

Publishers



Gerd Leonhard

Music publishers are in a good position to make the best of the digital revolution, argue mobile entertainment guru Ralph Simon and media futurist Gerd Leonhard. *And many publishers agree.*

At the UK Music Publishers Association's AGM in London in July, members of the organisation were exposed to a simple message: "Adapt to, and make the best of the new digital environment, or else!"

Amid the usual business of an AGM, the MPA's management brought in two luminaries – industry veteran turned mobile entertainment expert Ralph Simon and self-titled media futurist Gerd Leonhard – to share their visions about the future of the music industry. Both echoed MPA chief executive Stephen Navin who claimed (almost as a mantra) during his opening speech that it was "a great time to be a publisher."

The vast majority of publishers have begun adjusting their business practices to the new digital paradigm, but both Simon and Leonhard insisted that more must be done, especially in foreseeing the changes to come. Both were equally buoyant about the future of music publishers who, in the new

ecosystem, are well positioned to harness their repertoire for a multitude of uses.

To give a sense of the revolution in the making, Leonhard presented some statistics, outlining the magnitude of the changes taking place:

- In the past 12 months, over 300 million people in the world joined online communities that use music.
- In 12 -18 months, digital broadcasting with 'drag-and-drop' TV and radio stations will be widely available.
- About 75,000 different devices can play MP3 files.
- In the next 12 months, high-capacity wireless devices such as the iPhone will be widely available.

games consoles can now access the internet.

Ralph Simon, chairman emeritus of the Mobile Entertainment Forum, concurs. "Mobile phones are now mini-PCs," he says, stating that the real convergence of media will occur in the mobile space, which boasts 3 billion mobile phone users compared to just 1 billion internet users.

User power

Leonhard claimed that consumers are running the show and their behaviour is evolving from an "ownership" model to an "access" model. "Wireless broadband is killing the 'selling copies' paradigm," he said. "Selling copies has become secondary – selling access comes first.

"New technologies always disrupt, but always make the market bigger," he continued, adding that one consequence of new technologies is that the web has become "a gigantic machine to copy content," which is one business aspect that publishers have been familiar with from the early days of sheet music. "The internet is a publishing machine," he declared.

Leonhard forecasted that in a few years from now, 75% of a music publisher's business will be located in emerging territories in SE Asia or Latin America, regions with a high rate of economic growth, a young population and a rapid mobile phone penetration. But, for the business to grow, it will have to morph from a

"The internet is a publishing machine."

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"The wireless broadband explosion will dwarf anything we have seen to date in terms of a user's activity with media," Leonhard warned the audience. This process will be sped up by the accelerating convergence between different devices: an iPhone has the capabilities of a computer, a PDA can be a music player, mobile phones play music, and video

What publishers say about the future...

JEREMY LASCELLES
CEO, Chrysalis Group

If you look at the sector, it's clear that recorded music is hurting, whereas music publishing is robust and has a healthier future because we can tap into so many different revenue streams. Our business started over 100 years ago selling published music. One century down the line, it's still a thriving business, because along the process we have added many new revenue streams, such as performance and synchronisation. Obviously, revenues from mechanicals are declining, but as long as we're able to grow in other areas, we'll have a healthy business.

NIGEL ELDERTON
Managing director, peermusic UK

The internet has been a sort of cultural revolution in the way we got our heads around licensing. Because we have always been in the business of licensing, we have been quick to license to the new players. The recent deal the Alliance made with YouTube is systematic of the way we license to new models. We only want to make sure it gets monitored and that we get remuneration out of it.

NICHOLAS RIDDLE
Managing director, Edition Peters
Vice-president, MPA UK

Anybody involved in music ought to be optimistic. Music probably pre-dates speech, and is a very important part of human expression. If music continues to exist then the question for us publishers is to figure out our role. We have to change and we have to go with the change. There is going to be a role for people who look after those who create the music. I see lots of opportunities for publishers. The fact that a technology can be misused is not a good reason for not using it. The internet forces commercial changes upon us, and like Gerd Leonhard, I believe we cannot base our future model on usage; it has to be on access. As publishers, we have to figure out what to do to contribute to the food chain.

FABRICE NATAF
Managing director, EMI Music
Publishing France

Our job is to continue to find ways to exploit music and keep our authors satisfied. I think of publishers as solution finders and problem solvers. We do not have direct access to markets to reach consumers, but our role is to think about the ways to get there. And for each track or for each author, there must be something that you can find and that can be done.

'unit sales' and '\$ per copy' model to new models. He warned against turning users into pirates and instead, invited the music community to "participate, not prevent" in order to benefit from potentially large revenue opportunities. But such active engagement requires a different mindset.

Leonhard urged the audience to become "digital natives" and start thinking and acting digitally. "The world is rapidly becoming a different place but most of the business rules and traditions of music publishing have not fundamentally changed," he said, explaining that with the rapid pace of change, rights owners must be flexible and able to adjust their business practices fast.

And as much as the marketplace is changing at speed, so too must publishers be able to offer a speedy solution. "Recorded music and publishing are merging in terms of licensing," Leonhard said. "Going forward, music rights must be marketed and licensed together." If not for ease for the



the potential to regain strength with the advent of new formats) in the mid- to long term, in synch with the decline in sales of physical goods. But it's not entirely negative news, as he foresees a rise in revenues from several business sectors: on-demand services; flat rates

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consumer, then because both users and service providers don't have the luxury of time.

Gazing into his crystal ball, he predicted a sharp drop in mechanical revenues (albeit with

revenue sharing; public, internet and live music performances; all types of synchronisation; background music; sheet music (in print or digital scores); lyrics services and ringtones.

Flatlining

Leonhard is a major proponent of flat rates applied to any service which gives consumers access to content, the proceeds of which can be shared among rights holders. "It is more about revenue sharing," he claimed. "The digital ecosystem is broken, so we must look at music as a service...free and flat rates [with users] could be a solution."

The concepts of music as a service, revenue sharing and revenues based on usage rather than acquisition are the way to the future, he claimed. But Leonhard admitted that success would only be possible if licensing is simplified – in particular by tearing up territorial deals –





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and if masters and publishing can be offered together to licensees.

So after adopting an entirely new collection system, joint licenses, a major philosophical shift and the burying of many hatchets, how did he foresee the revenue itself flowing back to publishers? He predicted that the sheer volume of content being used would lead to a boom of micro-transactions that will need to be monitored and monetised.

The irrepressible technological advances make it mandatory for all rights holders to license to all types of business models as fast as possible. Because of the ever-evolving nature of technology, business models are changing rapidly, so deals should be made by rights holders for the short term, and be flexible.

The risk, Leonhard believes, is that without proper licensing schemes, consumers will nevertheless continue to use music on a host of different devices and platforms, and with the 'use content and ask permission later' mentality of service providers, it's

up to rights owners to pre-empt these opportunities by licensing content, and fast! "The 'no' world of rights must become a 'yes' world," said Leonhard.

Collection plate

As much as publishers and labels must throw off their real-world trappings for a new 'digital native' existence, so the other end of the revenue chain needs adjusting: both the mandate and role of authors' societies needs redefining. According to Leonhard, however, technology will also be their saviour, transforming how societies monitor content, collect payment, and redistribute the monies.

Leonhard believes that the way to ensure all rights holders are remunerated is to set up collective



licenses for the digital consumption of music, close to the current radio license. The remuneration of rights holders will be based on the monitoring of the use of music. He takes the example of the UK where a flat

rate could be set at £1 per week per user, through mobile phone providers or ISPs. Such a levy would yield around £40million (£57m) per week or £1.92billion (£2.75b) a year, twice the current level of revenues from record sales. "The pot is going to grow," he asserts.

For such a swelling of coffers to occur, there are pre-requisites: a need for a concerted approach with record labels; open, transparent and aggressively

"The 'no' world of rights must become a 'yes' world."

Gerd Leonhard

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Mobile magic

In his presentation, Mobile Entertainment Forum America chairman emeritus Ralph Simon was similarly enthusiastic about the future of music publishing, stating in his preamble: "Are we racing to an uncertain future? No!

There are great, new mobile opportunities for music publishers and copyright holders."

In the same way that Leonhard asked the audience to become "digital natives", Simon declared it was time to "mobilise" the music and creative businesses. With the advent of wireless communication technologies, consumers are increasingly becoming 'nomads', wanting to access their content any time, anywhere. To adjust to these new 'nomadic' patterns, publishers need to change their licensing and exploitation processes and be open to new music models.

Backing up his comments, Simon cited a recent report into the spending habits of young European consumers from W2Forum which showed that "kids spend eight times more on their phones and phone bills than

they do on analogue music." According to the report, the average European would spend \$28,000 (€19,500) on communication in a lifetime.

In the US, total wireless data revenues were up 77% in 2006 to \$15.2b (€10.2b) with revenues from mobile games up 37%. Overall, there will be 2.87 billion mobile phones in the world by the end of 2007, with 230 million in the US alone. About 100 million subscribers are actively using wireless data.

Simon also made the case for the importance of 'cross-platform' thinking, with television, radio, print and the internet becoming mobile and accessible anywhere, especially with faster connectivity and bigger storage space in wireless devices. "Consumers prefer to control their media rather than be controlled," he said.

"There are great, new mobile opportunities for music publishers and copyright holders."

Ralph Simon



Ralph Simon

Content explosion

For Simon, the consumer's thirst for all things mobile provides new opportunities to the music community. The mobile experience can include podcasts, mobile sites, artists' photo galleries, video and audio streaming and downloads, not to mention access to lyrics and news content. "You need to build a mobile site for your artists," he stated.

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