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July 01, 2007

Gerd Leonhard's Open Letter to the Independent Music Industry: Music2.0 and the Future of Music is yours – if you can resist the temptation of becoming just another music cartel!

Basel, Switzerland, July 1, 2007

Gerd Leonhard's Open Letter to the Independent Music Industry - Music2.0 and the Future of Music is yours – if you can resist the temptation of becoming just another music cartel.

On June 29, 2007, while at [London Calling](#), I was invited to speak to a small group of indie record label leaders at the annual [AIM / WIN](#) gathering in London. I took this opportunity to take a good look at what needs to happen in order for the independent music companies to actually take advantage of the new music economy that is unfolding right now. So... some of my thoughts are shared below.



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Today I want to present my views on what I like to call "[Music2.0](#)" – the next generation of the music industry that is being created as we speak. This new model is dramatically different: many old ways of doing things, many old relationships, and many outmoded traditions cannot and will not survive.

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

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

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Technical and economic innovations have, for the past 10 years, stripped away many traditions, social and economic hierarchies and monopolies in the music industry, and if there is one thing we can say for sure I guess that would be that it's now **show-time**: the music industry is finally reaching a major inflection point; 10 years after the first .com ventures shook the ground. It took a lot longer than we all thought but it's hitting much harder now: CD sales are down between 20 – 40% YTD, and digital sales are not making up the difference, any time soon – and the one-horse race with iTunes clearly is a dead-end.

We are very quickly nearing a point to where we are forced to dive into what I like to call "Music2.0" – a new ecosystem that is not based on music as a product, but **music as a service**: first selling access, and only then selling copies. An ecosystem based on ubiquity of music, not scarcity. An ecosystem based on mutual trust, not fear.

As Don Tapscott says, in his great book "Wikinomics", we can think of Web1.0 – the 'old' web - as some sort of digital newspaper, while Web2.0 is a canvas that allows information to be put up, shared, changed, and remixed. It's about the interaction, the send-and-receive options that make it useful and 'special'. And in music, it's always been about interaction, about sharing, about engaging – not Sell-Sell-Sell right from the start.

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

Let's face it: most 'leaders' of the major record companies as well as some independents are, by and large, still in denial about the fact that their unit-sales-based model is utterly broken and crashing quicker than they can fathom, and many *still* hope for some magical technology solution to solve a business problem.

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



How come many societies and PROs / MROs are still at a total loss when it's about 'licensing the un-licensable' (as my dear friend and colleague Jim Griffin puts it)? 1000s of companies with innovative business models are left unlicensed, by default (or shall I say by design?), and most of them have given up on even trying. Major money is left on the table due to tardiness and internal squabbling.

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

Today, we have the paradox situation that any startup that wants to use music will not even try to go legal right from the beginning, since there is no reasonable way of doing so. Look at the biggest exits in this turf, during the past 2 years: myspace, youtube, last.fm – either they did not bother with proper music licenses, or it was unclear if and where and when they would even need one. Non-compliance succeeded and was handsomely rewarded.

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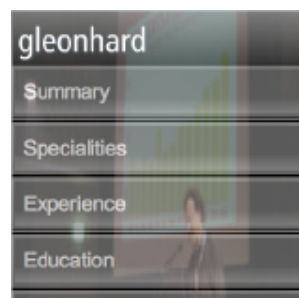
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The music industry must admit that it has failed to act. Their leaders' cluelessness, incomprehension and general lack of willingness to embrace true change allowed the paying for music to become voluntary. Congrats.

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

For the independent music industry, the question is: which side do you want to be on? Do you want to become another 'major player', and stay stuck in music1.0, or do you want to lead the way into music2.0?

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

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

If you think 'sharing' is a big deal now, wait another 2 years – it will be 100x as fast and enabled on every single device (not just computers). 3 Billion+ cell phones and 1 Billion+ music players will connect seamlessly to each other.

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

How can you monetize this? By **licensing participation** – and the networks and the devices that enable it. You must license the use of any and all music on these networks, and make irresistible, irrefutable and compelling blanket offers to those that run it. These license deals must be conversations not monologs. Not a stick to the ISPs but a huge, shining and attractive carrot.

2. 10s of 1000s of new TV, online video, and gaming channels will be born in the next 2-3 years – and all of them will need music to go with the visuals. Millions of songs will be synched to video – this market will positively explode. It may well be that those B2B licensing revenues end up being more than 50% of your future income.

However, exploiting these opportunities will only be possible if an efficient and frictionless system for transactions is available – this is, imho, where the huge opportunity for **the Merlin initiative (where AIM is a member)** lies. Think ebay+ chemdex +ricall + pumpaudio+. Every \$ invested in better B2B processes will make 10s of 1000s for music rights holders... while they sleep, or better yet, make more music.



3. Streaming music, on demand, will be everywhere. On every website, every widget, every mobile, every device – supported by ads, sponsorships and commissions on transactions. Performance-based income

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will surge beyond your wildest imaginations, But again, only if you finally chose to play ball, to participate, to make

irresistible license and rate offerings, create reliable standards and go flat-out for liquidity not try to maintain artificial scarcity. BMI's revenues have grown from \$630 Million in 2003 to \$779 Million in 2006 – not bad considering the overall demise of the recorded music market, at the same time! So read my mouse: **It's not the copy of the recording that makes all the \$\$\$, it's the use.** In fact, the use of your music is the next big format you have been looking for.

4. Rich media (i.e. ads with music, video, animations, audio etc) will become the default advertising format for online advertising, representing yet another huge growth opportunity for music. Soon, 10%+ of all ad-spending will be on the Internet; and 16% of all Internet ads in 2009 will be rich media. With an estimated \$ 700 Billion of global ad spending by 2009, that means \$70 Billion for online ads, and over \$10 Billion spend for rich media ads. 100s of millions of \$\$\$ for music licenses!

5. Digital radio will deliver 100% time- and place shifted music experiences, stopping only a tiny bit short of becoming another iTunes. The reality is that net radio is just another Tivo for music. Radio will indeed become the feels-like-free, on-demand music box, once again: the only remaining 'Radio1.0' factor will be that it will continue to be curated and expert-produced, as well as taking in social recommendation and smart technology agents. The best radio stations will become very strong brands (Radio 1, KCRW etc), out-doing what used to be record labels. How will you license Radio2.0 if you insist on staying with a per-copy model?

6. All music companies will become video companies, too – music will be multimedia, by default (music + video + audio + text + games). If you aren't already diversifying into video and TV you *really* should.

7. China, India, South America and Africa will explode with new models of usage rights – bundles and flat rates based on access. And guess what: they will indeed have those \$100 computers that Negroponte is trying to bring to them!

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

The music industry's past was based on:

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

Your future – if you chose to go there – is based on:

- Openness
- Total transparency
- Peering

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- Sharing
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I predict that as much as 60% of this new music business - and with that I mean a \$100 Billion music business - will be independent within 3-5 years – but only if their leaders don't follow the major labels into **LIKING CONTROL MORE THAN INCOME**. **Update: watch this movie clip for more details ;)**

Here are a few of my favorite bottom lines:



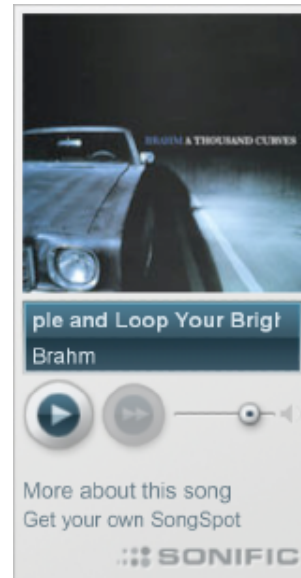
1) The media ecosystem of the future is frictionless. That means music anytime, anyhow and anywhere, ranging from free and 'feels like free' to bundled, up-sold and premium'ed. Your job as a music company is to do away with the friction, not to add to it, or even to re-insert it: on the Internet, every hurdle is treated as damage, and the traffic is simply routed around it. Create friction and be side-stepped.

2) It's all about participation not prevention. Because of the utter impossibility of maintaining any real hurdles, it is absolutely crucial that you find ways to participate in any and all

forms of commerce that use music. Charge smartly for access but make music available the same way that cell phone operators make cell phones available: a very low-cost, irresistible way of engaging people... and sell-up from there. Whether it's streaming on demand, remixes and mashups, play-listing and social network music applications, to add-music-to-video, to digital radio – being part of it is what it's all about.

3) Let's face it: the web is like a giant Tivo, a huge recorder or DVR - all performances are or can be recorded, all broadcasts really are deliveries. You need to stop distinguishing between music 'to keep / own' and music 'to listen

Music



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to' – our users have done this a long time ago! **License the USE. Share revenues. THEN upsell to ownership.**

4) Copyright is the principle, usage right is where you monetize. Usage is where you need to focus your energies, not the 'protection of Intellectual Property'. This is a tough spot but again... do you want total control, or do you want revenues?

5) Very few things end completely when new inventions are taking hold – usually, the market just grows larger. And it will be no different here. Yes, the fax machine and the Internet killed the Telex and telegraph, but we still have books even though we have Xerox machines. CDs will decline, and may fade out completely, eventually, but nothing you do in digital music will completely wipe out physical media. This is just another format, and it's called ACCESS. And even better: after you provide access, you can sell ownership again, too (think HD!)

6) Remember that the only real limit to growth, in music and in media, is TIME. Media consumption will rise and rise and rise, as the offerings become cheaper and more ubiquitous, and as more of the "Digital Natives" consume multiple media at the same time. You are now engaged in a battle for the wallet and the clock – but the clock comes first. Mind share means time-spend means money spend! Again, this is where attention translates into money, and this is why the first objective is to get attention, and only then to get money. The biggest problem for most artists (and their labels) is obscurity not piracy!

7) Engage not enrage: stop anything that enrages the users. And do it now.

8) Guess what: you *can* compete with free because what you can offer is not free. Yes, a copy of a file is free. A CD burned from another CD is free, a USB stick's content copied to my computer is free. But the real-life connection to the artist, the experience that is happening around the music, the added values such as videos, films, games, chats, books, concerts and merchandising, the context (!!!) - all of that must not be free. You must stop the obsession with trying to make money merely from selling copies, and instead provide access, because only the legitimate and authorized source (i.e. agent-label-manager) can provide the whole bundle of values that the users, fans, the people formerly known as consumers, will buy.

Music2.0 is an unprecedented opportunity, very much like when music when from acoustic to electric. Everyone wants music. More music is used on more platforms, all the time. An unprecedented hunger for music that you need to fulfill!

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

1) Once released, a recording becomes, in reality, available by default and must be made 'usable' under a default license – all else equals tacitly conceding that it's free to use without permission. As a result of such a **new 'default license'**, some rights principles that we have gotten used to probably won't translate in this environment – such as the moral right of deciding where you music is being performed or maybe even otherwise used. However, I don't think this will apply to commercial use in films or ads - unlike the private or semi-private use in UGC and web-generated content, and of course, to public performance.

2) The traditional definition of 'copyright' and 'intellectual property' can, for the time being, not be the sole key to monetizing your creations. Because it is no

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longer about copies, it's no longer about the right to copy, it's no longer about reproduction – it's about how music is being used and how to participate in those much larger revenues.

Call it ephemeral copies, tethered downloads, rented media, streaming, buffering, caching, storing, time-shifting, downloading, ripping or whatever – the fact is that digital technology has done away with the distinction of a so-called performance being different than a so-called DPD (digital phonographic delivery). All computers - and that means all cell phones, too ! – are by definition copying machines. As overwhelming as this may sound, you must therefore discard the idea of charging more to 'keep' music, as opposed to just 'listening' to it as in radio. Instead, you must focus on charging for added values (such as a better way to keep the music ;), and on collecting revenue at every point of access, and then go from there. I don't want to get into my good old 'music like water' rant again, but charge for music like utility companies charge for basic water & electricity service, and then charge more for all the other options. The bottled water business is a \$100 Billion industry!

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

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

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

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

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



8) Bundle and package music in new ways: with other services, with other products. And prepare for the Flat Rate because this is certainly coming.

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

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

Call me a Utopian, call me a Dreamer, call me a ruthless Optimist, but I think this is the Future of Music.

Gerd Leonhard, Basel, Switzerland, July 1, 2007

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Posted by Gerd Leonhard on July 01, 2007 at 12:36 PM in [Future of Music](#) | [Permalink](#)
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Comments

Brilliant article.

I'm someone who has been working in the music industry since I graduated 4 years ago, and have been fortunate to work my way up quickly and now am transitioning into being a creative person (i.e. musician) whilst using my industry experience to start my own music company.

As both a musician and a business person I totally agree with your points - and I feel that actually anyone who wants to get ahead doesn't have a choice but to move with the times. You do so or die. If your business cannot adapt to the needs of the market, in time you will not have a business - it really is that simple.

When I first started working in music (at Warner) I was shocked to see how old-school and backwards the major labels are. Marketing departments are still focussed on making t-shirts and pencils with artists names on them! What is that about? It is an arrogance that has stopped the record industry not wanting to move with the times, but the current social environment, as led by new technology, is great for independent artists - what a better way to use our creative minds than to engage with the current creative state of play that new technology has brought with it...

I think many independent labels - and majors! - would do well to heed your advice.

Very comprehensive and well thought out piece.
Thanks!

Posted by: [Lola](#) | [August 08, 2007 at 05:37 PM](#)

Thanks a lot for sharing your vision, Gerd, I really appreciated. I agree with most of the points you have emphasized, especially:

- "music as a service: a new ecosystem that is not based on music as a product, but music as a service."
- "An ecosystem based on mutual trust, not fear."
- "The media ecosystem of the future is frictionless."
- "An ecosystem based on mutual trust, not fear."

At UbiMedia, our vision is really that online distribution channels, based on the Internet, have to be re-designed to really benefit of the features of a 100% online world (including legal P2P) and to fit the real needs of the customers (no more DRMs, ability to share/recommend/exchange preferred music/movies).

We believe that time has come to shift from Rights Management to Usage Management, and to replace DRM by SDUM: Smart Digital Usage Management
!

Posted by: [Pierre Col](#) | [July 11, 2007 at 03:04 PM](#)

Hi Gerd, you've highlighted several very interesting points. The comment about "An ecosystem based on mutual trust, not fear." rings true with me and the whole article makes interesting reading.

Thank you

Chris

Posted by: [Chris](#) | [July 09, 2007 at 12:51 AM](#)

As to Last.fm: I meant no assertion that they were / are insufficiently licensed, at all! Some record labels have argued differently, though - I personally think that Last.fm has successfully pushed the envelope as far as interactive radio is concerned (but then again, times have changed since Launchcast vs Sony etc etc). Hope that continues.

Posted by: [Gerd Leonhard](#) | [July 04, 2007 at 03:12 PM](#)

In reference to Last.fm not bothering with proper music licenses - as a staffer I'd like to clarify that we were talking to labels from the very beginning, doing our best to make sure artists got paid, and were definitely not winging it like Youtube. Great article otherwise!

Thanks

Christian

Posted by: [Christian Ward](#) | [July 04, 2007 at 01:30 PM](#)

Hi Dean and Jean-Francois, thanks for the comments. Spread the word!

Posted by: [Gerd Leonhard](#) | [July 03, 2007 at 05:01 PM](#)

Hey Gerd, we seem to share a lot of the same opinions at Fairtilizer. The revolution comes from Switzerland ;-)

Posted by: [J.F. Groff, Fairtilizer](#) | [July 03, 2007 at 04:51 PM](#)

Nice one, well put. I'm just putting the finishing touches to my speech on podcasting to the BPI tomorrow - I may as well just read them this. Hurray for common sense.

Posted by: [Dean Whitbread](#) | [July 03, 2007 at 04:49 PM](#)

What do musicians think about this?

I agree with most of the statements, but i am curious of the opinion of the people that creates the music. What do they think?

Posted by: [Antonio Perezdecastro](#) | [July 02, 2007 at 08:11 AM](#)

auf newmusicstrategies.com von dem "letter from the future" gelesen, auf gerdleonhard.net den text gelesen und gedruckt, das audio gehört und schließlich das video bei youtube geguckt :) hier wird scheinbar gelebt was gepredigt wird, viel multimedialer gehts nicht. über musik flatrets habe ich selbst schön öfter nachgedacht, der pellegrino/badewannen vergleich ist geil und in dem brief aus der zukunft stecken noch einige weitere ideen und konkete ansätze (hier wirds interessant) die man sich genauer ansehen sollte. vielen dank!

toxik

www.prollblog.de

Posted by: [toxik](#) | [July 02, 2007 at 02:26 AM](#)

Great - would love a portugese version!

Posted by: [Gerd Leonhard](#) | [July 01, 2007 at 06:59 PM](#)

BTW, i'll translate your letter to portuguese and put it on my blog:
www.surround.wordpress.com

Posted by: [Juliano Polimeno](#) | [July 01, 2007 at 06:01 PM](#)

You have an amazing capacity to arrange a lot of information in a single letter. Most of these ideas came from existing new attempts to work/create/share and make a living from music. Nice resume.

Posted by: [Juliano Polimeno](#) | [July 01, 2007 at 05:58 PM](#)

Agree wholeheartedly that the money is in the use of recorded music not in the sale of recorded music. Thus the key indicator of the health of this business will be time spent listening. Recorded music then becomes very much like radio and television. Yes, there will be many revenue sources in the new music industry

but advertising revenue will be the bread and butter.

Check out the Ad-Supported Music Central blog:

<http://ad-supported-music.blogspot.com/>

Posted by: [Marc Cohen](#) | [July 01, 2007 at 04:41 PM](#)

Nicely put, Gerd.

I think the key to this is to realise that we are not in the business of selling recordings, but in the business of creating value from music. Once you make that conceptual shift, all else follows.

I would make one slight addendum here though: computers are copying machines, but they are not JUST copying machines. In fact, they're (perhaps more interestingly) modelling machines.

Alongside engagement, the real key to success will be differentiation. Fortunately, we now have the tools to create a customised music business model for each individual artist, label, promoter, venue, educator and service provider.

It's no longer a one-size, off-the-shelf music business model. The digital environment is more like lego.

Anyway (shameless self-promotion) there's far more on this in my free e-book 'The 20 Things You Must Know About Music Online'.

<http://newmusicstrategies.com/ebook>

Hope that usefully contributes to the great groundwork you've laid here.

Cheers,

Andrew

Posted by: [Andrew Dubber](#) | [July 01, 2007 at 02:12 PM](#)

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