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www.gerdleonhard.com Personal site

www.musicfuturist.com Predictions on the future of music

www.thinkandlink.biz Connecting companies, ideas and resources

The future of music – Opportunities and visions

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The genius is the one who plays most
like himself.
-- Thelonius Sphere Monk

Music, Technology and Communication are converging
–and we are right in the middle of it!



Music

Technology

Communication

And the computer is converging with other entertainment and communication devices

Music
Players

PDAAs

TV
VCR
Tivo

Computer

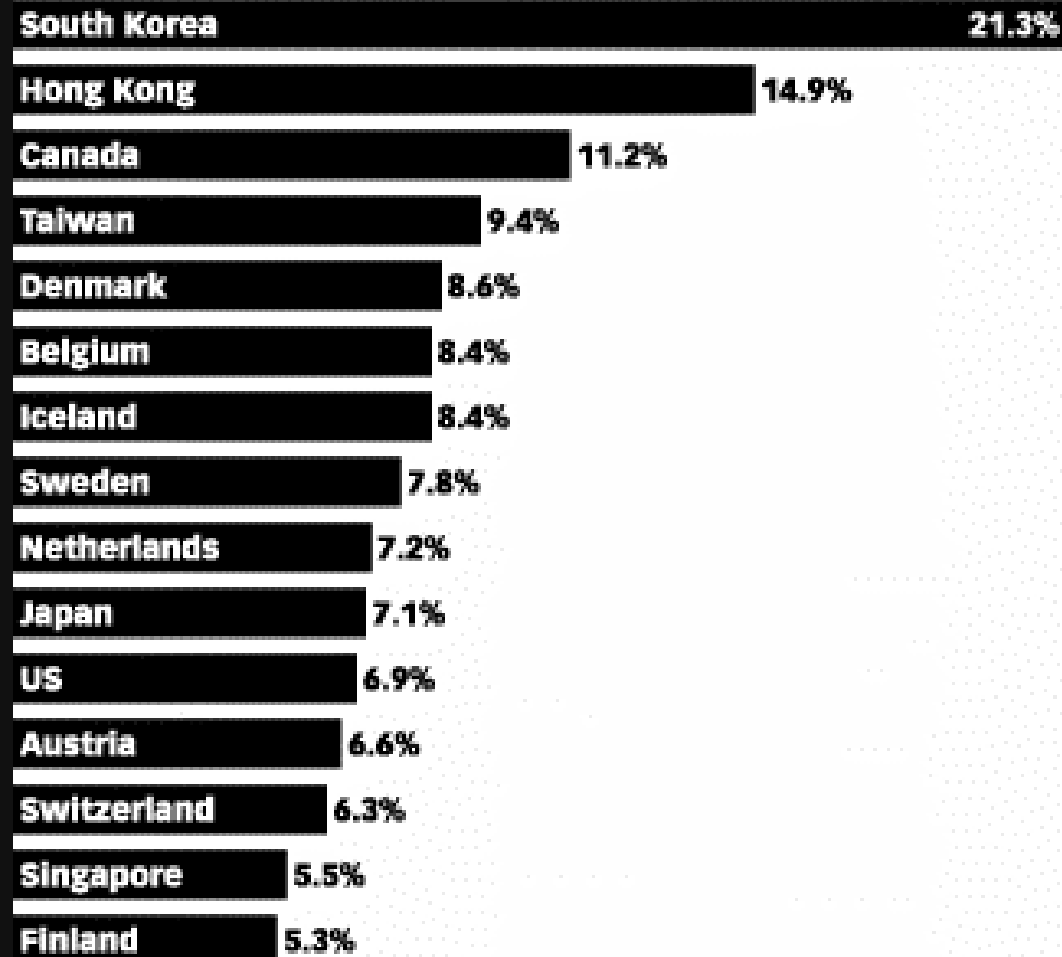
Phone

Radio

Game
Consoles

More connectivity results in a totally different business

Broadband Penetration in Select Countries Worldwide, 2002



Source: International Telecommunication Union (ITU), September 2003

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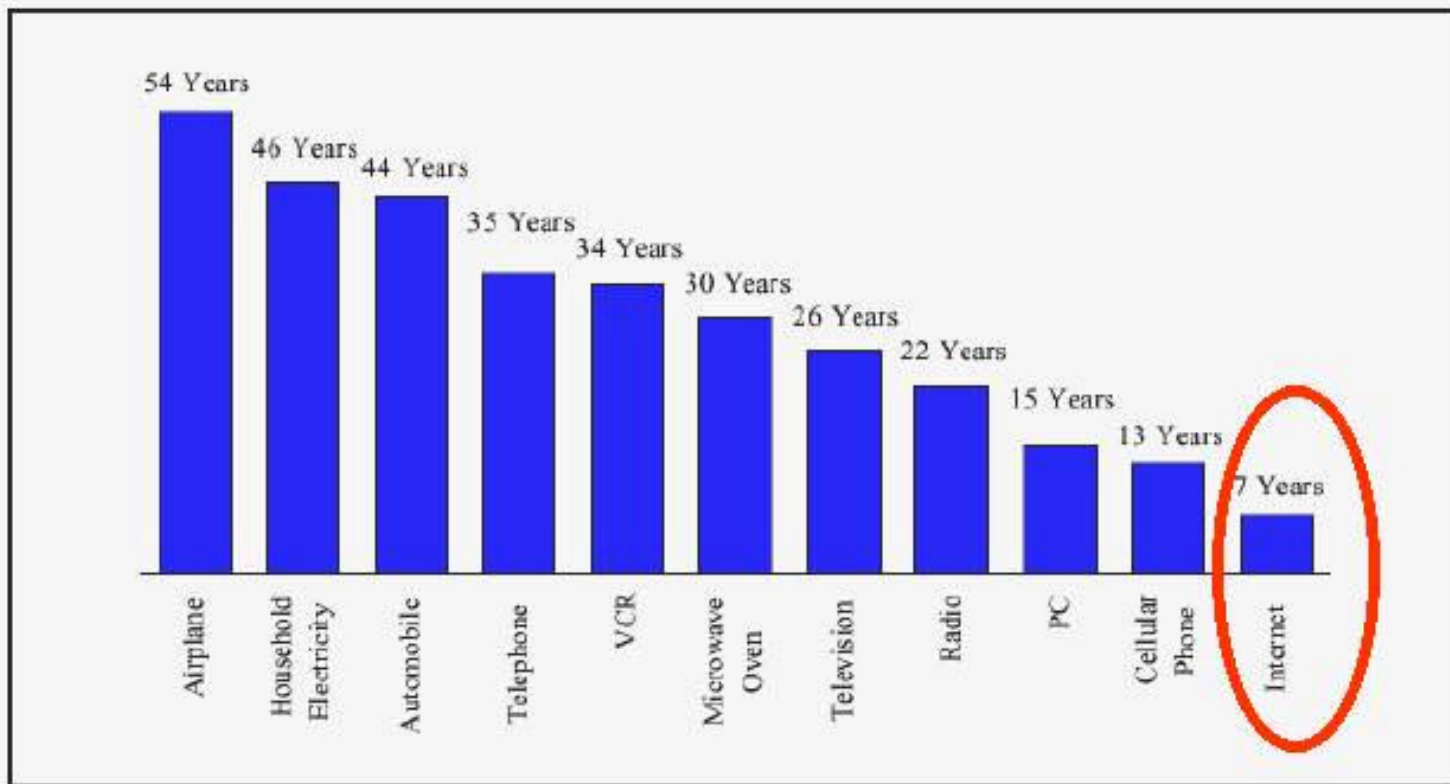
CONSEQUENCES

- Entertainment Online
- WORK Online
- Ubiquitous file-trading
- Comparison Shopping
- Online Networking
- Virtual Workplace
- Online Education
- ...

Less than one-third (26 percent) of online consumers report having made an online purchase, and no more than five percent of the online population has purchased content in any single category. Nevertheless, paid content revenues will grow at a slow but steady compound annual **growth rate (CAGR) of nine percent to reach \$3.1 billion in 2009**, up from \$2.0 billion in 2004

The Internet adoption rate: life gets faster and faster

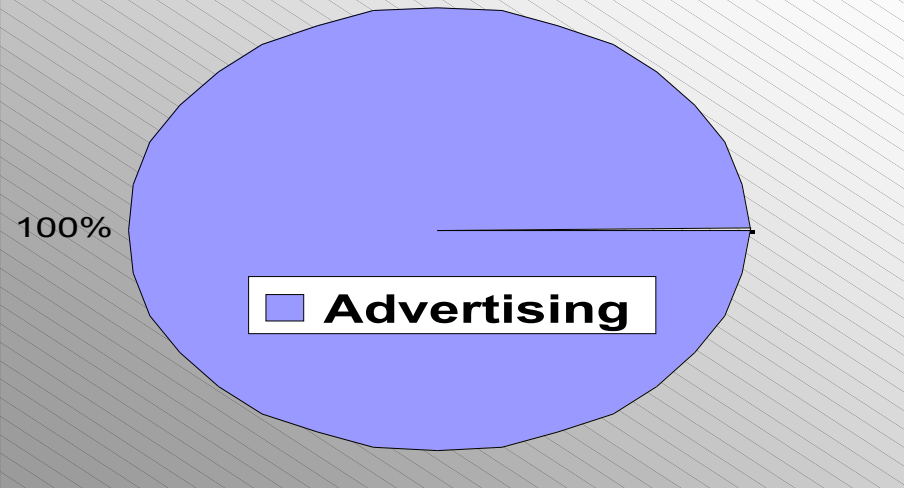
Chart 3: Years To Attain 25% Market Share



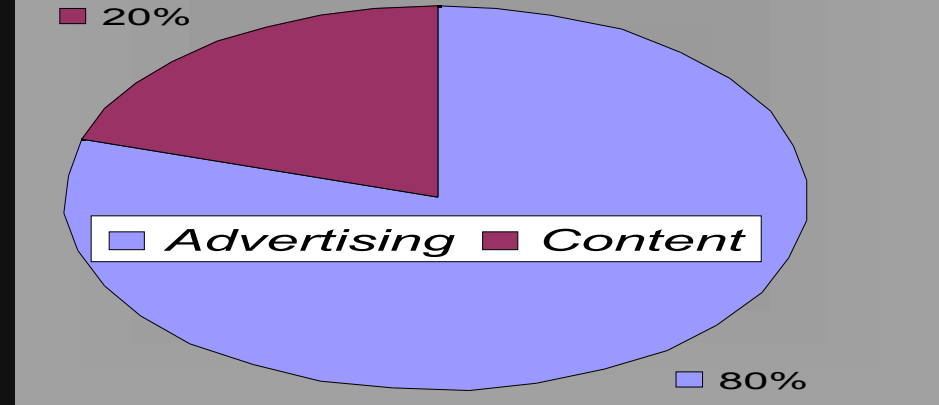
Source: Milken Institute

Traditional content revenue models

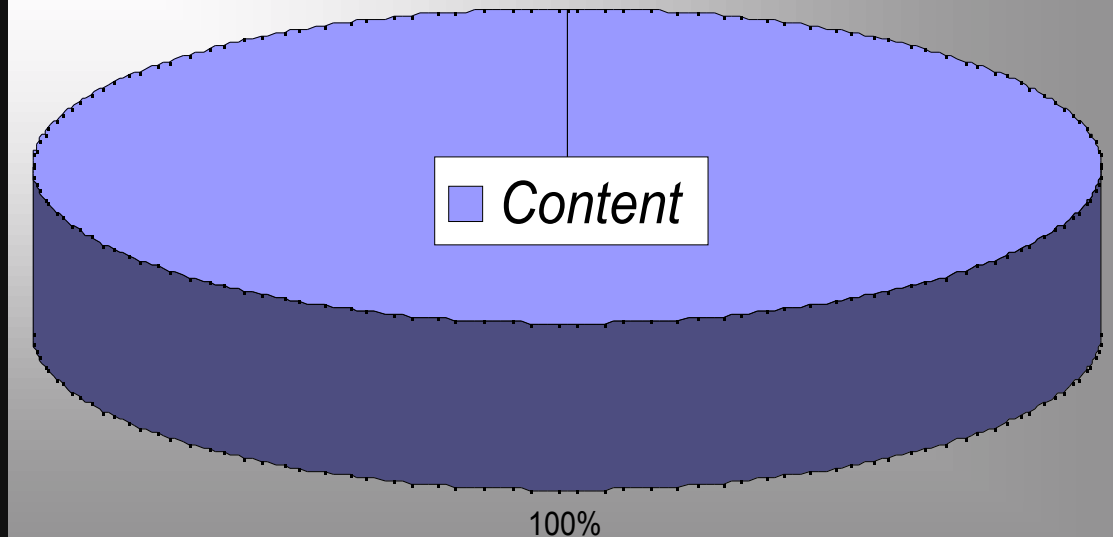
Revenue Model in traditional TV and Radio



Revenue Model in Newspapers and Magazines

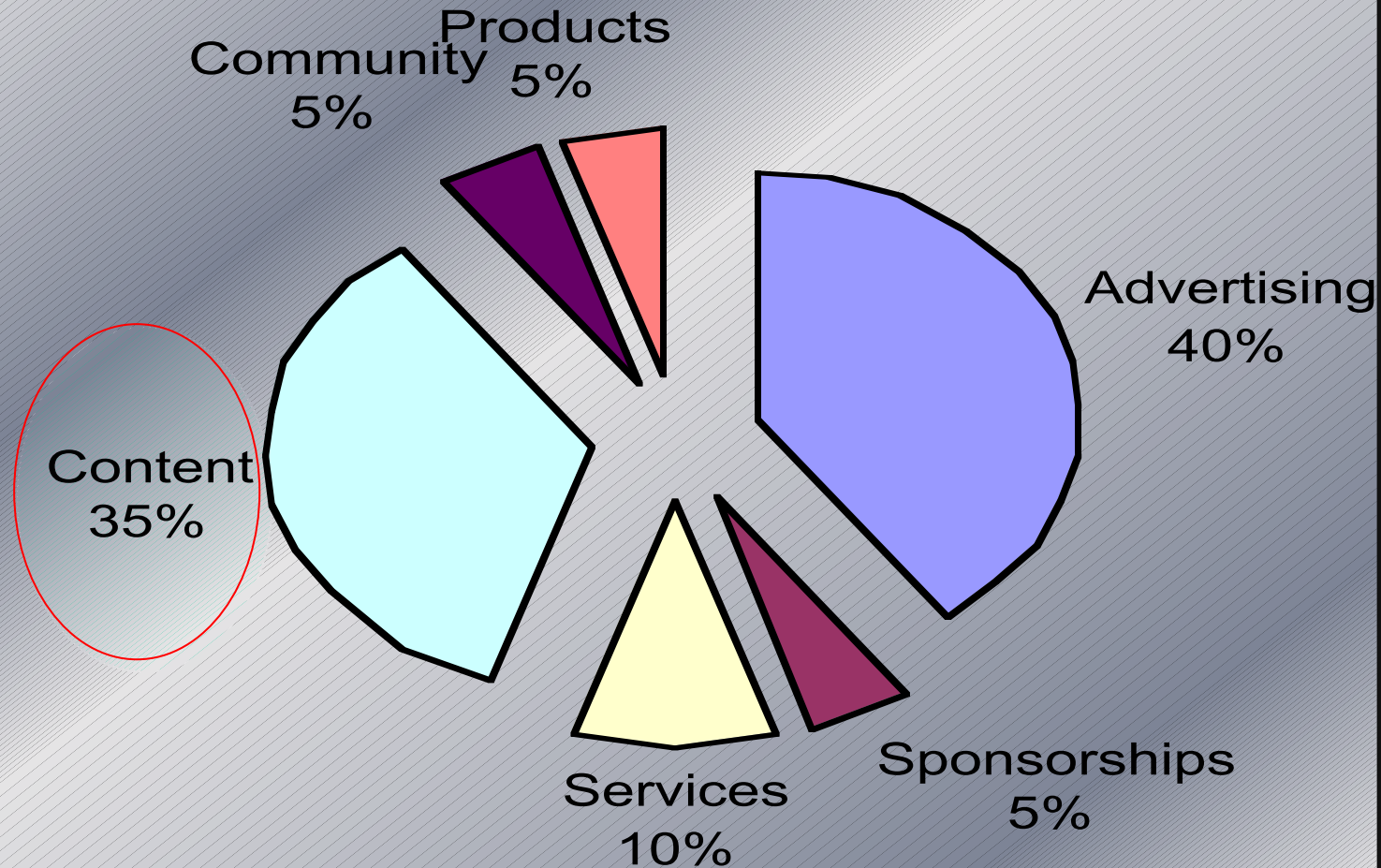


Revenue Model in the Music & Books (Trad.)



Digital Content Revenue Model Example

Internet Revenue Model EXAMPLE



Some 'philosophical' stuff

- Today, (just about) *all business is eBusiness*
- Today, Music is Mobile, again
- When the sharing stops so does the music business
- When technology and copyright collide, copyright changes! *Cory Doctorow
- Music business is the “business of selling rebellion”, and we must figure out how to ‘monetize anarchy’ *Jim Griffin

Some myths we need to discard

- 💣 Music is a Product, and 'property'
- 💣 You just have to be a really great musician, and everything will be OK
- 💣 The Music Business is in really bad shape, and there are few opportunities

The future: 3x as big and 20 x as fair?

Past & Present

Present & Future

Rights sold  Rights leased

Record deals  Agency deals

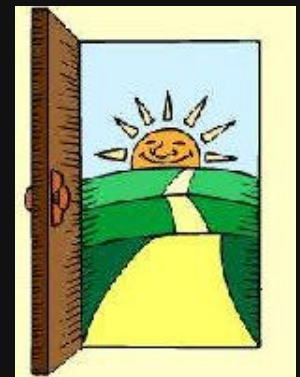
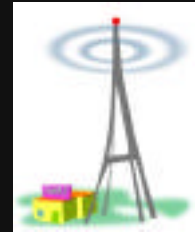
'Nobody will know'  'Now, the future will find you out'

Work for hire  *Hired to work*

'Top down' makes money  'Bottom up' makes money

CD sales are cratering, but MUSIC is more popular than ever before, and used in more products than ever before...

Music Licensing



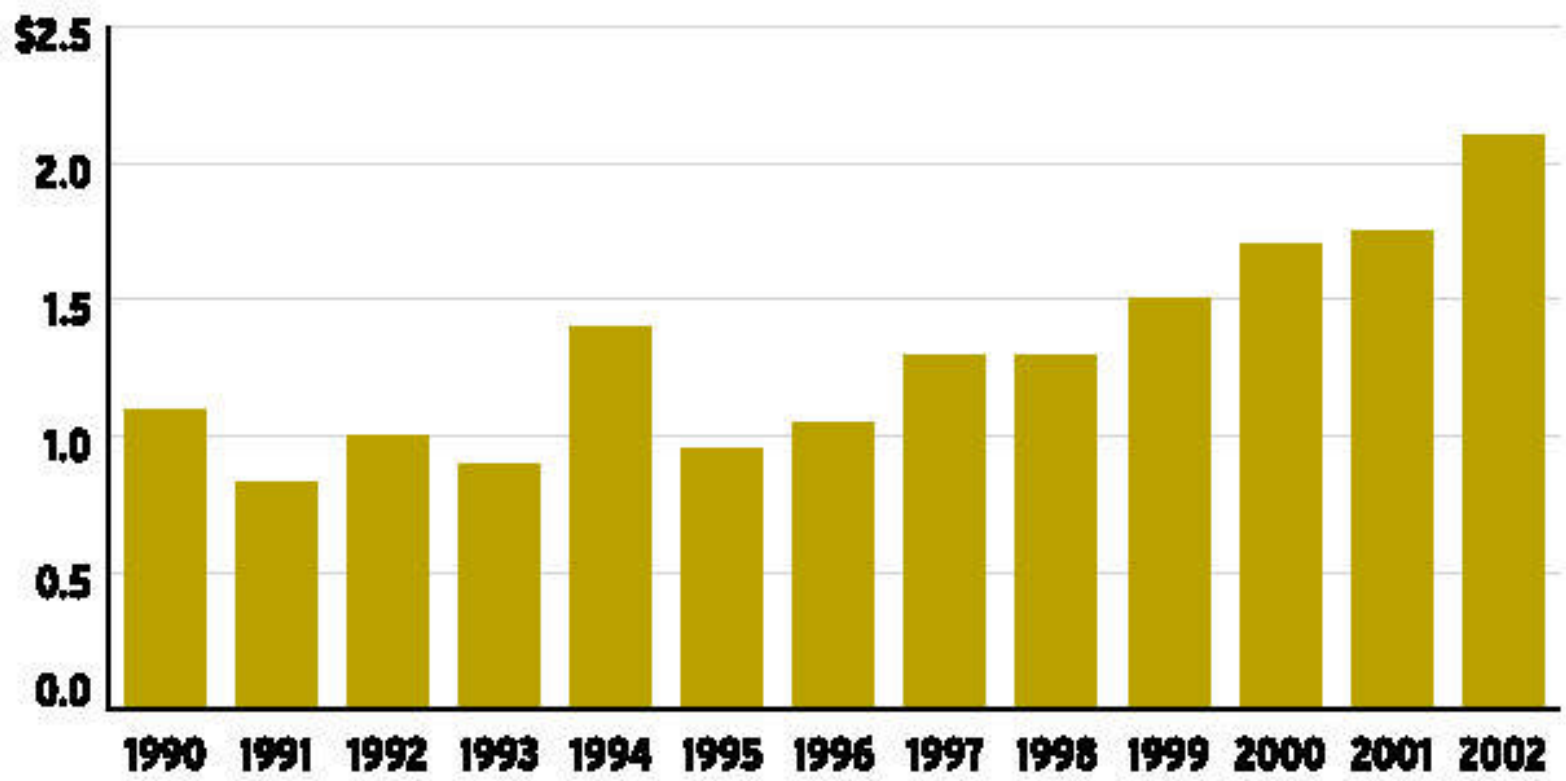
- Sales for music-generated licensed properties topped \$1.5 Billion in 2002 (Source: Billboard, 2003)
- Between 1996 and 2000, broadcast-related revenues in the U.S. grew at an average of 11% (Source: NMPA, 2002)
- Internet radio now has over 100 million listeners (Source: Reuters, 2003)
- U.S. Satellite radio subscribers growing at over 40% - currently at over 1,000,000 (Source: XM and Sirius, 2003)

➤ **The RECORD industry is suffering, but the MUSIC BUSINESS is booming!** * "It's not all file-sharing," said Andy Gershon, the president of V2 Records, home to the recording artists Moby and the White Stripes. "I do think that right now, the business is sick but music is great"

...and the concert and touring business is doing great...

CONCERTS FILL SEATS

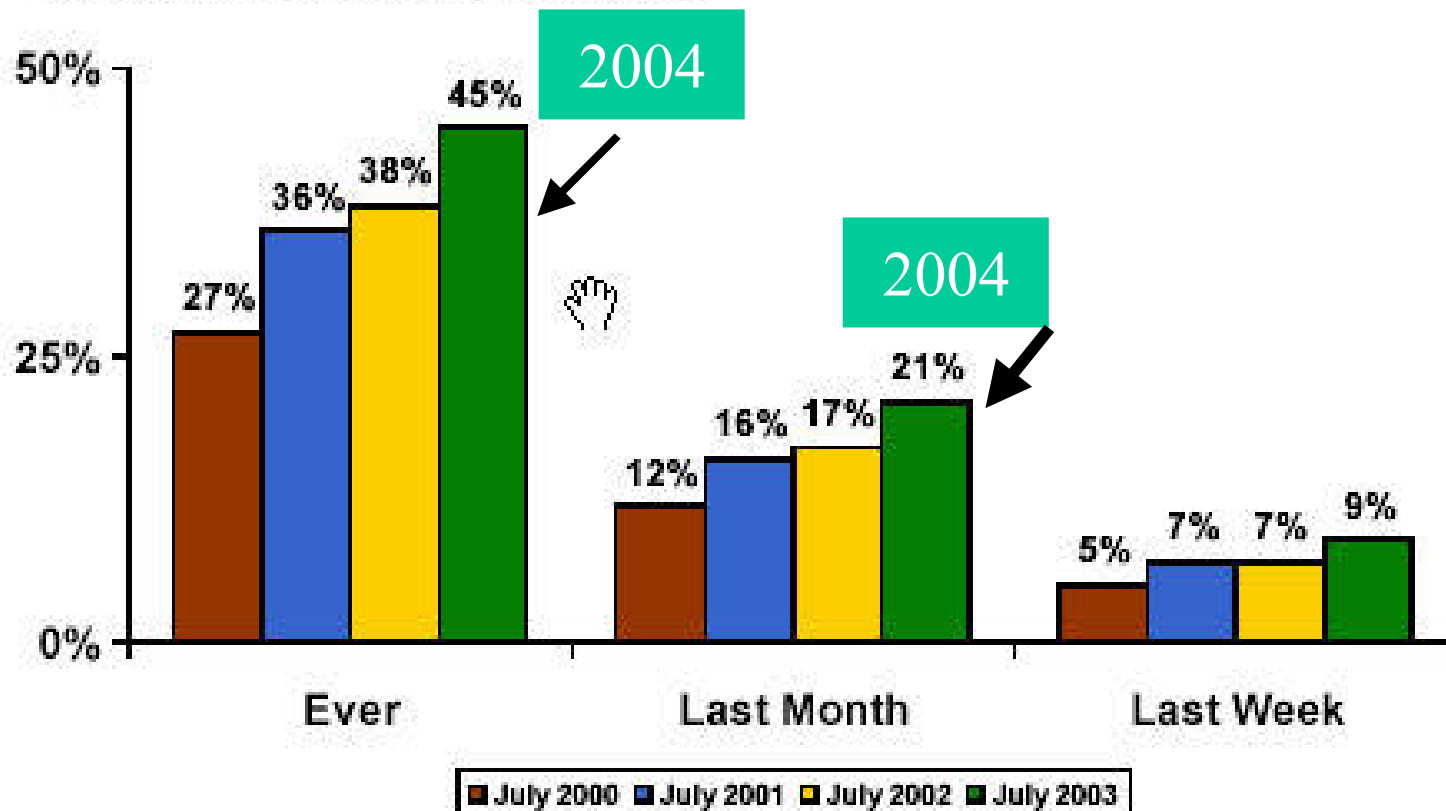
2002 concert ticket sales crack the \$2 billion threshold⁶



Other encouraging trends

Buying Online Becoming More of a Regular Habit

% Who Have Purchased Online...



Base: Total Population 12+

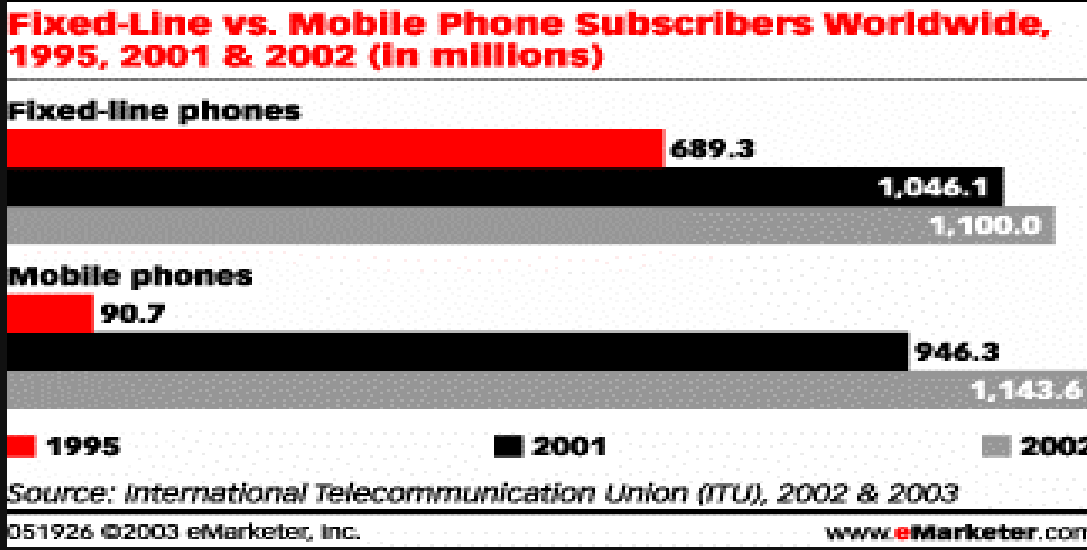


Mobile music is the perfect counterpart to Digital Music

Alex Slawsby (an analyst in IDC's Mobile Devices program):

The number of mobile phone users will approach 1.4 billion worldwide in 2004

- ▶ Already more cell phones than landlines!
- ▶ Wireless networks are 'build for business', from the start (unlike the Net)
- ▶ The cell phone is morphing into the central *mobile* entertainment device
- ▶ **Wireless carriers need 'content' to prosper**
- ▶ People actually pay – today!



The Internet Generation: Connected Lifestyles

Entertainment Medium US Kids Would Choose If They Could Only Have One, 2002 (as a % of respondents)

| | Children 8-17 | Boys 8-17 | Girls 8-17 |
|------------|---------------|-----------|------------|
| Internet | 33% | 38% | 28% |
| Television | 26% | 34% | 17% |
| Telephone | 21% | 12% | 31% |
| Radio | 15% | 12% | 17% |

Source: Knowledge Networks/Statistical Research, April 2002

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Percentage Spending Less Time with Media Due to Web Usage

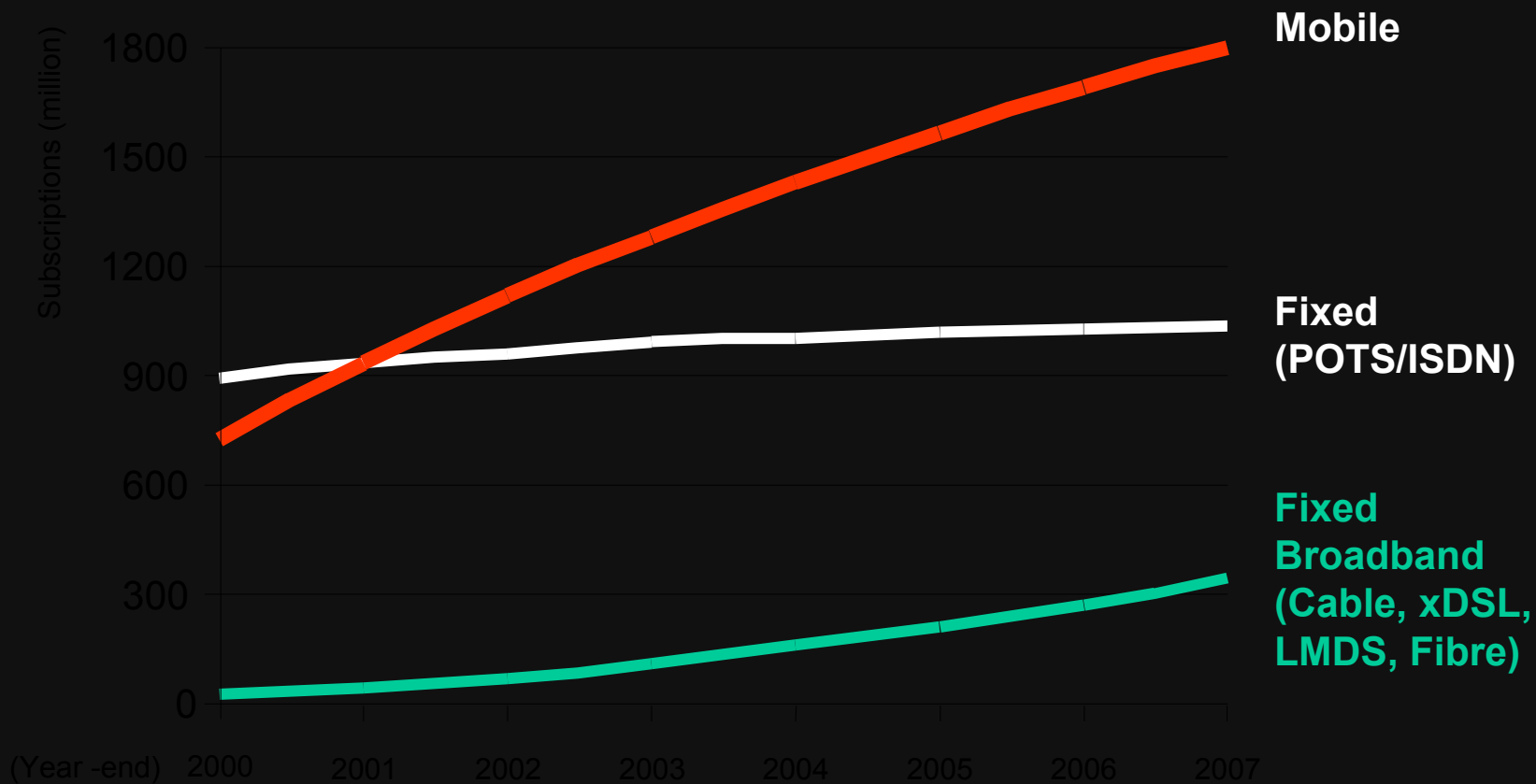
| | |
|-----------------------------|-----|
| Daily newspapers | 52% |
| Magazines | 60% |
| TV | 49% |
| Radio | 47% |
| Industry trade publications | 48% |

Source: Forbes.com and GartnerG2

Mobile is the next wave in Music

Mobile Subscriptions doubling to 1.8 Billion by 2007

Source: Erikson



The power of wireless

- ▶ "Wireless devices are mobile cash registers. They're **mobile extensions of your lifestyle**, and they're mobile extensions of your bank account." Michael Anderson, vice president of Market Development for ADC
- ▶ "**The phone will replace the wallet.**" Hee Min Kwon, executive vice president of Samsung's Digital Convergence Team
- ▶ "We think, based on what we see now in Europe and Asia, **that music, as well as gaming, are going to be two of the hottest things** that are going to be available on wireless devices when 3G technology gets rolled out." Ken Woo, AT&T Wireless director of corporate communications

Games & Music

PWC Predicts Double-Digit Growth For Games 2003-2007. **Spending on entertainment and media industry around the globe will surpass \$1.1 trillion in 2003, rising by 3.7 percent from its 2002 level....**

PWC singled out game industry as the fastest growing entertainment/media segment – outpacing Internet advertising and access spending. The firm thinks that games will be boosted on two fronts:

- 1. Online video gaming growth will be stimulated by increased broadband access**
- 2. The wireless market will surge due to availability of new game-capable cell phones.**

3 main reasons why CD sales have dropped:

- The CD replacement cycle is finally over (exaggerated expectations and bloated marketing schemes stem from 'the fat years')
- Stiff competition by other entertainment, media and communication offerings (cell phone, games, video, Internet, DVD, movies, concerts...)
- The price of music is too high - *if compared* to these other offerings



Music Megatrends: more money, less hassles



- ▶ General trend to “*Content Like Water*” (Music is first for ‘**Super-Distribution**’)



- ▶ Forget the ‘Internet’ – think ‘**Digital Content Networks**’: Net, Cell, WiFi, Digital TV, IM, P2P, E-Home...



- ▶ Collaborating, sharing, and getting recommendations is essential (once again)



- ▶
- ▶ The future of music is mobile and interactive



- ▶ Peer2Peer (P2P) is the ‘new radio’

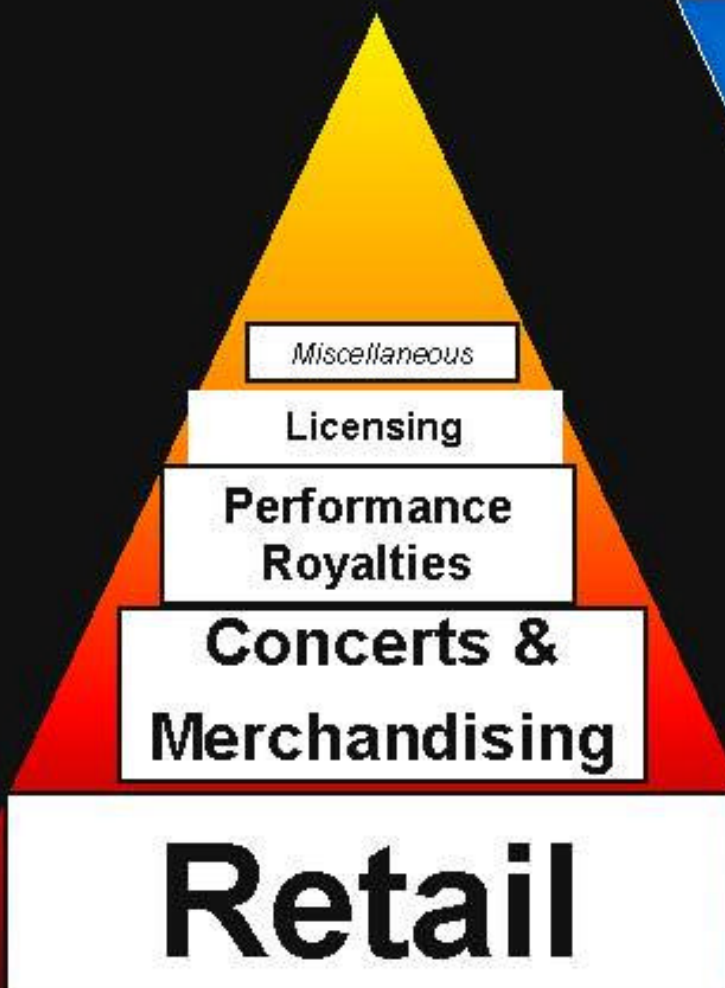


- ▶ Pricing schemes switch from ‘fixed’ to ‘liquid’

Revenue Streams: today and tomorrow

Revenue Streams in the Traditional Music Economy (~ \$ 75 Billion)

Revenue Streams in the "next gen" Music Economy (~ 150 Billion + ?)



How about retail?

- **No more 'records' - no more record stores.**
Instead: MUSIC stores: music and everything around it: digital download stations, custom CD / DVD stations, select fixed media products, music devices, music software, music agents, tickets, books, magazines, merchandising, advise and PEOPLE
- **Lifestyle Zones:** retail locations will likely focus on specific niches, and supply everything within that domain
- It's about SERVICE and TRUST, and everyone enjoys **real contact with real people**
- Retail will flourish, once again, if new concepts can be realized quickly



A basic marketing truth that is vastly accelerated in a Digital world
** if you're going to remember one thing from today – pick this!*

Exposure

+

Discovery

=

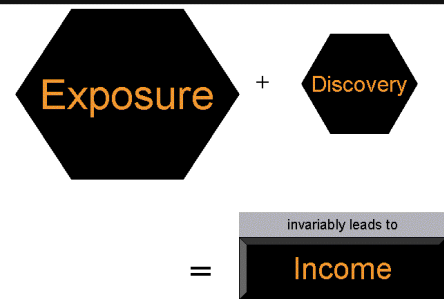
invariably leads to

Income

What does this mean for *your* career?

- Strive for exposure, and allow people to discover you
- Some discovery activities will have to be *free*
- Think about how you will position, and market *yourself*
- Get used to the constant quest for exposure
- It is already *assumed* that you have something good to offer – that is the basis for everything
- Exposure brings out *everything*
- *The rising tide floats all boats*

The consequences in the (digital) music business



- Getting people's attention is the top priority (*not* delivering the music, and *not* the issue of payments)
- For the user, the 'exposure and discovery' process must be very affordable, if not free
- **Viral marketing** is crucial (recommendation schemes, agent technologies, collaborative filtering, referral nets, community marketing...)
- Success can come and go very quickly, and 'bombing' can be even quicker – the timeframes are shrinking
- Digital Darwinism?

The future of MUSICIANS



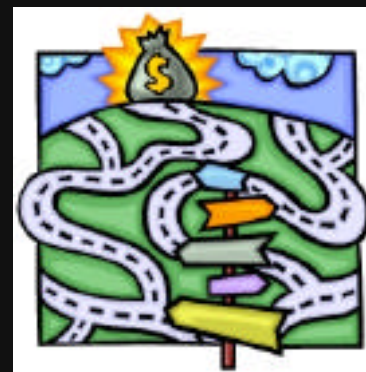
- ▶ Being a musician is no longer regarded as a dubious occupation (and nothing special, per se, either)
- ▶ Musicians can succeed in many other, *parallel* professions
- ▶ Digital recording and distribution empowers everyone (but creates global competition ;)
- ▶ Professional options multiply
- ▶ New skills are needed

So... where are your opportunities, today?

- A good song or a good band – still!
- Niche Niche Niche Niche Stuff
- Mobile Content & Wireless
- Interactive Entertainment
- Artist Management / Artist Services
- Publishing
- Technology / Music Overlap Zones
- 2nd Generation Music Companies
- New forms of retail

More opportunities !

- Anything that provides *music as a service*: audio branding, multimedia productions, rich media (flash), production music, sound-design, sound icons
- Anything that focuses on generating cash via a **multitude of small transactions** – rather than one or two big, life-time deals: Songwriting, Publishing, Royalties, Licensing – IP ownership
- Multi-skilled multimedia producing: film, video, computer, music...
- Boutique music marketing service providers that employ technology
- ‘Direct from the artist’-services
- Next generation artist agencies



Jobs that *may* fare well in the future

(Song)-Writer, Digital Media Production Wizard, Multi-Instrumentalist and Computer Music Specialist, Manager, Publisher, Artists' Marketing Director, Legal Expert, Adviser, Tech Wizard and Computer Expert, Licensing and Exploitation Manager, Syndication and Affiliate Manager, Thinker, Visionary, Trainer...

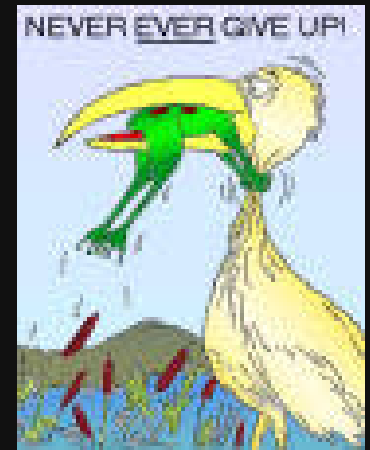
About 'Getting Screwed'



- Know and *really* understand how the business works
- Know your 'opponents' (Google!)
- Never sign ANYTHING without due diligence
- Always reserve the right to say 'no'
- Try to negotiate a win-win
- Still: do not let FEAR run your business

7 Survival Rules

- ☐ **Know:** Be informed & stay current, every day
- ☐ Practice 'lateral thinking', and never limit yourself
- ☐ Always have a 'dozen things in the oven'
- ☐ Build a vast career network – it's all about *people*
- ☐ **Go there** – personal contact is always better
- ☐ Know your strengths and your weaknesses
- ☐ Be confident and never **EVER** give up (except when you really should!)



Fear versus Desire (1): dead in the water



Fear

Desire

Fear versus Desire (2): ready to roll



About Marketing... Advertising... Promotion

If the circus is coming to town and you paint a sign saying, "Circus is coming to Fairgrounds Sunday," that's **Advertising**. If you put the sign on the back of an elephant and walk him through town, that's a **Promotion**. If the elephant walks through the Mayor's flower bed, that's **Publicity**. If you can get the Mayor to laugh about it, that's **Public Relations**. And, if you planned the whole thing, that's **Marketing!** –

Author Unknown

Albert Einstein

I am enough of an artist to draw freely upon my imagination.

Imagination is more important than knowledge.

Knowledge is limited. Imagination encircles the world.

What does it take?

The genius is the one who **plays most like himself.**

-- Thelonius Sphere Monk

Plans are only good intentions unless they immediately degenerate into **hard work**

--Peter Drucker

Courage is the power to let go of the familiar.

Raymond Lindquist