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March 01, 2007

Drop DRM or become irrelevant - why the music industry needs to drop DRM, and sell unprotected digital music, NOW

by Gerd Leonhard Music & Media Futurist, Author



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DRM - a question of believe systems?

After countless conversations and debates over the past 8 years, I have come to think that the DRM issue is largely a question of which reality one believes to be true - and we must address the solution as such, too. No research, no statistics, no hard facts, and no futurists will tell us conclusively whether the record companies should or should not use DRM when selling digital music. To make this decision will not be science but an art!

Do you believe that the sharing of music - and therefore its consumption, in general - needs to be controlled, that a certain amount of friction is required to extract any meaningful payments for music in a digital environment, that the average consumer will always try to avoid paying anything, if given any opportunity to do so, that it is impossible to sell something that is, to a large degree, also obtainable for free, and that the monetary value of music really is in 'the copy' of a song? Then you would indeed need to be a strong advocate of technical protection measures and digital rights management software - in your mind the control of those 0s & 1s would be a definitive prerequisite for any monetization. No control equals no income; a 'free for all' is the result of having too little control.

Or do you believe that a consumer will always pay for something that is easy, enjoyable and trouble-free to acquire and that has demonstrated, tangible and trusted value, that it's not just the copy of a file or a piece of plastic that represents the real and inherent value of music, that friction can not be successfully re-inserted into our increasingly frictionless commerce environments, that our business problems cannot be solved with technological measures? Then you would be against DRM or TPMs, unless they could be 100% device-compatible, unobtrusive and behind-the-scenes, and indeed offer actual benefits to the end user - this certainly looks an exceedingly tall order that is, imho, beyond reach as far as digital music commerce is concerned.

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

The DRM issue cannot be decided as an isolated question

Clearly the DRM question cannot be truly considered if kept separately from the drastic changes that are impacting all adjacent sectors of the record industry, such as music production and contracts, pricing, licensing, promotion and marketing, and without investigating how exactly the record industry's entire business model must evolve in those areas, as well. After having done so, my own conclusion is that 8 years of badly implemented DRM have forced the major record labels into a detrimental fixed-pricing model for digital music, creating even more walled gardens and virtual monopolies such as iTunes, further perpetuating a myriad of unresolved licensing issues, and single-handedly stopping many promising marketing opportunities that could have worked if the music could only be provided in an open, i.e. MP3, format.

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

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

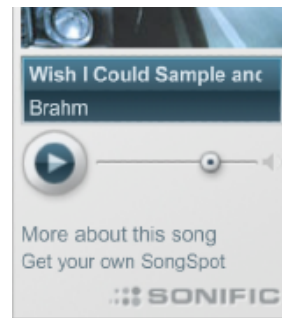
Some good cases for DRM may exist - just not in music!

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

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

- The CD is and must remain an open and universally readable and convertible format, and this has set the standard for the digital music marketplace. In a digital ecosystem, consumers will under no circumstances accept less than what they are used to; rather, we need to expect and support an attitude that will be based on expecting more value. Charging more \$ for less value, in an exponentially more competitive market with omnipresent and innovative competition, is a suicide mission.
Too many different music formats have already been in the marketplace for too long; no single, universally agreed-upon and proprietary standard can and will emerge, and no 'SDMI take2' (aka CORAL) initiatives will achieve this goal - it is a technologist's pipe-dream that keeps the record industry locked out of reality while it's losing the market to new competitors
The music consumers' (i.e. the public's) fair use expectations, ethics and traditions are totally incompatible with effective DRM measures, and 10 years of 'secure digital music' has utterly destroyed the trust in the market space.

The un-beautified result (aka the non-IFPI version) is that the public is increasingly turning off to legally purchased music, altogether; and this won't change until this policy changes



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Revver.com Video: Gerd Leonhard, Media Futurist, talks about the digital music economy, pricing, and promoting music

Gerd Leonhard on "The Future of Radio and Broadcasting" EBU April 6 2006 San Marino Italy

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Challenging your assumptions

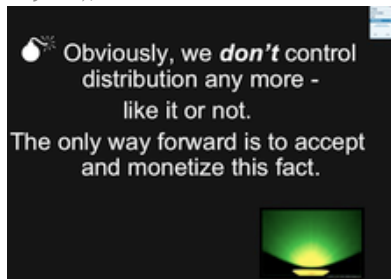
So...if you are a believer in control, and therefore in DRM, let me challenge your assumptions and convince you to reach for the reset button, as I firmly believe the record industry (in particular the major record labels) are destined for certain demise within 18 months if staying on the course of trying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

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

- your music is already available in open formats, for free, and the consumers that still like CDs are still buying CDs - but it has now become a choice, not a must; *paying for music has de-facto become voluntary* (as my fellow pontificator Jim "pool of money" Griffin likes to say). If the record industry made it easy, affordable and enjoyable to buy MP3s legally, a much larger percentage of the total target population would consider getting engaged. This would, in turn, generate more, and renewed, interest in buying all kinds of new physical media products, *after* a consumer has had his fill online - the sole downloading of music as MP3 files will, imho, never be the final stop for any real music fan. Rather, it is only the beginning of a new business, not the end - **the new business is selling music as a 360-degree service and as a product.**

- However, clearly the price of CDs would have to be much more competitive and flexible, both in the way of offering low-priced CDs as well as with high-priced / higher value products (such as high-definition audio, video, and mixed media). By selling MP3s online, and by offering a lot more CDs in the \$7 to \$12 range, as well as positioning premium products in the \$25-\$40 range, the record industry would still generate more revenues than before, and put smart retailers back into business, as well.

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



My response:

- It is not about absolute control versus zero control - it's about a new kind of relative, smart, opt-in, transparent, fair, and timely control. It's happening everywhere else - why not in music?
- The traditional record industry's unit-based business case has already collapsed: **there is simply no future in only selling copies**, so let's stop pretending there is. The record industry must first sell access to music and artists (and then sell units), in an all-encompassing portfolio of products and services - and there is absolutely no way you can do that by enforcing proprietary, locked music formats.
- There are many other ways to maintain and 'enforce' value in an open format system; i.e. the record industry can insert something that is equally as effective as friction: stickiness, loyalty, trust, community and appreciation. The record industry will get the same, and even better results but must use a different path - think eBay, Amazon, Google.

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

My response:

- Flexible pricing (lower and higher \$), bundles, flat rate services, free and ad supported models, and a host of new premium offerings would take care of

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this problem of 'rampant sharing' - share all you wish because we will have a way of getting your dollars, regardless! If it's just a copy of the file I want, yes, I may be able to circumvent payment, but if want the whole thing, the experience, the complete access, I will have to remain with the provider that can dish up all of it.

- Why would I bother with circumventing a payment if the value, the service and the convenience I get is beyond reproach and makes irrefutable economic sense - a legal, open format music service just has to be better, faster and more compelling. And it can be!
- The bottom line: if the price is right, and the service value is high, and the trust is there, consumers will pay without fail: see cable TV and cell phone subscriptions - and again, the \$ 100 billion bottled water business.

The REALITY in our digital music ecosystem :

- ↳ Listening to music = getting music
- ↳ Performance = reproduction
- ↳ Access is outmoding ownership

So, why are we still trying to sell MORE COPIES if we could also sell ACCESS?

Assumption #4: switching to open formats will make the record industry (in particular the major record companies) utterly vulnerable, and they will lose any remaining market advantages we currently still enjoy.

My response:

- Open formats will certainly create a more equal marketplace; however, the major record labels will still be able to extract a lot of value out of the existing assets, i.e. the catalogs, the relationships, and the global business network. It will indeed be a different business, but a lot more fruitful!
- Many traditional advantages (such as controlling distribution) are quickly and inevitably eroding in today's marketplace. By making a pro-active decision to embrace these changes, now, the record industry will be able to be in charge of it, rather than solely react to it.

What will happen if the major record labels stick with DRM?

- CD sales will continue to tank exponentially as even the most faithful customers in the most traditional territories are tapping into the ever more powerful online networks, while the growth of digital music will stall in all territories, paid-for ring-tones will decline, and all those fancy new mobile devices will play MP3 files but not those crippled and DRM'ed files, **on a ratio of 50.000 to 70.**
- The wireless broadband explosion will take the sharing of music to an unprecedented level: every single user becomes a moving super-node of content, and 99% of them will exist in a legal and economic gray zone of non-compliance - because there is no other option! In other words: unless the record industry's content is available in open formats, its music will be consumed outside of any system of monetization. **Avoidance is not an option, participation is!**
- New companies will show the way and quickly propagate entirely new ways of acquiring and presenting music: telecoms, handset manufacturers, networks, portals and ISPs will target the record industry's core business (i.e. talent); and within 18-24 months the traditional record labels' overall relevance will be greatly reduced. The markets will find a way around the protected digital music that the 'official' record industry is offering, and the rising digital music tides will float every boat except for... theirs!
- Very few outside investors will invest in any music-related ventures, not only because there will be no growth (and no demonstrable ROI) but also because the industry is, and will be, universally disrespected for its lack of leadership and decisiveness. This lack of outside investments will create a vacuum that new players will aggressively use to build their own ventures, based on new talent that the traditional record industry will no longer be able to attract. Major music companies will become isolated in the capital markets, becoming sitting ducks for takeovers (is that good or bad?)

Take a look who has defined success in the past few years: eBay, Amazon,

big enough we will have... real CHANGE

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Apple, Google, Skype...they all give control to the user, provide open and transparent services, earn and keep trust, pull not push, have conversations not monologs, promote enablement not prevention - that is where things are going.

The time for a change is NOW

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



*"Come gather 'round people
Wherever you roam
And admit that the waters
Around you have grown
And accept it that soon
You'll be drenched to the bone.
If your time to you
Is worth savin'*

*Then you better start swimmin'
Or you'll sink like a stone
For the times they are a-changin'"*

Gerd Leonhard March 1, 2007

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Comments

Very insightful comment on the world of music commerce. Although I fear that only a small number of "control-believers" will be born-again converts, I sincerely support that participation in ones own future, rather than avoidance, is the only option - how could there ever be another? As a european I recognize the frustration that is taking place in the minds of every single music-lover - artists as well as consumers - in my network, and I will be the first to submit, that the moment we feel that our purchased music is not "universally free" to use in any way we want (like our CD's), we will find it elsewhere; i.e. the flourishing P2P services (because that's what they are - and what the music buisness should be: a service) like SoulSeek and BitTorrent protocols.

The concern for the future of digital music is, of course, not a newly arisen problem. I am stunned an amazed that no one, until now, has been able to put things on the agenda in such an eloquent an forceful way, as Mr. Gerd Leonhard.

Regards,

Simon Madsen, Denmark
(and yes, im in a band:-)

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