point of view. That does not stimulate innovation or benefit either user or artist on the long run, thus affecting the service provider and its model.

A third argument is that a more innovative independent service is likely to come up some time doing a better job somehow, like a *Napster*, *YouTube*, *Facebook* or *Twitter* have done before. Each of these services offered an unexpected edge that made the service successful very rapidly. Therefore most experts agree that media services should be offered online or mobile through an independent service company.

“Music companies should primarily use the Internet as a promotion and circulation tool”

Open system

These arguments are in line with the coming up of open systems, another reason for most experts to oppose a flat rate.

For a marketer it would be ideal to have a structured channel of distribution, marketing and promotion and a flat rate would facilitate that. For consumers on the other hand, flexibility and free choice are more important.

Open systems, having low entry barriers, are shaping the future like Google is showing today and how crowd sourcing and open source media are proving more successful than controlled systems present day. Consumers today want open systems and the freedom of choice, puts Joris van Heukelom. He goes further stating that music companies would be silly to think that, in a digital age, their core business would be digital distribution of music and that more than 50% of their revenues would come from that. Control is decreasing hand in hand with the physical carriers and more and more music will be distributed through unauthorized services than authorized services. Therefore, he says, music companies should primarily use the Internet as a promotion and circulation tool like discussed in the TNO report *Ups and Downs* (2009).

None of the other experts go that far, but many do believe in the success of ‘feels-like-free’ services.

Feels-Like-Free

Norbert Plantinga does believe in a model where consumers pay for their consumption integrated in monthly or annual costs, and maybe even a flat rate system. However, it is evolution, he says, not revolution. It takes a long time for such idea's to become reality, even great ideas.

There has to be a fundament in place, and a spark could blow it up. Similar to the success of a hit record. Precise timing based on a strong foundation could be the spark.

Niels Aalberts too thinks that consumers are waiting for feels like free services, whether it is done by advertisements or monthly and annual subscriptions. To the consumer the functionalities are essentially the same as a flat rate, as long as they can get anything, anytime, anyplace. The consumer will not care whether that is via a service provider or not.

Hassle

Mars Mertens states that if a sort of flat rate would be implemented the service provider should be very much involved in the development and ownership of the system because the past has shown us that third party systems easily flop for a variety of reasons. Taking the risk with an external system demands a very high cordial commitment for both parties to rely on each other.

“That European flat rate system would have to look after the intellectual rights on a fee collected by the operators on text and film as well as sound”

The closest to a flat rate it will ever get will be service providers buying subscriptions, for instance from Spotify, by the bulk and handing out the passwords and registration to their customers, according to Ard Boer.

Other experts such as the AS also think that upgrading the customers subscription at the service provider with a music, sport, of even media package could be a workable model. However, most stakeholders must rewrite their business models and agree with each other to implement such a deal, that political game is a hassle. He furthermore adds that service providers will not develop and launch these services initially. It is a job for the entrepreneur or music companies to convince the service provider to make a partnership. Doing so, they must add more of a benefit for the service provider to join the distribution with such a service. Currently only the customer loyalty (*churn*) is a substantial benefit for the service providers but they will need more, such as an interesting enough piece of the revenues.

In the end, says Joris van Heukelom, the only way a flat rate could possibly work is if there was an international system of rights management. That system would have to look after the intellectual rights on a fee collected by the operators on text and film as well as sound.

Internet Service Providers & Telco's

In the music like water flat rate model there is a large role in place for the service providers. Up until now they have not shown any sort of interest in engaging in content delivery services according to the experts. Some say that is understandable, others say there lays a great opportunity. The biggest bottleneck however is the fact that these companies are very large companies with a lot of layers, employees and subscribers. This makes them operate slowly and focused on their core business. Niels Aalberts and Lykle de Vries say that you should not rule out the idea, but at this point they are simply not interested. Like Norbert Plantinga says, it takes evolution. Collecting societies and music companies had to adapt to digital distribution, users have to adapt to usage right instead of ownership and entrepreneurs and partners need time for the launch of new business models.

Valentine Kreykamp represented Spotify in talks with internet service providers earlier this year, among others UPC and Ziggo. Despite the fact that these conversations led to no agreements and Spotify will not enter the Dutch market in a partner deal soon, she still thinks that a model with a service provider is a workable model. However, she adds, music companies and service providers are both very much fixated on their core business, and you should not expect them to initiate such innovations. Other providers on the shortlist were KPN, T-Mobile, XS4All, followed by different other companies such as MTV, Hyves, Ilse Media, and the National Railroads. She too found the service providers slow, big and not really comprehensive of the business opportunities.

The main reason for the providers to be interested was to dust off the image and profiling as innovational.

One of the options was a hybrid model where users pay part of the fee, the company pays part of the fee and advertisements covering the rest of the fee to offer the service.

Talks eventually did not work out because the advertisement market in The Netherlands was considered too small at this point and a deal between Spotify and a partner demanded a high commitment and high investments both financially and in workload.

The AS and Joris van Heukelom still feel that the providers must be offered more of a benefit than customer loyalty or positioning to enter the distribution of content.

Kimitaka Kato, on the Japanese market, reflected on that benefit quite easily. It is about money most of the time, he says, and music companies would be willing to partner up and share revenues with the service providers, if they commit to partnership in fighting online piracy.

“Music companies would be willing to partner up and share revenues with the service providers, if they would commit to partnership in fighting online piracy”

Music Companies

Does the changing playfield of music distribution have an effect on the work ways of a record company? Most definitely, when asked the consulted experts.

Will the record companies become redundant if all artists can create, promote, market, connect and sell music directly to their fans online? Most definitely not, according to the same experts.

The record companies are first and foremost expected to transform themselves to remain relevant. For a long time record companies have fed of a booming CD market controlling distribution chains without the need for innovation. That point in history has passed and record companies at this point have to reinvent themselves turning into proper music companies. The difference between a record company and a music company is that a record company is primarily reliant on revenues from record sales. Music companies on the other hand are specialized companies stimulating music and generating revenues from a diversified model of records, advertisements, merchandise, digital revenues, live performance, partnerships and more to be invented. That much was agreed upon during the interviews.

The specific role of the music company and the part where it really adds its value to the artists benefit was not a unanimously agreed upon.

According to Joris van Heukelom music companies will become less relevant in the future. He sketches the traditional record company consisted roughly of three important parts; the artists' business, guiding the artists and the distribution. The future role of music companies will become more process guiding and functioning as an investment entity. The most important part will remain discovering and developing a repertoire with the artist. After that, it will mostly be guidance for the artist's career. Distribution will disappear because the audience will fulfill that task personally, he thinks.

To Niels Aalberts the music companies will definitely remain relevant and the biggest challenge to music companies is the speed of adaptation. He is convinced about the knowledge, knowhow and strong music marketing capacities present at music companies, but people working there must quickly evolve with their surroundings. It would be a complete waste if all that knowledge would be lost because of a slump at music companies, he says. But these are hard times for music companies, with high costs and low income from music products.

Norbert Plantinga too is convinced about the relevance of music companies. Substantial value is being added for the artists at music companies whether it is music marketing, discovering talent or developing talent into artists with repertoire.

Niches

Another point of view is expressed by Bob Smits, because he is sure that the 'hit-era' of large superstars has come to an end. Therefore digital networking and distribution opens up to the *long tail* (Anderson, C. 2006) and music companies have to shift to the niches to remain relevant. There will be no more Madonna's.

Valentine Kreykamp feels similar and suggests that music companies start presenting much more music leaderships. She wants music companies to tie in partnerships with famous brands that function as opinion leaders to the fans and brand advocates. The more niches the better she says, if a brand fits its consumers perfectly, there is a specific kind of music to be promoted there and the brand and music can strengthen each other. It is incredible that this has not been initiated much more by the music companies, having the brands promote your music.

“Music companies have to shift to the niches to remain relevant. There will be no more Madonna’s”

Constant content

Mars Mertens brings another issue to the table. Because music can be distributed constantly he thinks that the concept of an album is somewhat outdated. Artist should serve their fans on a constant basis to make a strong connection with the fans instead of dropping an album, touring around and diving into the studio again.

This is completely agreed upon by Lykle de Vries, unless you have a story to tell on your album, the artist should create a more constant stream of content to the fans making an album less important. Whether its music, studio footage, shows or other interactivity, serving your fans is what it is all about to make a real connection.

Lykle is not that positive about the future of music companies because costs are too high and too many people are working for the companies. The most important specialties of a music company, he says, will be coaching and developing repertoire, just as networking skills and an entrepreneurial attitude.

Possibly two kinds of music companies will remain, Lykle de Vries adds:

- ▶ The first form is more of a businesslike service company acting on the background like an accountant. They will handle services like marketing and management. The AS elaborates on that suggesting that the artist pays these companies by an hourly rate.
- ▶ The second flavor is a music company that acts more on the forefront and functions as a brand. The music that this company releases has a certain signature that the fans can rely on. They will trust the music company as a filter to come up with good music of a certain genre.

D. Critical Issues & Bottlenecks

Implementation

The music industry has come to a point where charts do not represent the behavior of music fans anymore. The lack of control over music fans digitally has caused a limp on where, how and what music fans consume. Digital distribution systems can regain that insight and possibly revive the music business. To implement a true flat rate system, which is not perceived as desirable by the majority of the experts, as proposed in this research or even a similar model there are a number of issues that must be overcome first to succeed.

Rights holders & Collecting societies

It is essential to have harmonized agreements with all the stakeholders participating in digital distribution of music. To do so, most of the parties must rewrite the current business models adapting to a digital future. The two parties named crucial in rewriting their business model and reaching an agreement are the rights holders and the collecting societies, in short the music companies and BUMA|STEMRA.

Both these parties are perceived as traditional and resistant to change.

BUMA|STEMRA should rewrite business models anticipating digital distribution models and agreeing to approve innovation. They are currently regarded as slow with this because of its monopolist position. They would be afraid to lose control when they make their business more transparent and maybe even opening up welcoming competitors. The experts however feel that, exemplified by Google and other online giants, opening up and releasing control make you the default party for the selected job.

The music companies on the other hand are considered unwilling to cooperate and innovate for practically the same reason. Examples of business model changes are the payment per track or second, revenues from advertisements, rights management, revenues from total earnings by subscriptions instead of track based etcetera. On the other side music companies also have to renegotiate with the artists about distributing digital music on an unlimited basis, new royalty fees, advertisement shares and more. Their conservative attitude could obstruct agreements with collecting societies, new initiatives or fellow music companies.

Niels Aalberts disputes this saying that music companies are not that rigid anymore and that they feel the necessity of innovation. This is confirmed by Norbert Plantinga saying they are happy to welcome new initiatives and are very open to make agreements for a short term. On a longer term, if the initiative can prove its right of existence, renegotiations can take place growing the platform.

Besides the blessing of the collecting societies and music companies, if such a service wants to withstand, it would need to have agreements with and among all the rights owners/music companies to service a full catalog of music file. On top of that the technical aspect of the service should be excellent so a strong technical party must take

care of the technology. The consumer change-over would take be another bottleneck and thus the early adopters should quickly be convinced and turned in to brand advocates.

Bumpy road

Service providers and music companies are very focused on their core business. To implement a service similar to flat rate via internet service providers and Telco's they will likely need more of a benefit than just customer loyalty to get interested in joining such high involvement music service. Therefore they will not take initiative in such developments, despite the fact that already hardware companies are looking at content delivery to compensate their saturating markets. Moreover, they need a paved way without possible obstacles, one of which was inputted by the AS. He theorized that an advertisement supported music service integrated in a service provider could cause artist management companies to start collecting endorsement fees for the artists. However, other experts say that this issue is overcome by the contract that the music company has with an artist.

International scale

Either way, if such a system was to kick off it would most likely be not just for music products but other content like film and text too, such as movies and newspapers, say Joris van Heukelom and Mars Mertens. A critical issue for that matter would, above the other conditions, be the distribution code between text, film and music from the total sum of revenues.

Such deals must be made on an international scale and for that reason combined with the fundamental role that internet is taking in our current societies, a European intervention would be gladly seen. The role of the European authorities would be to facilitate the agreements made on an international scale such as ratio and agreements on a national scale such as rights management.

Another international progression can be made by a shared international database for rights management, according to Mars Mertens. At this point the rights of a song are connected to the rights holder, most of the times a music company. This method gives clearance issues internationally when a song its rights are managed by another company abroad, making it incompatible in the music distribution system. That is the reason that a Swedish playlists from Spotify for instance, has songs on it that cannot be played in the Netherlands even though it is the same song and is released in both countries. Such issues are not understood by the consumer. Mars Mertens suggests to solve this problem by registering the rights of a song to the song directly, enabling a shared database of ID3Tags and metadata for stakeholders to manage the rights of a song on an international basis.

Free

Digital music has grown to be a commodity available everywhere. That status makes some experts believe that music should be available for circulation and promotion freely, others agree that it should at least compete with the likes of free. The issue with a feels-like-free model is that users will have to adapt to the shift from ownership to usage right. A usage model offering music available anytime, anywhere and anything is expected to become immensely popular when mobile phones have mainstream web access.

Practical Issues

Mobile technology

Mobile phones will be the aggregator of a great progression in streaming music services.

There are some issues that need to be overcome however before such services can become successful on a mainstream basis.

The first condition is a high penetration of good infrastructure for mobile internet access. Currently 3G is the most advanced network for mobile internet available and nearly covers whole of the Netherlands. According to Jurriaan Sandkuyl however, 3G is not capable of high quality streaming on a permanent connection. WiMax infrastructure is considered a 4G pilot and could accelerate mobile internet connections, he says. It can be compared to a Wi-Fi connection for a whole city.

Unfortunately WiMax is still in a pilot phase and far from a mainstream launch. As long as these technological advancements are not commoditized, neither can a streaming music service achieve a breakthrough to the mass. Streaming errors and expensive pricing of a permanent connection would affect the frequency of use and popularity of use of these services.

Secondly, according to Jurriaan Sandkuyl, even if we would have excellent access, mobile phones currently have batteries that would not last a day when connected to the internet permanently.


For successful implementation and exploitation of mobile feels-like-free services these two technological deficits must be overcome. Quick reasonably priced high quality mobile internet access, and mobile phones with batteries capable of functioning with a standard battery life while connected to mobile internet permanently.

Other practical issues are more easily overcome but nonetheless important for maintaining a prosperous service. Valentine Kreykamp researched the possibilities for hybrid models for Spotify in the Netherlands.

In a hybrid model the consumer pays a certain amount of the total price and so does a partner. Advertisements could bring in the remaining cost to supply the service.

There is a fine critical line to walk when a consumer is paying for a service, when there are advertisements projected on the consumer as well.

The balance of advertisements is critical for one could completely ruin the goodwill of a paying customer, and thus the service, within a very short period if he or she is bombarded with too much annoying advertisements.



“The balance of advertisements is critical for one could completely ruin the goodwill of a paying customer, and thus the service, within a very short period if he or she is bombarded with too much annoying advertisements”

Cultural issues

Value

How is value allotted in a free environment? For too long we have defined value from the carrier, the CD/LP or booklet, according to Lykle de Vries, as a product. But now that is changing, how do we define the value of music? The live show will survive for acknowledging cultural value. Some CD's were worth your twenty Euros just because of that one song. Other CD's you would not spare one Euro. Will we value songs in the digital age by how much plays they get? Is song X that is played 1000 times worth more per se, than song Y that is played 100 times, just because the first one has been reproduced more? That is likely, but not impeccable, leaving a grey zone for acknowledging the cultural value of digital music in a feels-like-free environment.

“Should music companies maintain fabricating music that people like to hear and buy, or should they guarantee the quality and value of music, presenting it in an authentic manner?”

Valentine Kreykamp adds to the same question from a different perspective to the cultural role of a music company in the digital age. She asks herself, should music companies maintain fabricating music that people like to hear and buy, or should they guarantee the quality and value of music, presenting it in an authentic manner?

Vertical integration

Bob Smits called the digital distribution of content a blessing for it heavily reduced the power of media companies that controlled the complete value chain due to vertical integration.

“These movements appear a bit similar to the vertical integration of the value chain that Bob Smits so much disliked”

However, major music companies own an unknown share in the rising music service Spotify, although Spotify publicly invalidates that³⁰. It seems that the music companies have learned from their mistakes during the introduction of radio and MTV, having to settle for free delivery of content on a promotional basis. This does mean that the music companies own a piece of the digital retailer, similar to vertical integration of the value chain.

It sounds fair that the majors can now join in a growth of the company and share advertisement revenues, since their content is the aggregator for most of the traffic, right?

On the other hand they now have a strong insight in the market, while independent music companies do not. First of all that is unfair competition towards the independent labels. Secondly, the majors will profit from sales of independent artists. Third, it gives the major music companies control over the market entry. Sure it is not a true control, because there are more channels, such as iTunes, right? But how will the music companies deal in negotiations when iTunes wants to start offering streaming services? The music companies will likely try to push

³⁰ <http://paidcontent.co.uk/article/419-spotify-rejects-claims-labels-have-equity-stakes/>

their own retailer as a market leader. These movements appear a bit similar to the vertical integration of the value chain that Bob Smits so much disliked.

Mars Mertens adds to this from another perspective, explaining that some large publishing companies, such as EMI are retracting their rights from the system of online copyright. According to Mars Mertens this undermines the power of the system of collective representation and they know that. He does not want to elaborate on the subject for it is a delicate subject matter. The AS confirms these movements and explains them as music companies that again want to own their separate publishing companies. He thinks music companies are preparing to manage the value chain again.

Government support

If in the near future there are enough propositions of reasonable digital music services available to the consumer, the government should send out a signal to stimulate the market, says Jurriaan Sandkuyl. They should officially make downloading of unauthorized content illegal in the Netherlands, which it is currently not. Furthermore the authorities should make a more powerful effort to ban illegal suppliers of copyrighted content to co-create a healthy online environment for content distribution.

Another issue is the use of copyright. It is very complex matter and some experts at this point say, who does it help? Does it really benefit the artist if your music is not available on iTunes to fans that want to buy your CD abroad somewhere, where you could have made some money to do a tour there? Lykle de Vries puts his question marks at the old fashioned copyright laws, originally designed for publishing sheet music centuries ago, giving an author the exclusive right for 14 years before it enters the public domain. The exclusive rights have been extended throughout the years, nowadays granting 50 years of exclusive rights on music products. Joost Smiers and Marieke van Schijndel have written *'Imagining a world without copyright'* (2005), a paper on why copyright legislation should be discard. Lykle de Vries says that the same protection can be granted by legislation on competition and when adjusted properly could prevent the forming of cartels. But maybe that is all too radical, he says, shortening the time of exclusive right however would be a great start. Too much protection removes the trigger for innovation. Let musicians be triggered to innovate and build on the past.

Management summary expert interviews

Access is a magic word in the developments of digital music. Internet access is practically considered a necessity of life and should be accessible high quality for a low fee. On the other hand, access to music opposed to ownership is a shift that is expected to heavily influence the way digital music is consumed. Not downloads but access to your personal computer or streaming service to use music, film or other media content. Usage right will thus replace ownership which reduces price of consumption. If offered by excellent streaming service it will not be perceived any less convenient offering anytime, anything, anyplace services. Such services offer access to a vast music library, permanently on a mobile basis. Therefore it is expected that the mainstream penetration of high speed mobile internet will skyrocket the popularity of mobile streaming music services. At this point however, infrastructures of mobile internet are not capable of high speed permanent connections necessary for these services. Neither are the batteries of modern day mobile phones capable of sustaining reasonable battery life when permanently connected to streaming services. These technological issues must be overcome before access will replace ownership completely, propelling digital music to a success story on mobile phones.

A number of stakeholders in an innovative digital music model are identified to be music companies - publishers & rights holders, digital distributor, collecting agencies, artists, consumers, service providers & Telco's and the governmental organizations.

Rights holders are powerful players that can benefit from innovations but are just as powerful for being able to block initiatives. Rights holders are considered the most important stakeholder together with the collecting agencies. The approval or compensation of these two parties and their consent is crucial to launch new initiatives.

A flat rate music service is not considered feasible or desirable at this point. The main reason is that a generic fee is expected from every user in the system, regardless if music is consumed.

That is considered an unfair and unworkable model. Moreover the infrastructure and its services should be separated and therefore it is not wanted to service music via internet service providers or Telco's. That is regarded a closed distribution system anyway, which is unlikely to be successful in the current media landscape, inspired by good examples of Google and other open standard media companies.

Steps towards a flat rate model can be made by feels-like-free services. These services are expected to become popular, offering monthly subscriptions for unlimited access, advertisement models or hybrid models. Hybrid models are a combination of partnership, subscriptions and advertisements.

Internet service providers and Telco's are regarded large and slow operating companies. They are focused on their core business which is not content distribution. They do not show any serious interest in partnerships for music distribution. Some say customer loyalty is not enough of a benefit for them to participate. The ISP's and Telco's are not expected to take any initiative in enrolling music services what so ever.

Innovations come from the market, according to the experts and a distribution service or entrepreneurs should personally develop innovative business models and shop around at music companies and service providers to make partnerships for development or implementation. The stakeholders in the music industry are waiting for entrepreneurs with a profitable platform for music distribution.

Music companies will remain relevant because of their expertise at certain activities such as artist development, music marketing and their extensive networks. They are forced to change their work ways from record companies to music companies quickly however, anticipating on diversifying models of distribution, production, revenues and methods. Diversification seems to be the key word for music companies, also having to focus on fewer hit artists and more niche artists.

Music companies too, are focusing on their core activities more than discovering new business models or distribution platforms. Again the responsibility of innovation is awaited from entrepreneurs and companies with an innovative vision and the capabilities to execute that.

The collecting agency Buma|Stemra has a strong image problem. Little effort has been seen to stimulate innovation or even the shift to digital music. That is a worrying observation to the members of this club: the artists. The explanation for the ineffective and stubborn organization is blamed on the monopoly position that Buma|Stemra holds for numerous years now. The lack of competition has apparently also removed the trigger for renewal. The organization is wanted to immediately start investing effort in tools and systematic for pay out models and very complex distribution codes. Furthermore they need to start acting more transparently to redeem from a mysterious image and facilitating its members, the artists, more flexibly.

An expert at Buma|Stemra did not agree with the enticements and explained that revenues models have been rewritten already facilitating collection on 15 combinations of digital distribution.

Some critical issues have been extracted for implementation of an unwanted flat rate model or other innovational music services. For the implementation of unlimited, monthly and streaming services it is necessary for many stakeholders to rewrite their business models. Collecting agencies, music companies and distribution companies about payment per track or second, revenues from advertisements, rights management, revenues from total earnings by subscriptions instead of track based and many more.

Neither music companies nor service providers are expected to initiate new distribution models independently and opportunities are ready for innovative companies or entrepreneurs to take the lead.

For an international model of flat rate content, it is reasonable to expect film, text and music to be compensated from the same lump sum. To compensate the rights owners of these media it is necessary to agree a calculation for dividing the sum of revenues between film, text and music. That calculation and agreement must be executed on preferably a European level. Also on European level, a database for international management of metadata and music rights would improve international cooperation for digital distribution of music

Practical issues are concluded by means of high quality, priced mobile internet access and battery life for mobile phones to have a permanent web connection for streaming services. These are critical for successful implementation of innovative music services

The cultural issues include the dropping of determinants of the cultural value from music in a feels like free environment.

Furthermore the fierce uprising of good news show Spotify might not be as sparkling as perceived in the first place. The alleged equity shares of the major music companies in Spotify have the downside of majors controlling the market entry, having insight in the market data and profiting from sales of independent artists. In general, it is unfair competition. Especially when one wonders how the majors will react when other competitors such as iTunes also decides to offer streaming technology. Either the majors will negotiate an exceptional good deal or they will try to keep the competitors a marginal competitor, moving their own breadwinner to become market leader. This will not only be unfair competition but is already vertical integration of the digital value chain, a characteristic genuinely disliked about the traditional record companies that created strong power blocks with that strategy in physical sales. Similar movements are seen from publishing companies retracting their right from the system of online copyright, undermining the power of collective representation. This too is regarded an act of regaining control over the value chain.

If reasonable propositions of music services are offered to the consumers it might be time for authorities to step up and send out a new wave of signals to users that illegal file sharing is not the norm. Downloading unauthorized content could be forbidden by law, which it is currently not. Other actions such as pressuring violating web pages and facilitators could intensify the signal to consumers that when a variety of reasonable digital music services is offered, it is these services that are benefitting the creative father of the content.

Copyright legislation is a cultural issue that has its limitations due to its old fashioned nature. It is proposed to shorten the time of exclusive right for the author of an intellectual work. Others even propose to discard copyright legislation and reinvent legislation on fair competition. This is a complicated international issue that is subject of passionate debate. Either way, in some cases it obstructs more than it does protect the creative souls, what it was originally designed to do.

5. Digital Music In Japan

5

“Wise men come from the East”

Digital developments are taking place in a globalizing world. To further extend the research subject with an international element it was decided to review the current situation in a foreign country. A country with a vibrant (domestic) music market that lives at the forefront of technology: Japan.

How is the situation in Japan compared to the European situation? How can results from the expert interviews in the Netherlands be combined with expert interviews in Japan? How similar are these industries and what can we learn from them, especially considering a flat rate for digital music?

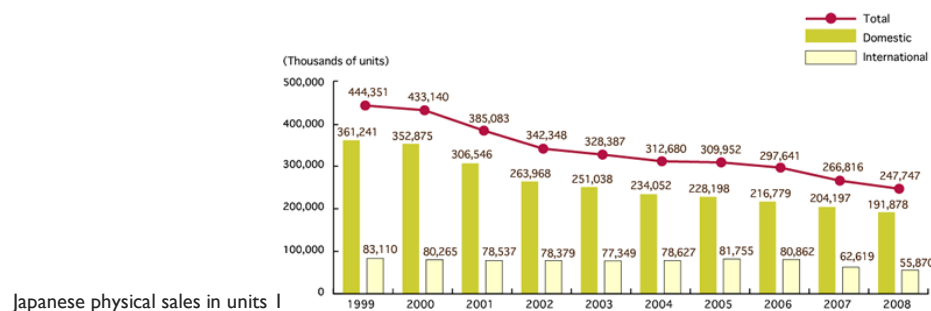
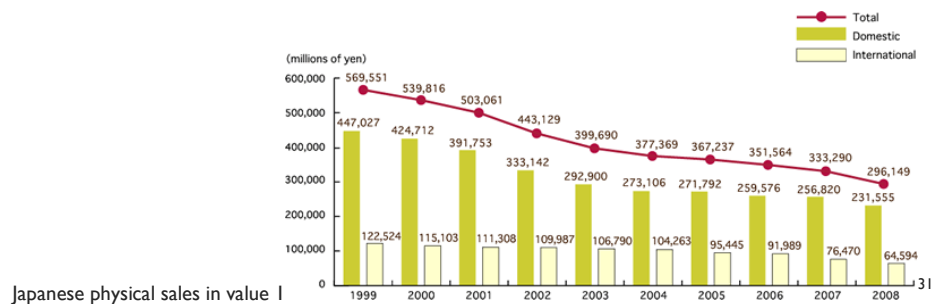
Interviews with a number of Japanese music industry professionals were conducted in Tokyo for an in depth picture of the developments in the Japanese music market.

The Japanese Market

The music market in Japan has traditionally been one of the largest in the world. Up to this day it is the second largest market, behind the United States. Digital sales provide a similar image in the first half of 2008 with the US accounting for 39% and Japan for 19% of global digital sales (pg7, IFPI, 2009).

Just like in the US and Europe, the physical sales are declining at a strong rate despite the greater popularity of physical products in Japan. The growth of digital sales however have corrected the overall sales up until last year, keeping the market relatively stable the last five years.

In 2008 the correction by growth of digital sales could eventually not make up for the loss of physical sales any longer, shrinking the total market



Mobile mayhem

The digital market in Japan is dominated by mobile phones generating 90% of all digital music sales.

A variety of services offer music products including ringtones, ringback tones, Single track, mastertones (Chaku-uta) and music videos.

Product innovation in this market includes 'Chaku-uta long' (edited songs) and 'Uta gift' which is a mastertone that can be sent as a greeting to other consumers.

³¹ Recording Industry Association Japan (RIAJ): <http://www.riaj.or.jp/e/data/index.html>

The online market is dwarfed by these tenfold mobile statistics.

32

Japanese digital sales figures 2008

		2008			
		units('000)	year-over-year basis	value (¥ Mil)	year-over-year basis
Internet Downloads	Single Track	38,105	133%	5,872	148%
	Album	2,190	145%	2,682	153%
	Total audio downloads	40,295	134%	8,555	150%
	Music Video	1,574	190%	461	223%
	Other downloads	0	-	0	-
	Total	41,869	135%	9,015	152%
Mobile Digital Content	Ringtunes	182,498	82%	20,249	81%
	Ringback tunes	101,030	117%	8,509	139%
	Single Track	142,269	128%	47,629	139%
	Music Video	9,669	106%	2,867	141%
	Other Mobile	1,819	56%	600	100%
	Total Mobile Sales	437,285	101%	79,854	117%
Other	Subscriptions (Internet)			811	178%
	Subscriptions (Mobile)			402	95%
	Other Digital Music Content	34	214%	466	69%
Grand total		479,188	103%	90,547	120%

Mobile Single track downloads are fueling the digital market growing by 28% last year, accounting for almost 60% of mobile revenues, representing over 50% of total digital revenues.

Despite digital successes, mobile based piracy is a growing problem. To increase consumer awareness of legal music products it was the RIAJ that initiated the L-Mark in February 2008. Digital music sites can bear the L-Mark when offering licensed music products.

The mobile market is also used by the labels as a test market. Mastertones are released one or two months before physical release. The hit potential in physical form can then be judged based on the mobile market's response, says Takashi Kimoto, managing director of sales, marketing and digital at Universal Music Japan.

³² Recording Industry Association Japan (RIAJ): <http://www.riaj.or.jp/e/data/index.html>

Music industry developments

The growth of digital sales cannot bear the loss of physical sales anymore. The explanation is neither simple nor singular. According to Kimitaka Kato, managing director of Universal Music, there are various reasons three of which having the most impact in Japan:

- The competition from other entertainment goods;

Music as an entertainment product increasingly has to combat the number of choices for consumers. TV, internet, movies, video games and such are battling for the attention of consumers with a limited amount of time spent on entertainment.

- The penetration and additional spending on mobile phones;

The penetration of mobile phones is enormous compared to 10 or 15 years ago. Mobile phones have become a commodity and cost money, especially when regarded as youthful fashion items. Additional costs are made on services per mobile phone, heavily limiting the amount of money spent on other replaceable goods.

- Piracy

Although piracy rates in Japan are not nearly as mainstream as for instance in Europe and the US, industry professionals estimate that digital piracy doubled in Japan over the last few years and it is expected to keep growing rapidly.

Kimitaka Kato concludes that the music industry is currently going through a transitional phase where physicals are declining and digitals have reached its point. He thinks that innovations would benefit the music industry soon, but a key factor to implement new services is the right timing.

Technological trends in Japan are showing similar mobile connectivity and networking structures as in the western world. Mr. Kato underlines that everything is moving to mobile, with users managing their mobile phone as their desktop.

Mobile phones in Japan already have impactful functionalities such as 'wallet phone'. Telephones can be charged with money to pay for shopping, entrance to the subway system or simply to buy a drink at a convenience store. The success of mobile services lies in the variety of usable applications and the ease of use as the two main drivers.

Music companies should keep initiating and stimulating innovation in search of new business models. The timing to implement new services however, is a crucial factor. Europe and the US will most likely be quicker with implementing new business models, since the Japanese market is still very profitable at this point.

According to Takeshi Okada and Seiken Doi (Sales Marketing and Digital, Universal Music), innovations in the Japanese market are a delicate subject. The Japanese users are currently quite satisfied with their mobile phones, mobile internet and mobile services. On top of that, the Japanese market has a very domestic flavor in choice of music, usage and phones. Even with a strong mobile music market, they think listening to music on mobile phones is not really popular. Most of the revenues are generated by people using music as fashion statements, sending songs to friends, setting it as an alarm clock or setting it as a ringtone.

The most popular device for actual listening to music may still be the iPod and people just buy the physical disc to rip the songs to their iPod. Another popular service in Japan is CD-renting. Consumers rent these CD's and then rip them to their iPods. This is mostly due to the fact that the Japanese audience really values owning a product, either as a disc or as a digital file. As a result of that, he thinks that it is unlikely for streaming music services to be very popular in Japan, streaming movies on the other hand will be much more popular.

Consumers are now showing more interest in iPhones and such, but Takeshi Okada thinks that Japanese users will eventually stay true to their Japanese smartphones simply because they show satisfaction with the current system. This sentiment will likely get even stronger when Japanese smartphones will adapt similar functionalities as the iPhone.

Mobile Service

The Japanese mobile phone market is dominated by three companies. The three leading phone companies provide their own service and facilitate their own web functionality since the early introduction of I-Mode in 1999 by NTT DoCoMo.

Consumers have access to mobile internet through the mobile site of the operator

Phone company	Brand name	Mobile Site
NTT	DoCoMo	I-Mode
KDDI	AU	EZ web
Softbank	Softbank mobile	JAFu (Yahoo!)

All the mobile sites offer various applications for that specific mobile site. Apart from access to open internet, the model can be described as a closed system. It means that the phone companies function as the gatekeepers of the mobile internet. When a company wants to offer a service on a certain mobile site they have to arrange that with the facilitating phone company.

Phone companies do not own the stores on the mobile sites, they are independent companies.

A music store for instance can reach an agreement with the phone company to launch a service. The store then pays the phone company for usage of bandwidth. Besides that, the store pays the music companies for licenses. The consumer then pays for music consumption at the store through the monthly invoice of their phone company, which passes that money on to the music store.

This chain of events is managed by the phone companies. This is the standard work way for mobile internet in Japan.

Label Mobile

The most successful music store on Japanese mobile phones is called Label Mobile. It is considered a content delivery company. The company was initially co founded by 5 major music labels in Japan and currently has a larger number of shareholders.

Label Mobile was founded at a time where ringtone companies could compose ringtones that imitated popular music and started generating revenues without having to pay the music labels. The music labels then decided to start pushing content on mobile phones by themselves to stimulate such income.

The purpose at the time was to disintermediate the ringtone companies by selling ringtones and supplying background information about artists and releases.

The startup was a partnership of the following five music companies:

- Avex (Japanese)
- Victor (Japanese)
- Sony
- EMI
- Universal

Phone company KDDI contacted the music companies to launch the first mobile mastertone service in 2002. That was an opportunity to start creating their own mobile revenues, says Ryoichi Miyamae, head of Sales Marketing and Digital at Universal Music. He has been working closely with Label Mobile from the startup. After some negotiations the companies decided to partner up and launch the music store, upgrading the store with full track downloads in 2004.

The success, he explains, is mainly a result of three factors:

- Infrastructure;

Phone company KDDI wanted to expand the 3G market and focused on providing a good infrastructure, with good services available on that infrastructure.

- Attractive hardware;

The Japanese smart phones were already sophisticated pieces of hardware with capable music players.

- Broad library

All the labels wanted to be on Label Mobile because they were considered innovative and popular. That made it possible to offer a great library of music products.

On top of that he adds, because Label Mobile is owned by a number of music companies, not only are they able to offer the broadest library a lot faster; they are also able to offer special issues and special content. That creates a great advantage compared to other mobile music stores.

Moreover, besides revenues, the advantage of having a mobile music store made it possible to advertise, market and promote their own products through Label Mobile easily.

Blueprint for Europe

When Ryoichi Miyamae compares the business model on mobile internet, he states that the Japanese model is a service provider model and the European mirror is set up as a digital retailer model. The closed Japanese service providers have a different core business than content delivery, and thus accept a low margin on the content. The digital retailers in Europe on the contrary, deliver content as a core business. This causes them to demand the highest possible margins. He thinks that Label Mobile could not exist if Japanese phone companies would demand such margins. Moreover, the strongly differing Japanese phone market and content distribution cannot be compared or applied to the European situation for we have a less controlled system.

Nevertheless he thinks that the partnership concept of Label Mobile could be a blueprint for similar services in Europe. Stakeholders can get their hands together and create a mutual interest setting up a third party mobile content provider. Benefits could be competing with other mobile content distributors, delivering special content and using it as a marketing and promotion channel.

On the other hand however, a party to keep in mind would be the European Commission's version of the Japanese Federal Trade Commission (FTC). Ryoichi Miyamae had to deal with the Japanese FTC very regularly after the startup of Label Mobile. The biggest concern of the FTC was the market share of Label Mobile that was considered too large and a similar judgment could come from the department of the European commission for competition.

Flat Rate in Japan

Although physical sales are declining, and margins on the slowly growing digital sales are small, the current music market would be ruined when a flat rate would be implemented, says Kimitaka Kato. On the longer term in theory, he says, it is a good business model. Especially when the market must compete more with 'free', like in Europe or the US where the markets have suffered severely.

Realistically though, it may not be such a good model with the danger of discouraging competition, causing the loss of triggers for artists and industry professionals.

It would mean that as music is released, money would come in. The cultural aspect of music in society could be affected by implementation of a flat rate like that. Therefore you must always stimulate competition of some sort.

Music has always been and will never leave, thinks Kimitaka Kato, and some variant form of the flat rate will become reality in the near future of five years or so. Something will have to happen sometime, finding a way to monetize music that will be made forever. But it will never reach the old status. It will likely be a diversified model: music diversification, genre diversification, distribution diversification, usp diversification (speed, quality, availability) and revenue diversification too.

According to Ryoichi Miyamae, streaming services will not be implemented soon in Japan either. The Telco's have to prepare the bandwidth for such services on mobiles and that takes time.

Above all they are afraid that their services will not work in (subway) tunnels and they want to avoid providing a bad service. In the near future it would be a good business model, he adds, but currently consumers still want to ownership over their products.

Recap

Japan has a highly mature and profitable music market. The sales of physical products have been very good but have been declining for the last 10 years. Despite the strong growth in sales of digital downloads on mobile phones, the overall market started shrinking last year.

These developments present a similar image as seen in the rest of the world where music markets have been declining heavily over the years.

Japan too must start looking for new business models and start generating new revenue streams to monetize the popular music culture. Only they will wait for the time to be right, not wanting to cannibalize their current business models. This illustrates the diverse statuses of music industries worldwide not able to complement each other's markets with similar services yet. A worldwide diversity of music markets will exist separately the following years. Eventual integration on a European level of digital content distribution would be highest possible result.

The irreplaceable position of mobile phones in Japanese daily life has presented opportunities for innovation that have partly been seized by the music companies in the form of a partnered satellite company. The content delivery company provides mobile users with a huge amount of ringtones, music downloads, news, exclusive content, information and even concert tickets. This provides direct contact with the consumers which in return have access to an enormous catalog of music and backgrounds. On top of generating revenues, it also functions as a testing market, a channel for marketing and promotion and generates money through advertising. A similar platform could benefit the European market as well, if stakeholders succeed in harmonizing their goals and make partnerships to realize it, especially for mobile phones.

Innovations to a further extent are not expected to be launched in Japan soon. Streaming music services are not provided on mobiles yet because the phone companies are not willing to risk providing bad streaming services. They need to further develop their bandwidth capabilities.

Japanese users are also expected to value ownership of music to a higher degree on a cultural basis.

Mobile services are strongly controlled in Japan because the system for mobile internet is managed by the phone companies, every service on the system must reach an agreement with the phone company. This way users already pay for the service through their monthly invoice, so a system for a monthly flat rate music service is practically in place, opposed to the European model. From a financial perspective however, the Japanese music market is still too profitable for flat rate services to be implemented and would cannibalize current distribution channels. On top of that a flat rate is not considered a solution for the setbacks in the music industry, maybe some variant will be. The lack of competition in a flat rate system could cause the music industry professionals and artists to just release average music, affecting the cultural value of music itself.

The strong ways in which the closed Japanese telephone systems differ from the European systems make it very difficult to make a best practice out of Japan. Work ways and partnerships can be used as examples, but not a similarity on the implementation of a flat rate for digital music.

6. A flat rate review for digital music and recommendations

6

*"Change will not come if we wait for some other person or some other time.
We are the ones we've been waiting for. We are the change that we seek"*

Barack Obama, President of the United States of America

The results of previous chapters are combined in this chapter. The perspective of the music industry, the current situation and results from expert interviews are reviewed and confronted. It is concluded with recommendations for (aspiring) music industry professionals and recommendations for further research on the feasibility of a flat rate for digital music.

Evolution

In the introduction chapter I have illustrated that introducing new technologies generally replaces older ones, while every time expanding the total music market. This has been the case from sheet music to gramophone, radio and cassette to CD. Music has since the opportunity of being recorded been sold as a product. Using media literature it furthermore exemplified how internet has uncoupled space and time for distribution of content via new media. The cost of production and time between production and distribution diminished drastically. From that point on, digital unauthorized file sharing grew incredibly popular and physical sales continued declining. It affected the traditional supply chain transforming into a more virtual network structure. The weakening of the traditional supply chain results in empowerment of consumers and artists in the production and distribution of music.

Three coherent key elements were found that determine how new media are distributed.

These are 1) technical artifacts, 2) practical use and 3) social arrangements. Furthermore the relation between five aspects of mass communication that shape production and distribution throw light on the developments that have occurred in all five determinative areas of mass communication.

Ultimately, my observations show that the change in speed and accessibility of information, together with a social trend towards a more networked society are resulting in rapid growth of *access* and *sharing*.

Surprisingly the supply chain, a social arrangement, is the only key element that has not adapted profoundly to these developments.

If the supply chain is to complement social trends of new media it has to follow my perception of conditions on distribution:

- ▶ Digital distribution
- ▶ Competition with free models;
- ▶ Connect with users in acting in global sharing networks.

Music should no longer be sold as a product digitally, it should be offered as a service again.

Music like water is a theory that fits the challenges observed in the new media of the music industry. The system of music like water basically describes a world where users pay a flat rate for digital music, while having universal access to digital music. Music will then be flowing like water since if every user pays for it, everybody can use it and share unrestrictedly. You can just give your neighbor a bucket full of water for 'free'.

Because digital music is consumed online it would be efficient to have the internet service providers of Telco's collect the fee integrated in the monthly subscription of its users. Because of the large number of participants and thus low monthly or annual fee, the actual consumption by consumers will in theory be perceived to be free.

Nevertheless, this theory is currently far from practice.

Music as a service, not a product

A number of initiatives try to develop innovative revenue streams in digital distribution and offer music as a service. Three examples have been described.

The Isle of Man has proposed implementation of a real flat rate model via its broadband subscribers. All music consumed online, also through file sharing, is calculated in the total legal consumption of music.

In Denmark, largest telecom and internet service provider TDC has successfully launched a free music service for all its subscribers. The 'churn' (the rate at which customers drop the service in favor of a competitor) dropped by some 30 to 40 percent on mobile subscriptions and up to 60 percent on broadband subscriptions since its launch.

In China, second largest search engine Google wanted to increase its market share. To do so it launched a website where users can stream and download music for free. Google made a deal with the music companies and a local website to offer the service. The strategy is to gain market share and increased traffic on its Chinese site and thus revenues from its search ads on the search page.

The diversity of revenue models prove that there is a variety of creative methods to monetize attention for music. However diverse, the examples show a similar strategy of monetizing music as a service. Music functions as a lubricant and benefits the entrepreneurial attitude of the company from different perspectives in the changing environment, reaching out for market share, an advertisement market, branding or customer loyalty, benefitting all stakeholders.

Through my findings I conclude that ownership of music is becoming less relevant in digital business models. Usage right will increasingly be the method for digital music consumption. Access is replacing digital ownership overall and should facilitate anything, anytime, anyplace music services.

High speed mobile internet will be a condition as well as a catalyst for the success of such services. At this point however, mobile technology is not capable of facilitating this technology. Infrastructures of mobile internet are not capable of high speed permanent connections necessary for these services. Neither are the batteries of modern day mobile phones capable of sustaining reasonable battery life when permanently connected to streaming services. These technological issues must be overcome before access will replace ownership completely, and propelling digital music to a success on mobile phones.

Stakeholders

The most critical stakeholders for designing new business models are the rights holders and collecting agencies. The approval or compensation of these two parties and their consent is crucial to launch a new initiative. Nevertheless, due to their position in the traditional music industry and sluggish structure they are not likely to innovate the market.

Flat rate flop

A harmonized flat rate music service by all the stakeholders does not seem to be a feasible business model in the near future. The main reason is that a generic fee is expected from every user in the system, regardless if music is consumed. That is perceived unfair and is likely an unworkable model coming from the current situation. A generic fee is regarded a tax, which would be objectionable since music is not considered a necessity of life.

Moreover one can question if a flat rate is truly desirable. The past has shown the National Railroads and energy companies that it is not beneficiary to have infrastructure and its services to be managed by the same company; competition is a keyword for innovation. Market mechanism, competition and thus innovation seems to thrive from separating a service from the infrastructure and it is not beneficial for consumers to service music via internet service providers or Telco's in an outdated closed system.

Steps in the direction of a flat rate model however can be made in the form of feels-like-free services.

Service providers and Telco's are too large, slow and focused on their core business to develop innovative music services. On top of that, the benefits for these companies are too few.

Music companies

The knowledge, know-how and network of music companies are too vast to become irrelevant in the near future. Music companies do have to change work ways and personnel must adapt to quickly diversifying models of distribution, production, promotion and revenues. The big hit artist era is over and more income will be generated through niches. Partnerships with special brands could serve the niche audience, setting up music leaderships for niche audiences matching the lifestyle of the brand as a promotional channel for music.

The discovery of new business models will not likely come from music companies for they too are too focused on their core business developing and exploiting music products. The responsibility of innovation should be expected from entrepreneurs and companies with an innovative vision and the capabilities to execute that.

Competition triggers innovation

The collecting agency Buma|Stemra has an image problem. Little effort has been seen to stimulate innovation or even the shift to digital music. The explanation for the ineffective and stubborn organization is blamed on its monopoly position. Lack of competition has apparently removed the trigger for renewal. The organization is desired to immediately start investing effort in tools and systematic for pay out models and very complex distribution codes. Furthermore they are wanted to start acting more transparently to redeem from a mysterious image and facilitating its members, the artists, more flexibly.

An expert at Buma|Stemra did not agree with the enticements and explained that revenues models have been rewritten already, resulting in a model facilitating collection on 15 combinations of digital distribution.

Critical issues

I have deduced a number of critical issues for implementation of an undesired flat rate model or even other innovational music services.

First of all, for the implementation of unlimited, monthly and streaming services it is necessary for most stakeholders to rewrite their business models. Collecting agencies, music companies and distribution companies must do so. Subjects of renegotiations are payment per track or second, revenues from advertisements, rights management, revenues from total earnings by subscriptions instead of track based and more.

Implementation of a flat rate for digital music is likely to transcend the national boundaries of the Netherlands. For an international model of flat rate content, it is reasonable to expect film, text and music to be paid for in the same

lump sum. To compensate the rights owners of these media it is necessary to agree on a calculation for dividing the sum of revenues between film, text and audio. That calculation and agreement must be executed on preferably a European level.

Also on European level, a database for international management of metadata and music rights would improve international cooperation for digital distribution of music

Practical issues are first the accessibility of high quality and low priced mobile internet access. And secondly sustainable battery life for mobile phones to have a permanent web connection for streaming services.

These issues are truly critical for implementation of successful innovative digital music services

An unexpected addition to the launch of a healthy digital music eco-system would be beneficial when reasonable propositions of music services are offered to the consumers. At that point it might be time for governmental bodies to step up and send out a new wave of signals to users that illegal file sharing is not the norm. Downloading unauthorized content could be forbidden by law, which it is currently not.

Other actions such as pressuring violating websites and facilitators could intensify the signal to consumers that when a variety of reasonable digital music services is offered, these legal services do benefit the creative father of the content.

Either way, neither music companies nor service providers are expected to initiate new distribution models independently. Therefore opportunities are ready for innovative companies or entrepreneurs to take the lead.

One of the cultural issues includes the falling away of determinants on the cultural value of music in a feels like free environment. How is music valued when it is perceived as free? New determinants for that value can arise. Another issue is the fierce uprising of Spotify, which might not be as sparkling as it seems at first glance. The alleged equity shares of the major music companies in Spotify have the downside of the majors controlling the market entry. On top of that they have an insight in the market data and even profit from sales of independent artists.

In general, this is unfair competition. Especially when one wonders how the majors will react when other competitors such as iTunes also decide to offer streaming digital music. Either the majors will negotiate an exceptional good deal for their catalog, or they will try to keep the competitors role marginal, pushing their own breadwinner to become market leader.

This is not only unfair competition but also vertical integration of the digital value chain, a characteristic genuinely disliked about the traditional record companies that created strong power blocks with that strategy in physical sales.

Similar movements are seen in publishing companies that are retracting their right from the system of online copyright, undermining the power of collective representation. This too is regarded an act of regaining control over the value chain.

Lead by example: Japan

European initiatives can learn from Japanese example. Japan has a highly mature and profitable music market but despite the strong growth in sales of digital downloads on mobile phones, the overall market started shrinking last year. Japan too must start looking for new business models and start generating new revenue streams to monetize the popular music culture.

Research on the Japanese music distribution via mobile phone shows a great example how service providers can facilitate music stores on mobile internet. The system has been in place for a number of years due to the success of mobile platforms such as I-mode, EZweb and JAFu. These platforms are hosted and controlled by the three largest phone companies. Every service that wants to operate on mobile phones has to go through the phone company, making an agreement on compensation for bandwidth. The irreplaceable position of mobile phones in Japanese daily life has presented opportunities for innovation that have partly been seized by the music companies in the form of a partnered satellite company Label Mobile. The content delivery company provides mobile users with a huge amount of ringtones, music downloads, news, exclusive content, information and even concert tickets. This provides direct contact with the consumers which in return have access to an enormous catalog of music and backgrounds.

On top of generating revenues, it also functions as a testing market for physical products, a channel for marketing and promotion and generating money through advertising.

Launching a similar service in Europe would be much harder than for the Japanese labels to launch this service in Japan.

First of all Japan has a large domestic market, secondly a large chunk of the music products in Japan is domestic product. This means that it is profitable and easier to make national deals offering lots of local products on the local market.

Another advantage is the fact that Japan has a closed mobile phone system. There was an advantage of launching music stores on an advanced and mature mobile infrastructure with help of the phone companies.

On the other hand, this partnership illustrates an entrepreneurial attitude of the music companies in Japan willing to cooperate and create new business models. This example can be followed by companies in Europe, if they can manage to cooperate. The Japanese labels saw the opportunity of delivering content to the users personally and got their hands together to make it happen.

The Label Mobile success can unfortunately not be used as a best practice in Europe, because the Japanese mobile system is very deviate using closed systems.

Mobile services are strongly controlled in Japan because the system for mobile internet is managed by the phone companies, every service on the system must reach an agreement with the phone company. This way users already pay for the service through their monthly invoice, so a system for a monthly flat rate music service is practically in

place. From a financial perspective however, the Japanese physical and digital music market is still too profitable for flat rate services to be implemented and would cannibalize current distribution channels.

Moreover, at this point the phone companies are afraid to launch streaming services because they cannot yet guarantee flawless streaming either.

One of the Japanese sources was not convinced by the practical side of a flat rate system: the lack of competition in a flat rate system could cause the music industry professionals and artists to just release average music, affecting the cultural value of music itself.

Feels Like Free

A flat rate system is not feasible, at least on the short term.

However, a step in the direction are the anytime, anyplace, anywhere services. These services offer unlimited music on the spot from a massive library, preferably in a feels-like-free environment. Throughout the research, feels like free models have consistently been regarded as proper alternatives to compete with illegal file sharing and other free services such as YouTube. Feels like free can be offered in a variety of ways such as in the case of Google China, TDC Denmark or even Spotify. Everything should not be free, other sales strategies such as cross-and up selling of special goods, premium access, concert tickets, merchandise and more can be charged for. Free offers a large marketplace where other transactions can be made. Free attracts customers and thus opportunities. Anytime, anyplace, anything services with a feels like free character will take off on mobile phones. More specifically; when mobile streaming technology is reasonable offered to a mass audience.

Public license

Really innovative service models harvesting the opportunities of this age are likely to come from the market. Innovations are triggered by competition. Unfortunately, the work ways of the music industry towards digital music services is still quite similar to the traditional methods. There is little room for new initiatives to enter the market. If they are to do so, they must reach agreements with each and every rights holder about licensing their content for distribution. That is expensive without leverage, time consuming and complicated. Spotify has done it the proper way, but they had strong investors and a good technical system backing them up. YouTube has done it the other way around, starting out as a service supporting unauthorized content, growing very popular. When YouTube reached the point of enormous popularity and high advertisement income, music companies saw the opportunity of a distribution channel striking agreements with YouTube about sharing revenues aggregated on authorized content.

A public digital license would increase growth of competition and lower entry barriers for new initiatives offering innovative music services. Similar to radio and television broadcasting licenses, a digital music license implemented in Europe regulating the basis commercial terms for using master recordings and underlying compositions to anybody that wants to launch a digital music service would stimulate innovation.

Open systems build on the collective effort of the mass. Entrepreneurs will develop new services if they can easily launch services and the variety of businesses will increase competition, thus innovation in music distribution.

Recommendations Music Companies

Traditional record companies have to transform to true music companies. Music companies have diversified distribution channels, diversified revenue streams and diversified niche audiences.

The core business of music companies will remain intact, developing artists and repertoire. Other activities such as discovering talent can to a certain extent also be expected from active consumers, while marketing and promotion can be diversified via special software like collaborative filtering. Digital and media distribution are becoming more important and changing the work ways of music companies.

The personnel working at music companies should quickly adapt to the changing environment and be aware of the digital opportunities, from social media to video content and advertisement and partnership models.

The era of the multi-million selling hit artist is on a retour. The variety of channels through which consumers are exposed to music and share common views are diversifying leaving room for more specific genres. Digital distribution also lowers production and distribution costs making it possible to offer a vast long tail.

Servicing the greater variety of niche audiences is a capability that music companies should strengthen.

Music companies can do so by starting up more music leaderships of consumer brands servicing a specific group of consumers. Music can match a lifestyle and the brand and music can strengthen each other's position functioning as excellent niche promotional channels.

Music companies can be inspired by the example of Japanese mobile content delivery company Label Mobile. It shows how music companies saw an opportunity and jointly set up a company to create a new revenue stream. On top it created new marketing and promotion possibilities, sales channel for merchandise and concert tickets and functions as a test market for physical CD releases. The cooperative entrepreneurial attitude is a constructive example of taking initiative in finding harmonious solutions.

Solutions can be introduced for web applications but are really expected to flourish on mobile phones. That means that the second storm of digital innovation is yet to come. This is a chance for music companies to be actively involved in the distribution of content or at least support possible profitable business models. An innovative attitude is necessary to successfully set up this distribution channel, other than in the early days of internet distribution.

A public license for digital music can be one of the innovational progressions of the digital music future. Music companies are likely to be reluctant towards such a license for they hand out a lot of control over their content. However, a public license would simplify new startup music services and increase competition. Increased competition would stimulate innovation and flourish legal digital music distribution. A true music company will benefit from a dynamic digital ecosystem for music distribution.

Recommendations Cultural Entrepreneur

The current music distribution environment offers opportunities for the cultural entrepreneur. The demand for digital music is great and revenue models are diversifying. The creative solutions of the cultural entrepreneur can hitch in the developments of the music industry.

Music companies are focused on core activities such as discovering and developing artist's repertoire and marketing promotion of the product. Entrepreneurial build ups are awaited by music companies and they are open to join and license new initiatives from the start.

Internet service providers too are not initiating new music strategies, which leaves a vacuum for entrepreneurs to exploit this market.

The consumer has gained a significant amount of power because digital distribution is less controlled by power blocks from the traditional value chain. Therefore music services must be consumer oriented, preferable in a feels like free setting to generate traffic and attention.

Plain music services are not likely to be very successful. Social communities prove to be more popular. Interaction, coproduction and sharing fit the networking structure of a digital society. Vibrant communities built around music distribution are likely to become leading.

The launching of music services are still a complex process engaging in negotiations with a number of rights holders to offer a substantial music library. Usage right is less costly and thus easier offered by right holders and to consumers. It would be ideal for entrepreneurs to have a digital public music license available. A public license could be used to easily start up music services, stimulating competition, progressing innovation.

If such a license will be implemented, cultural entrepreneurs will have to seize the opportunity of launching digital music distribution services.

Suggestions for future research

As a result of this research, other terrains for further research were come across. Research on the following subjects could improve insights on a flat rate for digital music.

These subjects directly or indirectly influence the feasibility, implementation and behavior complementing a business model for digital music.

- ▶ Research on feels like free business models

- ▶ Research on a public digital music license

- ▶ Research on free music (file)sharing as a promotion channel

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Seminar

Unconsultancy Session, June 10th 2009, Academy for Pop culture, Leeuwarden.

Hosts: Lykle de Vries, Andrew Dubber, Niels Aalberts, Marco Raapohorst