

Mission: Impossible – Thoughts on a 2nd edition of the Music Business

Gerd Leonhard, February 26th 2003

gerd@gerdleonhard.com

I am a serious movie fan, and so the other night I had a bizarre dream: I was catapulted into the opening scene of my own sequel of *'Mission: Impossible'*, and the mission – should I chose to accept it - was to rebuild the music business from scratch. The industry we know it was *"Gone with the Wind"*, and it was my job to reassemble it.

Despite the distinct megalomania flavor (which, you have to admit, is a distinct component of every *'Mission: Impossible'*), this idea resonated nicely in a *"Titanic"* kind-of-way and I agreed to accept the mission. The next morning I awoke and felt that I had to try to deliver what I promised, dream or not. Yes, I know *"What Lies Beneath"* but... *'A few good men'* must do it.

So, here is my 10-step program for the Impossible Mission of restructuring the music business, *'Men in Black'* notwithstanding.

- 1) **We need to re-build this industry on the basis that Technology and Music are Siamese twins.** Technology is what will re-ignite the music business, and once that's underway, the music industry will be larger than ever before. Technology has always driven the music business, and it will drive it this time, too - despite the explosion of the .com bubble, the CEO crucifixions and NASDAQ's demise. Think back to the advents of amplification, sheetmusic, the gramophone, the Walkman, the CD... - SOFTWARE will reengineer the music business (together, of course, with the MUSIC, itself).

So, let's embrace new technologies and put them to work relentlessly:

- Create the Deep Music Web: put your entire catalogs and *all* related information online, both for internal and for external purposes. This includes streaming previews, downloadable files, meta-tags, indexing information, history of use, music-specific data such as genre, mood, lyrics etc, restrictions, permissions – *everything*. Yes, this is a very tedious undertaking, but guess what? There are armies of unemployed music editors and other qualified people available now, for cheap! For the salary of one highly paid lawyer that hunts down those unrelenting copyright infringers on the Internet, you can hire 50 good, willing and enthusiastic people in Bangalore to clean up your database. Once you have this kind of deep-web data-power the doors for all kinds of usages will be open wide, and you can safely experiment with any type of licensing schemes. Stop hiding behind 'we can't...if only we could...our contracts...the system' and *clean up your data*.
- Buy into P2P technologies NOW. Use P2P technologies for business-to-business applications (such as licensing and inter-company deals) and don't stigmatize a powerful idea because it has been used by Kazaa and its cohorts who you wish would just go away. P2P is by far the best and most economical way to link thousands of users (and their data) between businesses, and to reach true liquidity.
- Do ALL your business online. Start with online A&R (and by that I don not mean creating musical landfills like MP3.com), move to online contract

and royalty administration, integrate online payment systems for licensees and licensors, create online interfaces for your business partners (such as other record labels, publishers, film and TV companies, ad agencies etc), offer deep information archives for media and marketing purposes, employ online syndication tools, use instant messaging and wireless communication technologies to speed up internal communications.... Yes, these may be expensive investments but they will save you 50% of your HR, Admin, marketing and accounting budgets, in the long run. This also is how you can slim down and become competitive, and make more money, even on lower margins.

- Become an online broadcaster of your own catalog. Launch your own online radio stations, and / or support existing channels, and provide your streams free of charge. What better way to get your music heard than to offer the next best thing to (or after?) radio!

- 2) **Let's make Partners out of Minions.** Drop the charades, eradicate indentured servitude mindsets, and *finally* make artists and composers your *equal* partners. Yes, it's time for 50-50 across the board. Shred the template 'plantation'-style contracts; invest trust and loyalty into the artist and watch the pendulum swing back to you. Become the artists' agent, their advocate, their trusted partner, not their 'owner', their creditor or their bank. Yes, this means signing a lot less artists, and spending more time on the relationship – you just don't throw a *partner* against a wall and see if he sticks. So, fewer artists will get signed, fewer products will be released, and less people will be needed to run the show, which leads us to #3.
- 3) **Let's shrink** and become as lean as possible. Consider permanent vacations for some of your execs, lawyers, accountants and admin people, and use smart technology to do the work for you. Outrageous? Yes, but it is possible, and it would mean 'upgrading' your operating paradigms to give high priority to transparency, simplicity and efficiency. Put together an up-to-date, deep-web database, clean up your contracts and do away with all the back-door paragraphs, give the *power of transparency* to the music fans – and before you know it you will save a ton of money that you used to spend on useless bureaucrats whose sole job is to make it harder to actually sell your music. Stop letting fear run your business, and a lot of line items will become superfluous. Release fewer titles, spend less on marketing but dedicate more time studying the target markets, field-testing (yes... online!) and 'seeding' nascent markets. Undertake international expansion by using technology, not by setting up independent infrastructures in each territory. Stop wasting your resources on initiatives that look to shore up the outmoded music industry system of the '50s (read: CD copy protection, DRM, the now-defunct Hollings bill, spoofing...). The combination of highly motivated, clued-in and integer people and highly customized technology solutions will allow you to scrap 50% of your operating budget in 2-3 years.
- 4) **Let's drastically lower the prices for music products** – not just CDs, but everything else, too. Let's face it, the Fat Years are over, people have more choices, more sources of information (!) and less cash, and because of the Net PEOPLE KNOW music *could* be sold cheaper. Their "*Basic Instinct*" tells them!

Cut the price of a CD down to \$ 8 / 7 Euros and you'll see piracy evaporating quickly. Offer all-out, no-if's-and-but's subscriptions for \$10 per month (and even less in newly developed territories) and you'll turn the 75% of the world's population that would NEVER buy music into loyal customers. How could you make a profit on a sale like this? Well, for starters, cut your bloated marketing budgets, stop the radio payola scams, stop supplying \$200.000 videos to MTV, fire the lawyers that are trying to get your own *customers* into court, stop paying steep fees to lobbyists that continue to pitch U.S. Congress to stick another band-aid on the bursting dam, stop paying huge signing bonuses, and last but not least stop relying on 3% of your catalog to generate 90% of your profits. This model *may* have worked fine back in the music industry 'stone age' but it is profoundly perverse in this new market place. Do the math: reduce your costs by 50%, sell the product for 50% less, cut in the artist for 50%, but get 100% of your catalog out there, and quadruple the number of people that buy music, and we'll all be very happy!

- 5) **Let's look at new ways to release music.** Why is it that every new product must be released on CD, and join the other 3.500 new releases per month in the battle of getting shelf space and media attention? And why is it that, in the age of almost limitless data storage power, almost 90% of all catalog items are no longer available to anyone (see below)? How about releasing new singles on the web, bundling new products into games, phone subscriptions and ad campaigns, and how about complete back catalog series on compressed audio (MP3!) DVDs? How about windowing your products? Abort the old way of thinking 'product' – think SERVICE. This may be *"As good as it gets"*.
- 6) **Let's unchain the music we already have.** Allow the 95% of your music catalog to emerge from obscurity by getting this stuff into the network, no matter how, where, when and for what. This means a solid YES to free music services, free online radio and even free media products – make it free if it has to be, and charge for it when, where and how you can (and there are and will be plenty of places where you CAN). Huge back catalogs remain unused, un-appreciated, untouched, and are not generating revenues. *"Gone in 60 seconds"* after the release! Get them out there, no matter what. How about custom DVDs of entire genre collections and back catalogs, interactive online radio stations with back catalog, and P2P back catalog subscription services? \$19.99 for 500 MP3s of classic Americana – I'd buy it! Release your back catalogs and watch the money flow in.
- 7) **Let's preclude compulsory licensing laws to be enacted by compulsively licensing** to EVERYONE that knocks on your doorsteps. Establish some basic, affordable, industry-wide standards that can be met by just about everyone, and let it flow. Stop using your catalogs as leverage to get a better deal than the next content provider, stop pushing for high advances, 'Favored Nations' and other corporate favors, and you'll see compulsory licensing initiatives evaporate (incidentally, so will piracy!). And maybe you'll eventually get people to like you again. *"Eyes wide shut"* won't do it, this time.
- 8) **Let's go for the Niche Markets.** Turn down volume on the 'world dominating super-star' schemes, and focus on the high-yield niche markets that are now

reachable using digital technologies. Promote diversity, not one-artist-fits-all. Not 3 artists selling 15 Million tracks each, but 100 artists selling 500,000 tracks each! How about custom CDs and DVDs for niche-music markets, dedicated online (and cable) radio services, customizable music subscriptions? Since you'll already have the all-purpose deep-web database (see above) and the digital audio, what would keep you from doing this?

9) Let's re-engage with people over 35. The mainstream music industry has practically given up on people over 35 – only 10% of adults over 35 still buy music. Why is this, when this target group represents consumers with a much higher discretionary budget and more time on their hands than anybody else? The answer maybe that many music companies are not focusing on this target group because they cannot just push the latest super-star to them. Rather, these consumers like niche music genres, and their tastes are much more developed and less influenced by the latest marketing campaign. Re-connect with people over 35 (yes, using technology), give them the content that they want, and you'll have *another* very lucrative business.

10) Let's start collaborating! Today, the lack of any real collaboration in the music business is appalling and can only be attributed to exceedingly high levels of fear, paranoia and greed that (still!) prevail in many places. Yes, if you are a major player you can afford your own, proprietary IT systems, royalty accounting systems, marketing departments and corporate affairs lobbyists - that is, until you need to skim 50% off your operating expenses (see above). Smaller independent players need to work together to develop technologies, establish marketing platforms and reduce the operational overhead. Publishers need to work with record labels; Performing Rights Organizations need to work with technology companies. Why is it that we are so fearful of holding our own ground, and have failed to reach out to our own peers? It is almost like we are all shipwrecked on a tiny island but everyone considers their piece of the beach to be a totally separate island.... The exponential version of "Outcast"!

But then again, this was only a dream, and more so than any other sequel of 'Mission Impossible', this mission truly *does* seem totally impossible. So, thank god for being able to wake up and realize it was only a dream – right?

gerd@gerdleonhard.com © 2002 Gerd Leonhard www.digmarketing.com