



## **Music Like Water – the inevitable music ecosystem**

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<http://gerdleonhard.typepad.com>

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Gerd Leonhard is CEO of the advisory agency [www.thinkandlink.biz](http://www.thinkandlink.biz), and co-author of the book “The Future of Music” (Berklee Press), previews at <http://www.musicfuturist.com/27609.html> and [www.futureofmusicbook.com](http://www.futureofmusicbook.com)

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I strongly believe we are heading into a ‘music like water’ – future, based on this very simple fact: today, there are more people in more places around the globe that are tuning into music with more enthusiasm and sheer determination than ever before, and they are using a myriad of *their own* particular ways and means to get what they want. *And to a large degree the ‘traditional’ record industry is simply no longer invited to the party* - the bottom line is that consumer empowerment has finally reached the music business, and many consumers have now taken charge of their own entertainment.

Music fans (or, in Silicon Valley speak, ‘Users’) tune into online radio, buy satellite radio receivers, record terrestrial radio broadcasts onto their PCs, rip (copy) CDs checked out from libraries, swap tapes, vinyl records and CDs via the Internet, trade files on Instant Messenger, exchange entire hard-drives of music, firewire playlists to each other, trade loaded iPods, buy or create their own ringtones, transcode music streams provided by online radio stations, distribute or trade files on a multitude of P2P networks, topsites and darknets, edit samples and loops with free audio software tools, buy games and videos that feature their favourite music, tune into music shows on television and record it with their TiVo, and stream music to their cell phones. And all of this is just the tip of the iceberg – we could probably continue this list for the next couple of pages. **Music is BIG. Major. Crucial. Full stop!**

The trouble for the record industry - not for the music *publishers*, really - is these are *mostly non-traditional ways* of using and getting music (assuming there’s still a difference) and that the industry can’t control them nearly as well as CD sales could - in that glorious ‘top-down’ past - be controlled and monitored, therefore the entire system is starting to crumble. A system that is all based on total and relentless control, obscenely high margins, and an amount of customer passivity and user sacrifices that is unparalleled in any other industry. And things are getting worse, yet: technologists and entrepreneurs all over the world will continue to invent new ways to find, discover, share and consume music every other day. The cat, or rather, the MUSIC, is quite literally out of the bag, and – as my dear colleague and pho-master visionary Jim Griffin likes to say – nobody is going to succeed to put friction back in a frictionless world, much less make a strong business of it.

The only thing left to do is to *monetize the existing behaviour of the user / consumer / music fan* – and there are many ways to do that once we have accepted the fact that we have indeed morphed into a customer-driven, bottom-up world that renders many widely accepted ‘analogue’ paradigms and traditions instantly useless.

Now, once we go down that inevitable path we will quickly realize that actually metering the use of music on a *per-unit base*, as if we were still in the days of Colonel Parker and Elvis Presley, is simply becoming a 'mission impossible'. Notwithstanding the distinct possibility of precisely tracking what is actually used, and distributing exact royalties accordingly, there is no way we can continue to ask for fixed fees on a per-track basis, when it's no longer even clear what a copy, a download, a performance or a mechanical actually is – on digital networks, just about any performance creates copies, somewhere along the way, and every copy is being publicly performed somewhere (witness the latest discussions about 'timeshifting' music). This may sound a bit Orwellian, but it sure creates a significant transactional dilemma: a performance may be considered a copy that may be downloaded and that may be transferred to some people under certain rules....? Simply an unworkable Babylon of outmoded definitions, imho.

The argument reverberates in the latest definition of 'music purchasing' on the Napster-2-Go (U.S.) download service: the user can download as many tracks as desired, as long as the subscription is valid, and the tracks are not used outside of the Napster application and the computer it is installed on. Amazingly, and quite conclusively already tilting towards the Music-Like-Water model, these downloads are *not* considered purchases – at least not until I want to burn a CD with them, and therefore own them 'free and clear'. Clearly, we have already reached and crossed that border between performance and copy, between access and ownership, and pushed it further out to a more economically feasible and much more palatable place. Hats off to Napster for pushing the envelope (now try to monetize your brand ;)

But the bottom line is: the only way to monetize people's *actual* behaviour and underlying desires on digital networks is to give them a simple, no-brainer blanket deal, an all-in offer or a flat-fee bundle - without wanting to sound like EasyGroup's Stelios: make it EASY. Call it what you want, but the conclusion is that this is a subscription model not a 'pay per download' model: one payment has me covered, *but* in addition I have many opportunities to spend my cash on many other things. Call it levies, taxes, bundles, flat fees – that's all just a variation of the same subject. Music-Like-Water is where we are going, and up-selling additional services is the name of the game.

There's plenty of precedent here: we make automatic, habitual, seemingly 'thoughtless' yet fully accepted payments for water, gas and electricity bills, we pay for cable television, Internet access and wireless services; and here in Europe, we are paying a flat yearly fee for the use of any device (radios, TVs) that can receive public broadcasts. And most of us pay quite happily for our utilities and subscriptions! Imagine if you were asked for your ID and password every time you flushed the toilet at a public bathroom, or if your TV would measure and bill the numbers of hours that you spend in front of it, or charge you more if 10 people watched the hockey game rather than just you alone. Economically speaking, 99% of us *already* make these kinds of payments, all the time, and the pool of cash that's being generated is VAST.

Back to Europe: in Germany alone, approx. 80 Million people pay approx. 70 Euros per year for public radio and television – and this is compulsory by law, not optional -, so that's over half a BILLION Euros per year that's available to support the activities of the public broadcasters. But this is an extreme example, and one that would certainly not go over too well in the U.S., where such public levies are resoundingly despised (only to then face the constant barrage of mind-numbing ads that scream at you from every TV in every bar and airport lounge in America).

But I am digressing - consider this: a much lower monthly payment, say \$3, something akin to a 'content fee' imposed on some hardware or devices, and some services or transactions would get us there, just as well, and we would finally have a *feels-like-free* pass to do what many of us seem to already be doing, albeit with official blessings: enjoy our music where we want, when we want and how we want, without having to

worry about RIAA agents hunting me down, ad-ware loaded software on my PC, which DRM is used, which country I am in, which files in what format are actually complete and don't have viruses in them, which Operating System I use, which devices are compatible with which PC and which application, and on and on. Of course, that \$3 may end up being €3 in Europe, 3 GBP in the UK or, more importantly, the equivalent buying-power amount in other territories such as India, China, or Brazil.

If we don't go down this road, how could we possibly expect the music industry to be successful in the future, when at this very moment the customers have to practically kill themselves to give the industry their cash, *on the exceedingly narrow terms that are being enforced today?*

Once we can subscribe to music just like we subscribe to water, the music business will EXPLODE and we will enter a new ecosystem that will make the previous music industry look like NY taxicabs from the 30<sup>th</sup> floor of the BMG building. DRM will morph into CRM, copy control will become usage-control (file-tracking and monitoring), record labels will morph into 360-degree music companies, radio will down-(load)-cast, devices will truly plug-and-play, and yes, cell phones +music will likely kill the iPod.

There's only *one* thing: we MUST stop asking the consumers to fill up their bath tubs with Evian, or to use Pellegrino to boil pasta – they have already discovered the tap water! So let's just sell them tap water, via cheap flat fee deals, AND the Pellegrino, as well – and this does not equal a flat-out, whole-sale devaluation of music; quite the contrary. Ubiquity is a very powerful thing, and will create a nice pool of money for all involved parties – a pool which will only be the very first starting point for a much increased monetization of music.

Because here's another thing that will happen when the water/music flows freely: the up-selling opportunities will be huge, diverse, and multi-channel. We will have all the user data we could ever dream of having: opt-in profiles and lots of user feedback, usage patterns, program preferences, personal profiles, locations and access modes. Apart from the obvious concerns over data security and privacy (now there's another huge business opportunity!), this data will allow the content providers / rights holders to zero in on *one person at a time*, and offer relevant and timely upgrades to him / her, and maybe to place very unobtrusive and friendly product messages. Imagine listening to your digital radio station while you're driving, and seeing a message on the display informing you of an upcoming show of your favourite artist that just happens to be in a location that you will be travelling to. Simply push a button on the display, or send an SMS from your mobile phone, and within 10 seconds you have purchased a ticket for the show. Then, when you get to the show, you take up the venue management's offer to zap the entire evening's concert onto your memory stick on the way out, for less \$ than the cab ride back to the hotel. And on from there...

Once music is unleashed and we can stop the dinosaurial fight for the simple privilege of having access to it, *distribution ceases to be a barrier to entry*: all music all artists and all writers will be in those pipelines. Then, however, artists and their representatives will be facing the real challenge: getting anyone to pay attention to them, and surviving in this world of 'digital darwinism', since the old marketing mantra of Exposure + Discovery = Sales (Income) will be even more pronounced in a Music-Like-Water world. Ultimately, of course, people will consume, or shall we say, *use* more media (music) all the time, yes, but the real limiting factor is people's TIME. Simply put, all of the world's music (and its creators) will be competing for attention in this new ecosystem, and everyone will want a piece of *your* precious time. THAT will be the real challenge going forward: getting exposure and being discovered – the rest is already build into the pipeline. So, brave new music ecosystem – yes, but not a build-in goldmine.

Finally, here's my take on the big question of just WHEN will this come about: any business that is build based on the next 2-3 'interim window' that exists while we

morph from 'music like bottled wine' to 'music like water' will have to have (at least) 2 parallel strategies. One that works and makes money, *now*, and one that makes the real money when Music-Like-Water is a reality.

In other words:

*"The future is already here - it's just unevenly distributed."*

~ *William Gibson*

Gerd Leonhard January 8, 2005

[gleonhard@pobox.com](mailto:gleonhard@pobox.com)

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