

Gerd Leonhard, Music Entrepreneur & 'Music Futurist'
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The Future of Music & Media

Presentation for
Digital Entertainment & Digital Home Forum

Tel Aviv, Israel, May 18 2005
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Has the music industry been... run over?



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To clarify and put in perspective...



Content is King

* but...

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To clarify and put in perspective



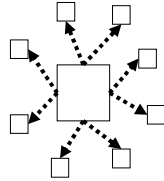
Content is King, Customer
is **King-Kong**, and
Service is **Godzilla**

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The big shift

(Adapted from slides by Kevin Werbach (SuperNova))

The Great Transition



Music Industry (top down)

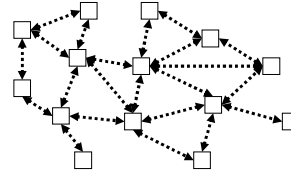
Scheduled Television

Media Publishing

Client-server applications

Circuit-switched telephony

Licensed cellular



Peer to peer (bottom-up)

Tivo

Weblogs

Web services

VOIP

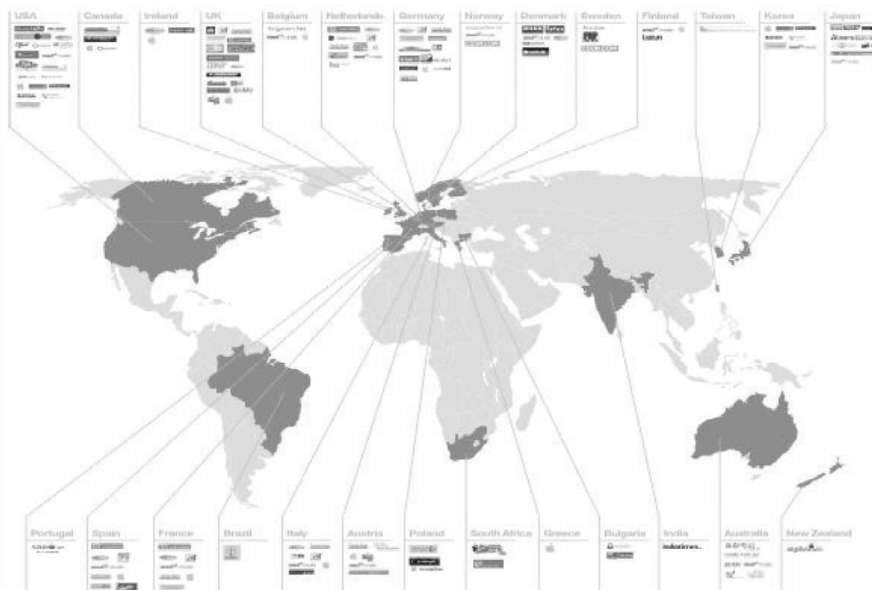
Unlicensed wireless

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THE FUTURE OF MUSIC

The explosion: 272 digital music services worldwide!

DIGITAL MUSIC SERVICES EXPAND INTERNATIONALLY



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THE FUTURE OF MUSIC

Mega-trends & contexts



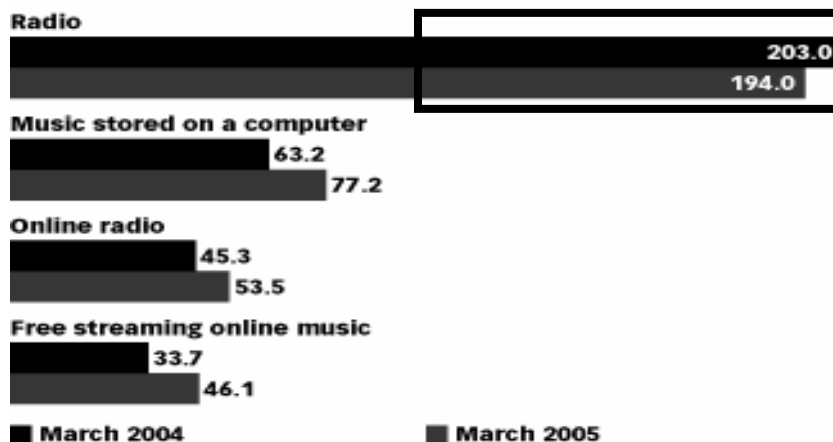
1. The on-demand media lifestyle is here
2. **The end of customer sacrifices is near (music !!)**
3. Everybody is short of time, and must make choices
4. The **end of browsing** is near (see Google morph)
5. In media, the traditional **scarcity principle of valuation** morphs into the **ubiquity paradigm**
6. Radio is *finally* unbound (by spectrum or schedule)
7. Consumers are starting to generate their own content
8. A mass of niche markets evolves (lowest common denominator concerns becomes irrelevant)
9. Time-shifting *and* space-shifting *and* device shifting become standard
10. Long-tail opportunities are everywhere (>Wired.com)

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For the first time, the Net + PC is beating RADIO!



US Consumers' Music Listening Practices, 2004 & 2005 (in millions)



Note: ages 13+
Source: NPD Group, May 2005

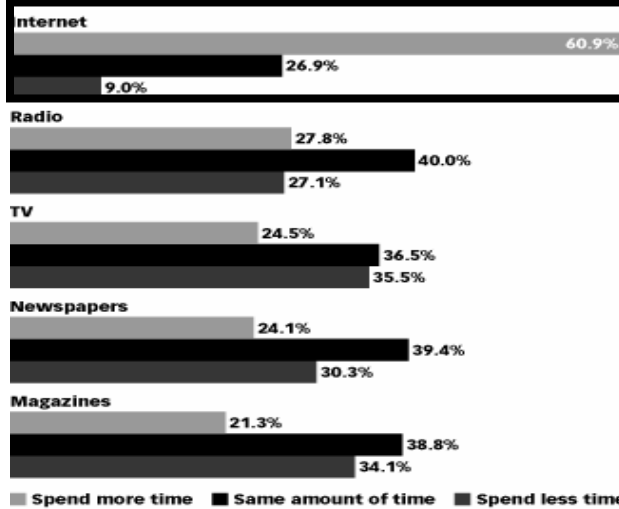
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and the Net **steals** the user's time from other media

Change in Consumption of Select Media among US Internet Users, April 2005 vs. April 2004 (as a % of respondents)



Note: n=2,616

Source: BURST! Media, May 2005

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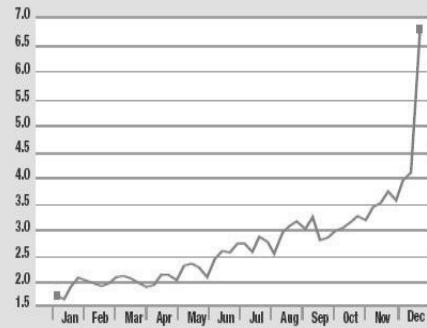
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Digital, HD & Satellite Radio Services are starting to enter the *music distribution* business - **Radio will take a piece of the next-generation music-retailing pie.**



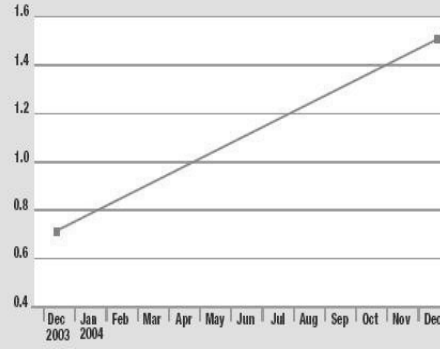
Finally, this is getting REAL

US DIGITAL WEEKLY SALES 2004 (MILLIONS)



Source: Nielsen SoundScan, single track downloads only (excluding album downloads and streams)

GROWTH IN US SUBSCRIBERS TO MUSIC SERVICES (MILLIONS)

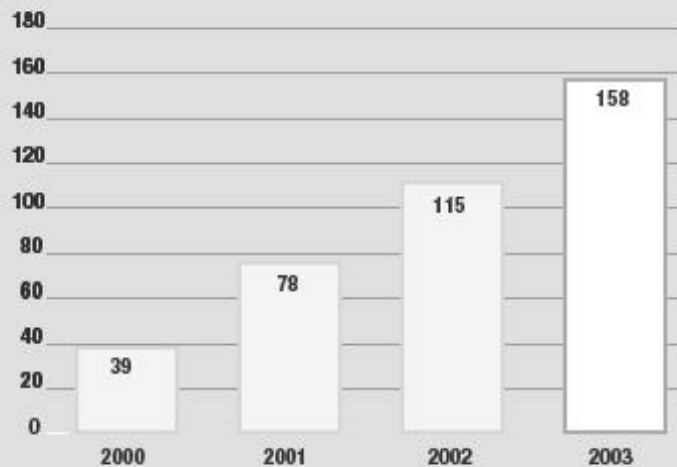


Source: Rhapsody, Napster, MusicNet, MusicMatch, eMusic (public announcements)

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Finally: MOBILE MUSIC

SOUTH KOREAN MOBILE MUSIC SALES (US\$ MILLIONS)



Source: Korean IT Industry Promotion Agency (figures include ringtones, ringtunes and full-track downloads)

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Some basic realizations

1. In less than 5 years, the entire population in most 'rich' countries will *always* be connected ('online'), anywhere, and with decent bandwidth
2. All content & entertainment will be available on this 'always on' network (legal or not)
3. The Music (& Entertainment) will live on THE NETWORK - not on / in your box - therefore the POWER IS IN THE NETWORK

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Disruptive technologies have *always* made the industry larger – and this time it will be no different

Disruptor

Incumbent

Radio < > Music Publishers

Piano Rolls < > Music Publishers

VHS Video < > Motion Picture Producers

Cable TV < > TV Networks

Xerox Machines < > Book Publishers

MP3 & Digital Music < > Music Industry

Filesharing / P2P < > Music Industry

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Buying music > Renting Music

- A monumental shift

Installed Base of MP3 Players in the US, 2004 & 2010 (in millions)

2004 16.2

2010 56.1

Source: JupiterResearch, April 2005

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Yahoo! Music Unlimited, Napster To Go, Real / Rhapsody, XM To Go, Podcasting...

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Buying music > Renting Music

- Consequences

- Prices drop dramatically
- Almost all users (re-) engage
- Bulk / Flat fee / blanket deals emerge
- Broadband explodes even faster
- ‚Sharing‘ is back

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A lot more *p2p* than p2p networks:

- Instant Messenger
- USB flash drives sharing
- Hard-Disc swapping
- Stream-Ripping / Transcoding
- Bluetoothing
- Social Networks
- Podcasting
- EMail (GMail >> external music drive)
- Skype version 3?



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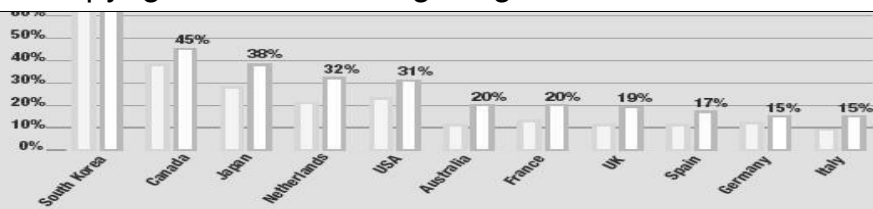
3 crucial Entertainment Trends

1. It won't matter *where* the content is – **access** is all that matters (eventually, access will out-do ownership) – **Music Like Water**
2. Browsing is OUT or becomes less feasible (way too much content!), so ***filtering, playlists and smart agents*** will be crucial
3. *Everyone* will have distribution

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Broadband: the consequences for Media

- ⇒ Everyone is connected, most of the time
- ⇒ Everyone is mobile *and* connected
- ⇒ Everyone interacts
- ⇒ Everyone has to make more choices
- ⇒ *Everyone has less time*
- ⇒ Price sensitivity increases
- ⇒ Copyright becomes Usage Right?



Source: Understanding & Solutions

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As the Music Industry switches from narrow-band to broad-band parameters it will EXPLODE

Narrow-band Music

Broad-band Music

Huge margins required <> Lower margins... larger #s
 Distribution *the* major hurdle <> Distribution a given fact
 Marketing top-down <> Marketing bottom-up (user!)
 Huge Marketing Costs <> Direct Marketing lowers costs
Fixed pricing <> **'Liquid' pricing**
 Niche markets hard to serve <> Niche markets are hot
 Catalog out of print <> Any catalog anytime anywhere
2 out of 10 buy music <> 9 out of 10 buy / USE music

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A Definition of the Long Tail



In a digital entertainment ecosystem it becomes feasible that the total, combined number of sales of the *less-popular products* actually surpasses the total # of sales of the top-level products, because

- ☯ There are no shelf-space issues
- ☯ Distribution is no longer a gate-keeping factor
- ☯ Every business can be global
- ☯ Lifestyle-Marketing and Viral Marketing become real options, at very low cost (see: Google ad-words)

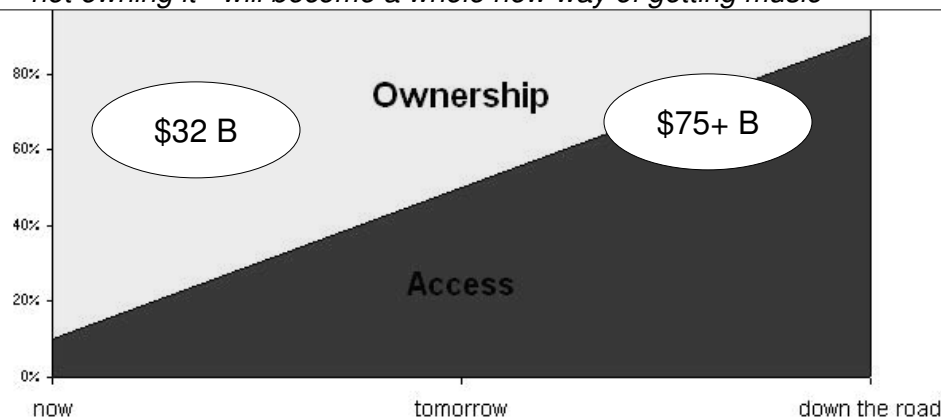
>> Read: *Wired.com* "The Long Tail" by Chris Anderson

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Soon 'having access' will be just as popular as 'owning', and the overall industry will grow to be much larger



The Music Market will grow largely because having ACCESS to music – not owning it - will become a whole new way of getting music



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Summary



- In Music, the Major Content Owners are finally moving forward, but it will still be 2 years before they *really* resign to reality and license everyone everywhere
- Films / TV and Games are less restricted
- Portability, Compatibility and Ease of Use is a crucial requirement for digital media devices
- SEARCH will drive a success in the media industries

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Summary: *some* ideas of where to invest in Content & Technology *ask me for others



- ▶ Recommendation, Collaborative Filtering, Playlisting, Agenting and 'Sharing' Technologies
- ▶ 'Next Generation Radio' (time-shifted / interactive)
- ▶ Music & Media Search Engines
- ▶ 'Social Music Networks'

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