

DIGITAL MUSIC FORUM EAST

From mass to niche product?

Larry Jaffee takes in the annual conference and finds the recorded music industry musing over why things aren't as good as they used to be

Apple Computer was the 800-lb gorilla conspicuous by its absence at the 11th Annual Digital Music Forum East, a recent one-day conference in New York. Even though none of its executives were on the programme, the manufacturer's name came up repeatedly (one speaker referenced "the fruit company"), as if anyone else playing in the digital music space really didn't matter. If history repeats itself, whatever Steve Jobs decides to do will be cool, and a catch-up game of follow-the-leader will ensue even if others are already toiling in cloud-based, music-locker services.

Kicking off the confab, Ned Sherman, CEO of event producer Digital Media Wire, asked his conference co-chair Ted Cohen about the likelihood of Apple launching an iTunes music subscription service in the near future. Cohen, principal with the Los Angeles-based consulting firm TAG Strategic, which he started after leaving EMI five years ago, responded that the Cupertino move was inevitable. "Everyone will wonder, why didn't anyone do this before?" quipped Cohen. He added that Rhapsody, which is celebrating its 10th anniversary of offering consumers all-you-can-eat for a monthly fee, will say, "I thought that was what we were doing."

Later in the conference, Brian McGarvey, Rhapsody vice president of business development, reported that his company currently has 750,000 subscribers. "Business is the best it ever has been," he added.

Cohen predicted that ad-supported Spotify, which provides instant access to unlimited music via a free service and also a paid subscription service, will replicate its European success in the US, where it reportedly plans to launch later this year once licensing deals are final.

Cohen opined that Spotify's IPO, valued at US\$1 billion, was a bit "heady." He was bullish on Pandora's plan to go public: "Pandora is playing in every dentist's office in America in the background."

Cohen pronounced, "CDs are dead. There is no reason to own any more where there are so many places to go to get it [for free]."

YouTube was acknowledged by several speakers to be the most popular way to listen to free, on-demand music, and they expected Facebook soon to debut a music feature.

Cohen cited Radiohead, unlike the major labels, as "getting it right" by offering consumers its new album at a low-entry digital level and a deluxe version.

Music subscriptions might be more palatable to consumers if bundled within a US\$150-\$200 cable bill, rather than a separate, monthly charge of \$15, Cohen speculated.

Only 5% of the internet population last year subscribed to a music service, reported NPD Entertainment president Russ Crupnick, who suggested the industry perhaps is doing too much for the consumer, such as disaggregating the product from albums to singles, offering free options, and removing digital rights management. "What have consumers done in return? They flipped us the bird."

According to NPD data, just five years ago, almost 70% of consumers in the US bought a CD or a download. That number is down to 50%, translating to a loss of 20 million buyers. "We know that the concert business and merchandise (eg t-shirts) are not making up for it," Crupnick offered, surmising that some of the money that would have been spent on CDs was redirected to videogames. A rare bright spot for the physical disc in an otherwise sobering report was Crupnick's figure that 55% of music buyers only bought CDs, thus suggesting that some consumers will resist digital delivery as long as they can.

Not only are fewer people buying, but the amount they're spending is also down 40% in five years and 14% of buyers now account for 56% of revenue. "Even the uber-fan is spending less money. Music has gone from something that was very mass market when I was a kid to something that's increasingly a niche product."

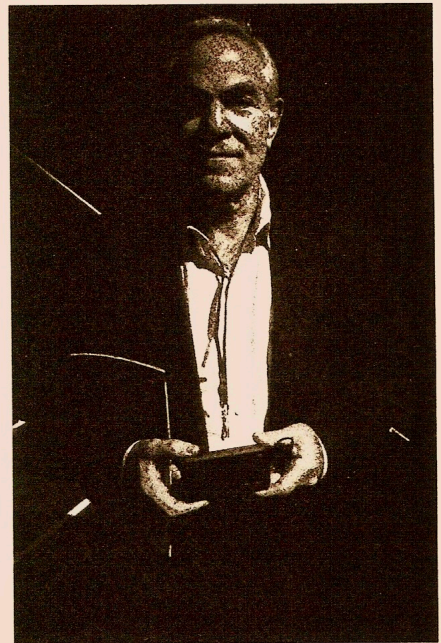
David Bakula, Nielsen/SoundScan senior vice president of analytics, noted that in 2002, 92% of paid transactions were CDs but only 15.7% last year when 80% of music purchases were individual digital tracks. "As physical retail space and SKU depth shrinks, there's no place to get [back catalogue] titles," he said. Even when someone like Bob Seger gets an online buzz because of a song placed in a TV commercial, only the greatest hits album gets downloaded because his other albums aren't available in any form, he added.

"We trained consumers not to pay for music," said Consumer Electronics Association president & CEO Gary Shapiro. He said technology has led to innovation, the theme of his new book, *The Comeback*, adding that in his opinion "downloading, remixing something and sharing it is not piracy".

Later in the day, a spirited discussion among lawyers debated whether it was the 'music industry' (including touring) or the 'record industry' that has been "decimated" in recent years.

Other recurring themes of the proceedings were:

- the difficulty of monetizing social media buzz
- the major labels are still stumbling in regard to digital music



Conference co-chair Ted Cohen declared "CDs are dead."

- the majors have never really recovered from being asleep at the wheel over a decade ago, allowing Napster and file-sharers to run wild
- suing consumers was not a particularly good strategy
- despite majors/RIAA victories over Grokster and Limewire, digital music start-ups are still testing the bounds of Fair Use
- bands have more tools than ever before to directly reach fans
- besides Pandora and YouTube, awareness of other digital music services is lacking

To the latter point, among new locker, streaming and/or subscription services represented during conference sessions included: Beyond Oblivion, VEVO, MOC, Mspot, 7digital, Rdio, Desi Hits!, dotMusic, and hitlantis.com.

David Pakman, partner with venture capital firm Venrock, said private investment money is coming back to digital music start-ups after a few years of caution. "The lesson learned from Napster is that [consumers] want to share music and they want music for free," he said.

Despite being portrayed as "the maniacal leader of a satanic cult" of currently 25 million active daily users with an average time spent of five hours, BitTorrent CEO Eric Klinker pointed out this his company's file-sharing platform recently facilitated 500,000 free downloads for an unsigned band. "We went gold, I guess," he joked, getting laughs.

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