

## Convergence Think Tank – some thoughts for consideration

### Paper 2: Competition and innovation: content and services

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.

#### Music Industry:

- For the music industry, convergence means opportunity. Due to technological innovation, potential new music markets exist that didn't before, while consumers can access music in more direct and personalised ways.
- As a result, music has played a significant role for emerging ICT businesses to attracting significant volumes of consumers within a short time frame – for instance, customer uptake for ISPs and mobile phone networks/device manufacturers, or for sales of iPods. The ICT industry recognises (or should recognise) that there is a robust legal and practical framework protecting the individual creator.
- Convergence has also thrown up challenges. Music has fuelled technological innovation and entrepreneurialism, but technology moves at a rule-ripping pace. Many new technologies and applications provide consumers themselves with the ability to copy, distribute, and 'broadcast' music.
- Also, despite opportunities afforded to more niche creators via the infinite choice of the 'Long Tail', the digital market place has arguably benefited 'superstar' artists with existing fanbases – for instance, Prince and Radiohead's decision to give away their music for free.
- For the mass of writers, composers and artists, licensing solutions are the only way forward. Creators should be able to licence services, access providers and device manufacturers that gain direct value from music, just as they would other "old" world businesses such as pubs and broadcasters.
- The market will decide the terms of these licences, but where licensing is impossible (e.g. the discussions on format-shifting of musical works by individual consumers in the context of Gowers), there might be need for further political or legal interventions. This would also be the case, if commercial users refuse to acknowledge the value of the music to their business.

#### ICT industry:

- For the ICT industries, music can be a precious commodity – adding value to products and services, as well as brand development and advertising industries, audiovisual industries, cultural performances, and broadcasting industries.
- Music attracts consumers. Convergence has allowed a growing number of non-traditional music services to use music as a means of fuelling growth. "We need music the way a honeybee needs flowers," said Ali Partovi, CEO, of online music discovery service iLike, quoted at Digital Music Forum East, Feb 2008.
- Recent research by NESTA states that businesses can enhance their innovation performance – particularly product innovation – through purchasing creative products. Our estimates suggest that if a typical UK firm invests double what it does on creative products (ie around 6% as opposed to 3% of its gross output) then the resulting product innovation either new to the firm or to its market will increase by 25%.



## Internet Service Providers

The above information is particularly relevant with regards to ISPs and their relationship to the music industry.

- Five years ago, ISPs benefited greatly from illegal file sharers as they looked to build customer bases and drive broadband uptake. This was to the ultimate detriment of the music industry which was cut out of the value chain.
- However, in 2008, ISPs face two conflicting pressures: (i) the need for investment to create a new fibre optic infrastructure to deliver faster broadband speeds (ii) while co-currently being squeezed on price as broadband services become cheaper (or even “free”).

With broadband uptake reaching saturation, ISP strategy has moved towards customer retention as opposed to customer enrolment.

- In such a scenario, music's value as a commodity increases; as are the possibilities to create new monetized services that retain customers *and* pass revenues back to creators and rights holders.
- BMR fully supports any such market-based solutions, particularly in light of current government thinking that ISPs should bear some responsibility for unlicensed filesharing over its network.
- Such legislative or regulatory intervention is likely to be blunt and costly. It makes sense, therefore, for the creative content industry and the access industries to build compelling commercial offerings that are more attractive to consumers than existing unlicensed file sharing applications. Customers could pay for such services in tiered pricing packages, with the revenue divided equitably between converged right holders.
- If the sharing and copying that technology enabled could begin to be monetised – with a proportion of this value flowing back to the creator via licensing – it could help sustain and grow the UK's creative base – encouraging a new generation of talent and entrepreneurs.
- Government proposes to enact legislation by April 2009. This means a *real window of opportunity* to monetise music usage and to build mutually-beneficial business models that reward all parties in the value chain, from the creator to the service to the end consumer.

## Licensing is the future of music

The recording industry is in a state of transition - traditional “unit sales” of physical product are in decline, while business models and revenue streams are undergoing enormous diversification.

- For instance, the Justin Timberlake album FutureSex/Love Sounds was released as 115 different product-types (e.g. ringtones, downloads) which sold a total of 19m units – of which only 20% of were CDs (IFPI figures). With “unit sales” of physical product in decline, record labels are now moving towards licensing-based models in order to maximize revenues – for instance eMusic's subscription service, or Universal's Comes With Music partnership with Nokia.
- To retain profitability, labels are now actively pursuing 360 deals (eg securing a percentage of non-traditional income, such as an artist's merchandise or concert revenues); brand associations and sync licensing (e.g. where music appears on a film soundtrack or advertisement).



They are also pursuing new business models – eg Comes With Music, where a device manufacturer pays for music and it is free to the consumer, or ad-supported streaming services such as LastFM.

- Such changes are less problematic for other sectors of the music industry – particularly for music publishers whose business models have always been licensing-based.

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