

Convergence Think Tank – some thoughts for consideration

British Music Rights acts as the single consensus voice for more than 50,000 composers, songwriters, music publishers, and their UK collecting societies, MCPS and PRS.

Convergence and the music industry

- For the music industry, convergence is the blurring of distinction between device, access and consumption.
- Music has been a primary fuel for convergence.
- The popularity of the products and services that employ the technologies of 'convergence' – MP3 players, broadband subscriptions, computer hard-drives and memory sticks, mobile phones and mobile subscriptions – have been fuelled by consumers desire to consume music in all ways that technology makes available. Aware of this, the companies behind them use music as a means of marketing these products and services to consumers.
- Music is music. Consumers can access an infinite supply of digital music via their broadband or mobile connection, as files to download or to stream.
- Consumers can store and play music from a hard drive in a mobile phone, computer, MP3 player, memory stick, or any combination device.
- Consumers can also now store their music collection in a digital music locker, accessible to them from anywhere in the world, playable on any device.

Issues arising from convergence

- Converging technologies make it possible and simple for consumers to share and copy music – given the scale of still unlicensed sharing and copying this is very damaging to the music industry.
- Before 'convergence', it was possible for consumers to copy and share music, but only on a very localised scale. People could tape music from the radio, and make copies of tapes on a dual tape recorder. Now people can copy and share vast music collections around the world with just a few keystrokes, and without notable loss of quality. Neither Government nor the music industry itself have managed to curb consumer behaviour to any significant extent.
- Consumers have paid for the technology and expect to make full use of it.
- Consumers do not accept restrictions such as technological protection measures applied to a piece of music that limits their ability to play that music across devices.
- Nor do consumers keep within legal restrictions that forbid them to make copies of music. Most consumers do not even know what they are legally entitled to do with music in their possession. And even if they did, the bottom line is that consumers will always make use of the technology that is readily available to them, simply because they can.
- For the music industry, the bottom line is that the copying and sharing of music is happening on a scale that is damaging to the industry, and ultimately, damaging to the creators at the very heart of the creative economy.



Recognising the value of music

- The music industry wants consumers to have the freedom to enjoy music in any way that they want. This relationship is the lifeblood of the entire music business and arguably for any other creative industry.
- Composers, songwriters, performers and other rights holders all want their music to be heard by as wide an audience as possible. They also need to be paid.
- Copyright is the sole mechanism that enables creators to earn an income from their artistic endeavours, whether direct from the consumer or from those businesses that build value from their work.
- Government wants to encourage innovation and technological development, and has an active strategy for increasing broadband penetration in the UK.
- As a raw material, music has always fuelled innovation. This has been particularly evident in recent years. For a growing number of new business models, music has been a key element in attracting a mass of consumers who demand compelling, rich and entertaining content.
- However, like any primary industry, creators occupy the most vulnerable position in this supply chain – especially given the rule-ripping pace of technology.
- Innovative new services must be nurtured, but not at the creators' expense. The fuel needs to be paid for. This can best be achieved by licensing those businesses, services or device manufacturers who gain direct value from the use of music.
- Such a concept is the norm in the offline world (eg radio) and is increasingly so in the online ecosystem – for instance, the business models of iTunes and YouTube.
- However, unless a business directly provides, communicates or distributes music, the law absolves them of any responsibility for the copying or sharing that takes place through their product or service.
- If the market were working properly, content owners would be able to negotiate on commercial terms with the businesses, service or device manufacturers who gain direct value from their customers copying and sharing music, even if the businesses are not copying or sharing that music themselves.
- Instead, we have a market failure whereby creative content has never been in greater demand, and is driving innovation and growth in many other sectors, but yet its value is shrinking year on year because everyone within the distribution chain—apart from the creator – is accruing the value of that creative content.

British Music Rights

British Music House
26 Berners Street
London W1T 3LR
Tel: 0044 207 306 4446
Fax: 0044 207 306 4449
www.bmr.org



Notes:

Apple's 2007 revenues are greater than the combined earnings of the global record industry.

"As I've written before, the idea that record labels are huge is a popular myth. Perhaps it makes us feel better to believe it - but it simply isn't true. When a sound recording industry representative makes a bellicose statement, we're not being savaged by a multi-headed Cerberus, the mythical hound of Hades. It's much more like a Chihuahua with a leg missing, having a yap." - Andrew Orlowski - The Register, 11/07

MP3 is not an open format. In 2005, the MP3 licensing revenues made the Fraunhofer Institute an estimated €100m.

The ownership of the patent for MP3 is *incredibly complicated*. However, it is reported that the Fraunhofer Institute currently licenses the format typically for around \$2 per music player. (New York Times, 5th March 2007)

Only 3% of music on the average iPod is purchased from the iTunes Store.

With Apple dominating the digital download market, the remainder – presumably – is either format-shifted, or attained from illegal file-sharing sites.

"Through the end of 2006, customers purchased a total of 90 million iPods and 2 billion songs from the iTunes store. On average, that's 22 songs purchased from the iTunes store for each iPod ever sold.

Today's most popular iPod holds 1000 songs, and research tells us that the average iPod is nearly full. This means that only 22 out of 1000 songs, or under 3% of the music on the average iPod, is purchased from the iTunes store..." -- Steve Jobs – Thoughts On Music – Feb 2007

"...the games industry is now bigger than the music industry" - Jean-Bernard Lévy, CEO, Vivendi

