

The Canadian Independent Music Industry An Examination of Distribution and Access

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Table of Contents

BACKGROUND.....	3
FOREWORD.....	4
1. THE INDUSTRY	5
HOW WE GOT TO WHERE WE ARE	5
Distributors and Retailers.....	5
The CD Explosion.....	6
The One-Two Punch	7
<i>The Internet</i>	7
<i>The Wal-Mart Effect</i>	8
Price Cuts.....	8
The Changes in What Was Being Sold.....	9
2. THE DIGITAL WORLD AND TECHNOLOGY	10
Early Developments	10
Piracy and P2P	10
<i>Piracy</i>	10
<i>P2P</i>	11
3. THE FUTURE BEYOND TOMORROW.....	13
The CD Distribution Reality	13
Servicing the Clients	13
Competing with the Client	14
Specialized Retailers – Lifelines and More Threats	15
<i>DVDs</i>	15
<i>Gaming</i>	15
<i>Paying the Rent</i>	15
Downloads.....	16
<i>Digitizing</i>	17
<i>The Future of Downloads</i>	18
<i>If Not Downloads</i>	18
The Prevailing View.....	18
Who Is the Customer?.....	19
<i>The Net Generation</i>	19
<i>The Adult Market</i>	20
Diversity	20
4. BEYOND PHYSICAL	21
The Production of Music.....	21
HOW WILL THE MUSIC BE DELIVERED?	21
Hardware	23
Interoperability	23
HOW WILL THE MUSIC BE FOUND?	24
The Artist Site.....	24
Referencing and Recommendation	25
Video Games	25
HOW WILL MUSIC BE MONETIZED?.....	26
Subscription and Utility Models	27
<i>The Subscription Model</i>	27
<i>The Utility Model</i>	28

<i>Advantages</i>	28
Rights and Licenses	29
Cell Phones, Ringtones, Callback Tones, Truetones	29
WHAT NEEDS TO BE DONE?.....	30
WHO WILL DO WHAT?.....	30
Artists.....	31
Managers	31
Labels	32
Publishers.....	32
Global Licensing	33
Aggregators.....	33
The Blurring of Roles.....	33
HOW WILL MUSIC REVENUES BE REALIZED AND DISTRIBUTED?.....	34
Compensation	34
<i>Traditional Revenues and Models</i>	34
<i>Evolving and Future Revenues and Models</i>	34
What Are The Needs?.....	35
5. CHALLENGES FOR POLICY AND FUNDING	36
Publishing and Licensing	36
Global Licensing	36
Technology	37
<i>Non-Compatibility</i>	37
<i>Digitizing</i>	37
Physical Distributors.....	38
Diversity	39
Digital Download Services	40
6. FUNDING	41
Infrastructure & Marketing	41
The Question of What.....	41
The Question of Whom	42
LOOKING AHEAD	44
Bibliography	45
Methodology	46

BACKGROUND

Music distribution is particularly impacted by digital technology that is changing the way cultural content is created, produced, distributed and consumed.

Technology has brought an increased diversity of music platforms, the entry of new players not traditionally involved in music distribution and new opportunities for consumers to access music. It is also pointing the way to portability. As online and mobile channels converge (as they seem to be doing), portability will likely become an important driver of the development of future music distribution models. As a result, traditional models of music distribution are no longer the panacea. This being said, the digital music business environment continues to involve traditional industry players.

There is a belief that without a strong and viable Canadian independent music distribution industry, Canadian music would not get promoted and made accessible to Canadians in meaningful ways.

This examination will attempt to track the future and identify the probable scenarios that will unfold in the short to medium term as they relate to the distribution and access of Canadian content.

The world is now the market – technology has made it so. Any examination of the Canadian dynamic and experience needs to be placed within the global reality.

Traditional roles and responsibilities are also changing. The need to consider the future for distribution and access requires consideration of these changes. The path for the future will be based more on what will be done than by whom. Results will count – not only for reason of strategy and planning but, more importantly, for survival and growth.

In preparing this report, one thing became obvious – the speed with which technological developments and changes are occurring render some previously held assumptions obsolete within a very short period time. Some observations and avenues that seemed probable at the beginning of the process needed to be substantially modified and sometimes discarded while the report was being prepared.

With this caveat, then, this report should be considered as an attempt to see the future at the moment in time in which it was conceived. Technology, business model developments and changing consumption patterns will certainly continue to impact current and future dynamics of the global music industry with such frequency that vigilance will be the order of the day to keep pace with the shifting needs and models outlined in this examination.

FOREWORD

I'm sitting and reading on our deck with music drifting out into the summer air – music flowing from our trusty portable system. My latest cell phone hangs on my belt, its MP3 capacity still somewhat of a mystery to me, but not the ringtones and truetones that I bought and paid for, announcing the identification of my preferred callers.

My daughter's iPod lies somewhere inside, loaded with all of her favourite music, none pirated, some transferred from our collection, the rest bought from iTunes, 24/7. Her latest technology challenge is her GameBoy Lite, music cheerfully accompanying the adventures of her new-found action friends.

Lest I forget, there's also our DVD and VHS collection (background music anyone?) and our satellite television system – including, naturally, the Galaxie channels....

So there you have it – music is everywhere – in more forms on more platforms than ever before, and the future...is..?

It's often been said that music is the wallpaper of our lives. Truthfully, all of us can easily call up music that relates to specific events in our lives – the song that was playing when we met our significant other, the music from that beach holiday that made us crazy because it seemed lodged permanently in our brains, the songs that make us cry, the songs that we love, the songs that we hate...

The crisis that we read about is perplexing – with all this music in our lives, how could the industry be in such trouble? Or is it?

*"Music is a combination of entertainment, communication, and passion, an ephemeral occurrence, something intangible, and something that is experienced in everyday life. Music today is proliferating and expanding at an unprecedented rate. Music-making is a global phenomenon, and there is more of it being made than ever before. There are more bands, more writers, more songs, more CDs, more shows and more awareness of all of it."*¹

*"The key to a healthy new music business is understanding that unlike the old days when 100 percent of the revenues were derived from selling "content", selling just the music/content in the future is unlikely to contribute more than 50 percent to the bottom line. The rest will be accomplished via advertising, sponsorships, and sales of associated products and services."*²

*"Music production facilities are increasingly affordable, small and mid-size marketing companies offer their services directly to artists, distribution options have grown by leaps and bounds, and managers and agents are taking more proactive roles."*³

1. THE INDUSTRY

Throughout this report it is important to remember that we are looking at the music business, which according to most accounts is doing very well, as opposed to the CD and record business, which is not.

Some points to consider:

Globally, the music industry rings in at \$75 billion in revenues, approximately 10% of the total global entertainment economy of over \$1 trillion, music publishing alone is estimated to be a \$12 billion annual business and record companies reportedly make nearly \$2 billion annually in "specialized products" such as give-away CD sets, branded packaging and B2B licensing activities.⁴

Indie companies are considered to be more vital today than ever before – references throughout this examination will help to explain why. Although accurate Canadian figures are not available, at the present time, there are over 10,000 indie labels operating in the United States⁵ – and our reality is at least proportionate.

HOW WE GOT TO WHERE WE ARE

Distributors and Retailers

In the beginning, there were no music distributors – at least not in the way we have come to understand them over the last 50 years.

¹ David Kusek and Gerd Leonhard, *The Future of Music*, Boston, p. 37.

² *Ibid.*, p. 93.

³ *Ibid.*, p. 22.

⁴ *Ibid.*, p. 21.

⁵ *Ibid.*, p. 111.

Radio drove the hits and we bought our music traditionally in one of two types of environments – a specialized retailer, usually occupying very little square footage, equipped with the earliest form of listening posts (enclosed listening booths, often no bigger than a broom closet, equipped with a turntable) or mass market stores like Woolworth's, Kresge's, Miracle Mart and Eaton's.

Distribution until the mid 1950s was a curious mixture of ingenuity and laziness. Records were sold, mainly to mass-merchants, by general sales agents who were just as likely to be simultaneously selling flannel shirts and kitchenware as they were the latest radio hit.

At a magic moment in time, Columbia Records in the United States took matters into their own hands and launched their own distribution centres manned by their own distribution and sales staff. Although greeted with scepticism and derision by many in the industry, this, of course, became the prevailing model and soon enough, every major label became its own distributor.

Genre-specific and speciality distributors filled the voids created by opportunity and left unfilled by the pop-driven major distributors. In Canada, distributors like Justin Time, Festival, Trans-Canada, and Select grew to prominence.

Roughly at the same time, specialized retailers took on a more dominant role. In Canada, chains such as Sam the Record Man, Sherman's, A&A Records, Music World and Discus grew through a combination of franchises and corporate offerings. In Quebec, these developments were matched with the parallel emergence of Archambault, who took a dominant position in selected markets, and the development of chains like Polysons, as well as smaller strength players like Opus and Musique D'Auteuil (later absorbed by Archambault).

By working hand-in-hand, this combination of destination retailers and dedicated content distributors became the prevailing model in the sale of recorded music for years to come.

In the 1960s as the industry grew, the major distributors were not particularly interested in dealing with two segments of the distribution chain: the multitude of small independent retailers scattered across the country, and the mass merchants who had very specific needs and required intensive support and attention. These segments gave rise to the creation of the one-stops that essentially bridged the distributors and those retailers.

Two-tiered pricing was instituted – a base price paid by accounts who were serviced directly by the distributors and a sub-distributor price which was paid by the one stop who marked the product up to the base price when reselling the product. The one-stops or sub-distributors handled the credit, the advertising and promotion, the order taking, the returns, etc. in return for their percentage of the suggested retail price.

The CD Explosion

Although revenues for the music industry enjoyed growth through much of the 60s and the 70s with new music and new music forms being driven by the Baby Boomer generation's seemingly insatiable appetite for music, storm clouds started gathering in the early 80s but the potential crisis in revenues and sales for the music industry was averted by the introduction of the CD.

What followed was more than a decade of financial results driven by the public replacing their vinyl/cassette collections on CD. Eventually this cycle would come to an end, but the industry did not show any sign of recognizing that business would not continue as it had, based on the revenue experience of the 80s and 90s which had been driven by replacement.

The One-Two Punch

So much has been written of what happened next that is almost not worth repeating other than to provide a quick context – the Internet arrived and Wal-Mart came to town.

Perhaps blinded by the euphoric sales and revenues fuelled by the CD replacement phenomenon, the music industry probably underestimated the impact of these significant events on its business model and, ultimately, on its future.

The Internet

While the industry had coasted on replacement sales for the better part of two decades, what they failed to take into account was the sound of disgruntled customers.

How many fans looked at their CD collections and thought – I paid \$18, for one or two great songs and a lot of filler? That can happen once, but when you look at the yardage of CDs on the shelf and you feel pretty much the same way about much of your collection, trouble is brewing.

In Canada, the industry decided to make matters worse.

During this crucial period, a music fan could go into Virgin Megastore on the Champs Elysée, or HMV in Oxford Circus, or Tower Records in New York and lose himself in a CD single section that ran for aisles and aisles, often exceeding 5,000 square feet, offering thousands of single titles. What the industry was doing was trying to respond to some of the criticisms and reply to the fans who were willing to buy the song but not the album.

In Canada, the industry decided otherwise – no singles for us.

This didn't sit well with Canadian consumers especially when they could see, feel, and listen to the singles in other countries and read about them in popular publications.

Stands to reason, these fans, fuelled by being denied what they wanted **WHEN IT EXISTED ELSEWHERE**, would find a way to get what they want – and so they did – enter Kazaa, Morpheus and Napster.

Although file sharing and P2P applications satisfied many, for those fans who still wanted to buy the physical CD, new opportunities arose with the growth of web based virtual retailers, spearheaded by Amazon. Here was an opportunity for the busy, harried, multitudes to shop 24/7 at "retailers" who were rarely "out-of-stock".

Virtual stores quickly added additional competitive features and services to their sites, providing services such as reference materials and reviews to enhance the shopping experience. While never commanding a dominant position, these retailers gradually began eroding some of the brick and mortar retailers' business.

The Wal-Mart Effect

Everyone knew that Wal-Mart would transform retailing in Canada – not just for music, but literally for everything from bedding to toys to clothing.

Wal-Mart and their close cousins such as Costco and Future Shop became destination retailers of music for a limited selection of titles (and genres) but in significant quantities.

Distributors faced with declining sales with their traditional clients were quick to adapt to the new kids in town and embraced the opportunity to develop new retail partners.

Although actual numbers for comparison in Canada are not available, participants in this examination believe that it is realistic to assume that in the late 80s dedicated music retailers accounted for 75% of the total revenue generated from the sales of recorded product while today, it is probably less than 50% - the balance being held by the Big Boxes.⁶

With this shift, record company strategies found themselves no longer aligned with the strategies of their principal distribution partners as they had been in the past.

“While Wal-Mart represents twenty percent of major-label music sales, music only represents about 2 percent of Wal-Mart’s total sales.”⁷

Traditional retailers who were used to working on margins in the 35% range were now faced with a huge predicament. Their volume sales, representing $\pm 80\%$ of their gross sales and driven by Top 100 titles, were being sold for cost or less by the Big Box players as loss leaders. Unlike many other goods, CDs are the same regardless of where you buy them – the only comparison to be made being price. Given the choice of buying the new Top 10 CD at a music retailer for \$16.99 or \$11.99 from Wal-Mart – well, the obvious happened.

Some retailers tried to play the price-match game – with disastrous results.

For many customers, the lure of lower prices for the identical product could not be offset by the offering of greater selection or more knowledgeable service that the specialized retailers were in a position to offer. How does a specialty retailer who basically sells that one product effectively compete with players that use the product as a loss leader and for whom the sales represent a negligible amount of their total volume?

For specialized retailers, the worst was yet to come.

Price Cuts

The revenue per item for whatever they continued to sell would be whittled away by price pressure from the Big Boxes but the negative effect would be compounded by price cuts instituted by the multinational distributors.

⁶According to The Register, in 1998 45% of sales came from record stores, 38% from other retailers and 8% from music clubs. By 2003, only 33% of sales came from record stores, 54% from retailers and 4% from music clubs. Ashlee Vance, *Music sales rise despite RIAA’s best efforts*, October 21, 2004, www.theregister.com, accessed August 2006.

⁷ Warren Cohen, *Wal-Mart Wants \$10 CDs*, www.rollingstone.com, accessed August 2006.

As an illustration, in 2003 Universal cut its prices to its clients, accompanied with much fanfare touting that the move was intended to making music more appealing and accessible to the public. The first problem was that the price cut tended to float at the retail price point of the Big Boxes – no relief here for the specialized retailer.

A secondary effect was the reduction in total gross revenues that an across-the-board cut in suggested retail pricing would impose. There was speculation that the drop would fuel increased purchases by the music fan but, by all accounts, this did not materialize.

To offset some of their lost revenue, Universal concurrently announced major reductions in or elimination of direct promotional support funds paid to retailers for advertising or positioning within the stores.

For many retailers, the impact was doubly devastating. On one hand, they were going to have to continue to compete with the Big Boxes and retail below their cost. On the other hand, for many if not all of the retailers, the advertising and placement funds were important revenue producers and the impact on their profitability should not be underestimated. An additional side effect was that the advertising and promotion funds were often used by the retailers to not only drive sales but, more importantly, to advertise and promote their own brand and locations.

By all accounts, the magical 35% gross margin that retail lived on for so long is now hovering in the mid 20% range. Given the labour and occupation costs, the picture is far from rosy for continuing to retail music through speciality retailers.

The Changes in What Was Being Sold

The profile of what was being sold was also changing.

While speciality retailers carried inventories of 2,000 – 10,000 titles in their larger stores, Big Box stores carried fewer selections, focussing on the 200 titles that represented the bulk of music sold. The result of the shift in market share to the Big Boxes has reduced the variety of titles available not only in the Big Boxes but, because of the changed economic model due to the loss of volume sales, in the specialized retailers as well.

Summarizing the situation then – in today's world of physical sales, fully half of the retail volume is accounted for in destinations that carry limited inventory and where inventory selection does exist, it is in the aisles of retailers who are struggling to survive.

With time, as more and more specialized retailers either disappear or scale back on their operations, the scenario for choice at brick and mortar retail will probably worsen.

The specialized retailers who continue selling music today often have relegated music to a secondary position within their stores as a matter of survival. Prime retailing and display space is given over to DVDs and Gaming – the Hail Mary pass for those retailers – at least for now.

2. THE DIGITAL WORLD AND TECHNOLOGY

Early Developments

Looking at these developments, it is pretty easy to understand the growing acceptance of technological driven acquisition by music fans.

For many, the impossibility of finding the selection they were looking for in the format they wanted pushed them to legitimate digital download purchase sites. For many others – they went to the dark side – but that's a subject for further review.

Add to the motivators for this migration the ability to buy a song, instead of the album bundle and the ability to acquire music 24/7 without leaving the comforts of home and we find even more compelling reasons as to why this shift has happened.

What we need to understand, then, is what is the role of distribution in the current model – the one which sees declining sales of hard goods, especially through conventional outlets, the increasing volume of acquisition not only of singles and full albums of downloads, but also a wide spectrum of music driven products – ringtones, truetones, callback tones, concerts, merchandise, derivative products and on and on.

Piracy and P2P

These words strike terror in the minds and hearts of the traditional industry gatekeepers as well as many influential stakeholders.

There are those in the music industry, however, who have different takes on these issues and while not always openly endorsing the current situation (some do), they recognize that the genie will not go back in the bottle and that:

The challenge is to legitimize and monetize the conduct.

As an illustration of the divisive nature of the debate consider that:

“New research in 2004 from the Pew Internet Project shows that 60% of the musicians/songwriters that they surveyed do not believe that the RIAA’s lawsuits will benefit artists or songwriters....In addition, 83% of the musicians surveyed have provided free samples of their work online and a significant number say free downloading has helped them sell CDs and increase attendance at concerts.”⁸

Piracy

Piracy, to one extent or another, has always existed in music. Taping or burning songs off the radio or from friends’ collections was a time honoured tradition and viewed as a rite of passage for many into the joys of music. The point has been made that the sheer volume of piracy today is what differentiates it from the past – this is probably true.

It is important to remember a few things here – one is that the drive to piracy for many was initiated because the customers could not find what they wanted.

⁸ Kusek and Leonhard, *Future of Music*, p. 95.

The second point is that this piracy is probably not going to go away.

Discussions about piracy invariably include references to DRM, defined as:

*"Digital Rights Management covers the description, identification, trading, protection, monitoring and tracking of all forms of rights usage over both tangible and intangible assets including management of rights holders."*⁹

and

*"DRM refers to the administration of rights in a digital environment. DRM solutions may use technologies to protect files from unauthorized use, as well as manage the financial transaction processing, while ensuring that rights holders are compensated for the use of their intellectual property"*¹⁰

(It is instructive to remember that DRM refers to the digital management of rights and NOT the management of digital rights – a fine but important distinction).

For all the talk about DRMs and what they mean, the use of DRMs to prevent piracy is a non-starter for many observers, particularly because most DRMs have been hacked already and those that haven't will soon be. (The wiseGEEK web site for example – www.wisegeek.com – includes a link to "Remove DRM from Music")

For many observers, the argument grows ever louder to view the song as the bridge to revenue and not solely as the revenue. Many have already heeded this call.

Danny Goldberg, Chairman and CEO of Artemis Records - on Frontline (2004)
*"You know, I don't think there were any more downloaded song than 50 Cent's last year (2003) and yet it sold nine million albums. So there were nine million households that felt, despite the fact that they had seen the video, despite the fact that they could get it online, that they wanted to hear the full statement that 50 Cents was making."*¹¹

And finally, echoes from a bygone era:

*Jack Valenti - talking to Associated Press, November 2003 - "If you buy a DVD, you have a copy. If you want a backup copy, you buy another one."*¹²

How realistic does this sound to anyone today?

P2P

In the beginning, P2P file sharing of music became popular and easy because people often knew what they were looking for before they logged on. It was also about exploring new avenues, finding what you want and getting it. File sharing exploded in popularity because it became easy to do and supported self-directed and collaborative musical exploration.

Over 72 million people are estimated to be downloading music via various file-sharing networks in the United States, more than 500 million people have downloaded Kazaa

⁹ *ebooks Glossary 1.0*, www.planetebook.com, accessed August 2006.

¹⁰ www.europe4drm.com/l_menu/glossary/glossary.htm, accessed August 2006.

¹¹ Kusek and Leonhard, *Future of Music*, p. 41.

¹² *Ibid.*, p. 39.

software¹³ and while Apple boasts of 100 million downloads, this pales in comparison with the billions of downloads on P2P networks. In 2005 alone, the *International Federation of the Phonographic Industry* (IFPI) estimates that 20 billion songs were illegally downloaded worldwide¹⁴ and that 1 billion music files were swapped online in Canada during that period.¹⁵

P2P research firm Big Champagne, a provider of statistical information on download communities and file-sharing networks, estimates that more files are being downloaded each month across the various networks than are being sold by the music industry on an annual basis and moreover, the ratio is expanding.¹⁶

According to P2Pnet.net:

*"...Big Champagne told us the average number of people simultaneously logged onto the P2P networks around the world at any given time in September 2003, was 4,319 182. In the same month in 2004, it was 6,784,574. And in September this year, (2005 sic.), 9,284,558 people were on the p2p nets at the same time at any given moment."*¹⁷

Now, P2P networks have begun to exploit the linking and referral capability of the Internet by allowing you to chat with other people online, and to peruse the collections of songs in the libraries of the people you are sharing music with. Although much of what is happening now on legal and non-legal sites is pull, when the shift moves to push, the experience will be even more rewarding and the monetizing of the offering will grow exponentially.

¹³ *Ibid.*, p. 147.

¹⁴ *IFPI Piracy Report*, July 2006, p. 4, www.ifpi.org accessed August 2006.

¹⁵ *Ibid.*, p. 12.

¹⁶ Kusek and Leonhard, *Future of Music*, p. 101.

¹⁷ *P2P Download Statistics*, P2pnet.net, accessed August 2006.

3. THE FUTURE BEYOND TOMORROW

Any examination of what the near future means must be fused with the day after tomorrow. We are poised at the point in time where many converging elements are going to create a new environment for music and for music driven revenues. To understand the access aspect, it is vital to place the song within the context of the music industry revenue model.

The CD Distribution Reality

Some things to think about:

Most people would agree that, at least for the short term, physical CDs will still exist and continue to be sold, although there is much debate as to the actual percentage of market share they will hold and where and how they will be sold. Their importance to the industry therefore becomes a subject of hot debate.

We can add new specialized retailers such as Starbucks and other lifestyle centers who will invariably find their place in the grand scheme of things to the traditional points of sales. Many of the smaller retailers that have cropped up in the last few years are of particular importance to the burgeoning unsigned indie community and they effectively complement off-stage sales for those artists and bands.

With the shift to Big Box retailing and the subsequent reduction in square footage even at specialty retailers, the market for catalogue CDs will shift to the web based sale model. Aside from its availability 24/7, centralized inventory makes fulfillment less problematic.

Sites make research and information gathering relatively simple for most fans, replacing the time-honored tradition of frequenting stores who in the past had knowledgeable staff at the ready to answer questions and make recommendations. Sadly, with the drops in revenue and margins, many of these walking fountains of knowledge became the first victims of the music retailing recession.

The question of genre also fuels this debate. Popular opinions hold that music that is more song-based than concept (as in "album") based will be subject to more rapid erosion on the CD side. By extension, then, genres such as Jazz, Classical, and Roots would be available on the CD format for a longer period than Urban, Rock or Pop. This is naturally a generalization and there are many examples that would seem to undermine the logic, yet the premise has its followers.

Servicing the Clients

Many of the distributors interviewed for this examination had an interesting take on the situation.

Although it was roundly accepted that support would continue for the remaining specialized retailers, most participants recognize that at some point, everyone will get to their tipping point – where the sheer cost and effort to service many of their

accounts will be untenable in the manner to which those accounts have become accustomed to being serviced.

Some of the existing distributors have taken the challenge to better understand what services they have provided in the past and what they could offer in the future to stay in the game, while others are contemplating the end of their business.

For some traditional distributors, the solution to this dynamic may lie in the creation or acquisition of automated software and B2B (*Business to Business*) solutions to support these points of sale. Participants interviewed for this report who advocated this solution had not developed specific solutions at this point and are at various stages in development ranging from evaluation to actual early development.

For reasons that remain unclear there was a preference expressed to create their own software rather than to acquire and modify existing shelfware. Given the time frame, size of the Canadian market, and economies of scale, it would probably be of significant benefit to identify and develop a universal application to apply to this challenge.

The shift to Big Box retailing brings its own special challenges for distributors who are actively supplying those retailers.

Large investments by distributors have been and will continue to be necessary to meet the stringent supply-side and tracking requirements that Big Box retailers have that must be met in order to qualify as a supplier (Electronic Data Interchange (EDI) – “the electronic communication of business transactions; specifically the exchange of trade-related documents, such as purchase orders, invoices and corporate Electronic Funds Transfer (EFTs) in a standard format.”¹⁸ is but one of these examples).

Beyond the clients' requirements, the risk management for inventories alone would make it critical for distributors to be able to stay on top of their business on a real time basis. The cost of converting to and maintaining these systems is a burden to most and beyond the reach of many – leaving them with the unenviable choice of excluding themselves from the opportunities that may exist within those retailers.

Competing with the Client

Not willing to raise the white flag on the physical platform, many of those interviewed have turned to development, to varying degrees, of their own portals for direct selling to the market.

This is a slippery slope because in some cases this cuts into the territory of their retail clients. The second challenge is that there is a substantial back office and human resource cost to providing this service. The recoupment of the necessary expense would seem to be beyond reasonable expectations for most of those interviewed.

A complication for some distributors is that they do not have digital distribution rights for some of the content they physically distribute which would mean that even with the capacity to distribute the content over a variety of platforms, they would not be in a position to do so. One can only hope that on a go-forward basis, this situation will be corrected.

¹⁸ www.firstdata.com/abt_gloo_E.jsp

Specialized Retailers – Lifelines and More Threats

A comment must be made here as to what may await specialized music retailers.

Note has already been made as to the eroding revenues and margins from the sale of recorded music. For many, the option has been to turn to compatible content and products, which hopefully would provide some complementarity for their traditional customers. To date, many who have taken this route have gone the hardware and DVD route and, more latterly, the Gaming route.

There are serious threats to this reality and here are some of them.

DVDs

The impact of technology on music is going to repeat itself on DVDs – but with some additional elements thrown in.

Although the DVD industry has grabbed increased market share over the last years, the option of VOD (Video on Demand) PPV (Pay per View) and simultaneous release dates for film all spell danger for the DVD industry. The bright side is that unlike the music industry, the film industry quickly understood the idea of driving sales by providing added-value on DVDs – director's comments, special features, outtakes, and games - to name but a few examples. For the serious or semi-serious movie fan cable and satellite delivered movie channels are seriously eroding the DVD business. The tendency in many countries to film directly to digital is another signpost along the way.

What this means is that the revenue produced from DVD sales (HMV Canada reported in the fall of 2005 that 40% of their revenue was derived from DVD sales) may well be a thing of the past in the not too distant future. Still doubting? Comparing DVD prices at Big Box retailers and DVD specialized retailers with the prices of only 6 months ago, it is apparent that the discounting of prices is in full flight and will probably continue, thus marginalizing the profitability of this content and its contribution to the music retailer's bottom line.

Gaming

The anticipated move by many of these retailers to Gaming is another case of more of the same.

The Gaming market tends to be extremely fickle and the shelf life of many games (and sometimes, platforms) is short compared with other content. Gaming industry policies on purchasing and returns severely penalize those who don't get their buying right.

The delivery of game systems and games over the Internet is now a reality. Gamers are among the most technologically sophisticated and it wouldn't require a quantum jump for them to embrace the web-based acquisition of games and upgrades, thus marginalizing revenues at retail even further.

Paying the Rent

If all this isn't enough, here comes the big one – the ability of specialty retailers to pay the rent.

Most retailers operate on 10 year leases, meaning that many leases that are in force today were being concluded when the music retail market still had some muscle.

With the erosion of revenues and, more importantly, margins, the ability of specialized music retailers to pay the going rent in many malls and centers is in serious question.

Mall operators are under no obligation to have music stores – their business model is simply to provide a competitive and attractive mix of services and products while maximizing the rent revenue. Thus, if a music retailer has difficulty budgeting \$35/sq.ft. as opposed to a fashion retailer who can easily plop down \$90/sq.ft. for the same space, it's not too hard to figure out what happens next.

But what about providing music retailing for the clients?

With the mushrooming of Wal-Mart, Costco, Best Buy et al, most people (especially those who buy the hits) are going to go home happy. For the rest, there's always the Internet and the host of virtual stores to be found there.

It is instructive to remember that an often cited reason for buying through the Internet is the inability to find what one is looking for in the store and it has been reported that 2/3 of people shopping in record stores leave without finding what they were looking for.¹⁹

All this to say, the best of intentions on the part of both retailers and distributors, will probably not be enough to sustain the business model that we have experienced for almost 50 years.

Downloads

Before we get deeper into the future let's see what we understand about today.

For most, legal downloads are those things that people buy from digital download stores like iTunes, Puretracks, or Zik for 99 cents per song, or \$9.99 per album.

In reality this is a holdover from the good old days of 45s – retailing for \$1 a song.

The 45 (often of inferior quality) was a key marketing tool for the music industry. It never was profitable but it sure drove the hits. The concept of singles sales charts still exist today, showing the importance that radio, retail and distributors accorded this lonely piece of plastic.

At its heyday, 45s were listened to by groups of friends (keep this idea in mind for later discussion) and served as an introduction for the young to the wonderful world of music. Most teenagers/adolescents discovered their music by spending Saturday afternoons in front of 45 racks, debating with their friends as to what to buy then running home to listen to the picks of the week.

The key to remember here - 45s were unprofitable for the industry and served exclusively as a promotional tool.

Switch to today.

¹⁹ Kusek and Leonhard, *Future of Music*, p. 86.

Although there is another dynamic in play, which we referred to earlier - that of choice and customization - the real driver for a good part of this activity is not what it first seems to be.

By all accounts, the iPod, with its 80% market penetration in North America and ±2,000,000 titles available is the gorilla in the cage. Yet, according to many of the same sources, it is believed by many industry observers that Apple has never made a dime on the sale of its downloads.

Apple Senior Vice President Phil Schiller in an interview with CNET News:

*"The iPod makes money. The iTunes Music Store doesn't."*²⁰

and

*"Just trying to have a business around downloadable music would be tough."*²¹

Where they do make money, is on the sales of their iPod hardware – it is, of course, their primary business. In other words just like Wal-Mart gives away music as a loss leader to draw customers into their stores, Apple, the biggest game in town, doesn't need to make money on downloads because that is not its business model.

So, if this is true how is anybody else supposed to make money at this game?

The truth is, they probably can't, at least, not on downloads.

There are also many other pitfalls here for Canadian players.

Digitizing

Much of Canadian content has not been digitized. Digitizing is a time consuming exercise and we are in a constant state of catch-up. Even new releases are not systematically available for digital distribution.

To compound matters, there are many competing non-compatible options for digitizing – no industry standard exists and it is pure speculation at this point as to what the solution may be.

This means that two problems need addressing immediately – the first is the actual digitization of content. The second is into what.

All participants in this examination pinpointed the need for assistance in digitizing content. This makes infinite sense if we expect to see Canadian content competing for the public ear on digital platforms.

This brings us to a situation with perhaps an obvious partial solution.

Many Canadian products receive public funding support through various programs including the Canada Music Fund Components. In most of these cases, final payments are contingent on the applicant producing a ready-for-market product – CDs in jewel boxes that will be distributed by a traditional distributor.

²⁰ Ina Fried, *Will iTunes make Apple Shine?* CNET News.com <http://news.com.com>, accessed August 2006.

²¹ *Ibid.*

The obvious question is - why is there no matching requirement for the recipient to provide content ready for digital distribution?

Discussions with administrators for some of the components of the Canada Music Fund support this requirement.

This report strongly recommends the implementation of this requirement at the earliest possible moment for all projects approved for project funding or for content produced by business benefiting from corporate support programs such as the MEC.

The Future of Downloads

Let's return to a point made earlier – that of the doubtful nature of downloads to be financially sound.

To drive another nail into this coffin, in June 2006, AllofMP3.com was launched in Russia. Taking advantage of some rather gaping loopholes in local copyright legislation, but argued by the site operators to be legal nonetheless, this site delivered high quality downloads for pennies – their current pricing can be as little as \$0.02 per song or \$0.99/album.

Within a matter of days of launching, the site also offered various pricing for downloading. Titles within the same album often fluctuated between \$0.10 and \$0.18 cents – something that has seemed elusive for traditional download sites to offer until now, yet something that makes infinite sense.

The catalogue is comprehensive and offers titles and artists (like the Beatles catalogue) that are difficult if not impossible to find on most other legal sites.

Within a matter of weeks, XTN Data ranked AllofMP3, with a 14% market share, as the second most popular download destination in Britain, behind iTunes.²²

If Not Downloads.....

*"Why would we want to hang on to a per-physical-copy payment paradigm in a digital world in which any given song can freely and without any real cost be reproduced? If the marginal costs of reproduction move towards zero, it is time to think of another way of measuring the value of the song..."*²³

If the answer isn't paid downloads, what is it?

The answer lies partially in behavior, partially in technology, and partially in marketing new revenue streams.

The Prevailing View

Let's recall our ground rule:

This is about the music industry, not the CD industry.

²² Paul Resnikoff, Resnikoff's Parting Shot: The Russians are Coming, Digital Music News, July 2006.

²³ Kusek and Leonhard, *Future of Music*, p. 26.

The music industry, for those of who have been fortunate enough to have been around long enough and to have been engaged at various times in different aspects of the industry, is much more than the retailing of produced music.

Strangely though, there has tended to be more of a focus on the production/distribution/retail side of a finished good as the center of the universe. The music industry, as many will remind you, is way more than just that. Publishing and live performance, for example, are two large and profitable pillars of this industry. Lately, so are other revenue streams like calltones, ringtones, as well as derivative products and services.

The problem with the current view is that it looks at the tip of the iceberg and considers it whole.

Here are some things to ponder.

Who Is the Customer?

The Net Generation

The Net Generation (born between 1976 and 1998) represents about 30% of the population – this is a segment that is larger than the Baby Boomers. Any thought of the future must take into consideration this group and its habits.

"Their lives are seamlessly integrated with what they can do online. They form relationships online and create communities where they communicate, learn from one another interact, participate, play, seek out information from a wide variety of sources and acquire products and services. Today's kids take all this technology and its potential for granted.... The Net expands their options in variety, selection and price. It allows them to sample many products before they purchase and to personalize their selections so that they can get what they want." ²⁴

Over 75% of American teenagers engage in file sharing, and

"A 2004 poll of children 8-18 by Harris Interactive showed that 56% of American teenagers with Internet access said that they download music on a regular basis, even though they know they are breaking the law." ²⁵

The vast majority of people under 25 are consuming enormous amounts of music – yes, consuming, acquiring, and living music. To them this is a ubiquitous part of their lives, always present, seamless, as much a part of their being as breathing. Anything that creates obstacles imposed by the industry to deny them access to their music is quickly avoided or worked around.

"They don't just download or stream hundreds of songs; they also visit artist sites, send text messages, find out about shows, listen to online radio, get most of their information on their favorite bands, trade files with their friends via instant messaging and SMS, and have created their own ways to find out about new music." ²⁶

²⁴ *Ibid.*, pp. 99, 100.

²⁵ *Ibid.*, p. 101.

²⁶ *Ibid.*, p. 102.

We need to acknowledge that this segment of our population not only creates a vast amount of music but also consumes it, probably completely disproportionately to what older generations purport to do. More importantly they do not acquire their music where many in the music industry toiled in the past – on the CD front.

The Adult Market

The youth market is not the only strong market for the future of music. In fact it is likely to diminish in importance over the next 25 years.

There are already hundreds of millions of adults online, networking just like the digital kids, and while their habits and reliance on the Internet and the style of networking varies from the kids, unlike the Net Generation, they are awash with credit and are eager to play.

Diversity

Another reality check – a comment was made during the course of interviews for this examination to the effect that the population of Toronto at the present is 50% non-white.

This was a bell ringer – but not necessarily for the obvious reason.

Let's think for a second about this large percentage of our population, diverse in origin, and culturally rich. Undoubtedly, these Canadians create and consume music, often reflecting their cultures and diversity.

Where is it?

Looking at playlists, memberships of music industry associations, and attendance at some industry events, this reality would not be obvious.

Well, technology is making all this fall into logic of its own.

Any future consideration of the future of Canadian content and Canadian diversity ought to spread its wings beyond what has been the obvious course for the last 50 years and look within itself to try to understand better what Canadian content is. Perhaps this is the evasive answer to the perennial question – “Yes, but is it Canadian?”

From all this we can take away the following – there are different segments within our society (and in fact the world's) that will access and monetize the music industry in varying ways in the future.

The questions of providing access and ultimately producing revenue from the music are the challenges.

4. BEYOND PHYSICAL

Obviously there are no hard and fast figures for the future, but estimates have been made that the sale of physical goods will shrink to approximately 20% of total music revenues and fully half of that will be realized through transactions on web sites. For the remaining 80%, issues for the future will likely turn on:

How will the music be delivered?

How will the music be found?

How will music be monetized?

What needs to be done?

Who will do what?

How will music revenues be realized and distributed?

The Production of Music

According to many interviewed, the current reality of producers playing a dominant role will continue at least for the short term due to many factors – contracts currently in place, the existence of traditional driven market elements like radio and other media and the remnants of the physical distribution system.

Producers may continue to have key roles to fill in the new model but not necessarily as producers exclusively.

It is now possible to arrange, record and produce an album for less than \$5,000, often from the comfort of your own home and almost anyone with a basic knowledge of technology can produce their own music/CD.

Much has been said of the quality of these recordings. While ceding the point that they do not compare to the quality of traditionally produced CDs, more and more people are accessing their music through delivery systems that do not require the sophisticated high-end production – think iPods, think cell phones.

Our current car comes equipped with a 360 watt 9 speaker set up and quite frankly, the music that I burn (legally) on CDs and play back in the car sounds just fine to me. I reserve the option, however, to buy certain CDs where the quality can make a significant difference.

A download purchase model that would allow for upgrading the quality of a download for an incremental price would certainly be attractive for many consumers.

HOW WILL THE MUSIC BE DELIVERED?

The ability to use the Internet and, more recently, social networking sites like MySpace.com, is the ability for anyone with a lick of marketing savvy to build a community for an artist and his/her music. No longer captive to the limitations of what

could and could not be signed, or what could or could not be played, music is finding its own level, at home and abroad.

With this liberation comes the enormous challenge of being found – being heard, if you will. The competition has just increased not 10 fold, not 100 fold, but 1000 fold, maybe more. It's fine to say that you're there, but who's going to find you and most important, at least for this examination, how are you going to monetize what you've done?

This is the challenge of distribution going forward:

Taking the song, the content, finding its place, monetizing the offering and securing Canada's place in the challenging environment.

For the naysayers out there, you're right; legitimate downloads account for what percent of the market? Internet sites account for what percent of CD sales? Probably not that much, so why the concern and focus on these issues?

Because the reality is that given the shrinking retail environment the reduction of choice in the physical environment, the liberation of genres and the expansion of opportunity as we briefly sketched out above, all that seems to be missing is some catalyst that's going to send us over the edge.

The question is, does it exist, and if so, is it around the corner?

To answer this, we need to see Canada in the perspective of the world.... the model we live in for music is not the model everyone else lives in – consider the rapid increase in digital sales in Asian markets.

According to the IFPI, mobile sales in Japan reached US\$211 million, representing 96% of all digital music sales for the first nine months of 2005²⁷ and according to the ARC Group, revenue from ringtone sales worldwide was \$3.5 billion in 2003, with an outlook for continued strong growth.²⁸ The opportunity for Canadian artists and creators to develop revenues in foreign markets, even without a solid base in Canada, is a distinct possibility.

So where's the spark?

People tend to favour innovations that seamlessly integrate into their lives without obstacle.

The Net Generation have made seamless technology a cornerstone of their existence. Access to what they need when they need it is effortless and requires little if any think-through – for them it just happens. For the rest of us, this is becoming the way we function and will become more and more so with time.

Worldwide, developers and industries are working towards the complete and seamless portability of content thanks to interoperability between devices.

²⁷ IFPI Press Release – *Global Digital Music Sales Triple to \$US1.1 Billion in 2005 as New Market Takes Shape*, www.ifpi.org accessed August 2006.

²⁸ *Consumer Study Shows Immersion VibeTonz Features Influence Mobile Phone and Content Purchasing Behavior*, Immr.client/shareholder.com, accessed August 2006.

Hardware

We know, because it's in the media everyday, that everyone loves to hate Apple.

They may have 80% of the market with the iPod, but we sure love to hate them – they won't share their software, and frankly, for many, they're just too dominant (well 80% is an awfully big number). For some time now, very large businesses have been toiling away trying to develop the iPod killer.

Most people interviewed share the opinion that in the next reinvention of portable music, mobile phones and wireless devices will be the platform. The thinking is that eventually MP3 players, iPods, and the like will be replaced by your cell phone (most people have them and why carry 2 devices?)

The skeptics question how many people will make the transition from iPod to their cell phone and how long this will take.

As a partial answer, consider that in 2004, 17 million iPods were sold compared to 700 million cell phones.

People from the technology side who have contributed to this examination agree on this transition but are of somewhat of a different mind as to how that transition will take place. One of the key elements in their thinking is the introduction of Windows 11, the next generation Windows Media Player software.

Windows 11 will have the potential to be on your PC, in your phone, and in your PDA – technically, almost anywhere.

Many cell phones available today are capable of playing music on MP3 and other format files and most of the major phone hardware developers are incorporating WMA11 into new models.

The answer then is that alongside the CD, people will access their music through a wide range of options; some fixed, as in your PC, others portable like your handheld devices.

Getting the music to where it has to go becomes the reality.

Interoperability

The industry, perhaps with public support, should press for a resolution on the issue of compatibility between delivery systems.

The need is driven not only for access reasons but for economic reasons. Preparing content for distribution over a range of delivery options is time consuming and expensive.

A secondary impact of needing to develop support and marketing strategies for each of the delivery windows is even more problematic in terms of dedicating human and financial resources.

HOW WILL THE MUSIC BE FOUND?

Since time immemorial, the popularity of music has been at least partially driven by the artist and public reaction to that artist. Think of Mozart as that generation's Green Day if you will.

Assuming that the music is digitized and out there, then what? How does it get found?

"When all the music ever recorded can fit on a hard drive costing less than \$400 - when there is more free music available than you could ever listen to in a lifetime - the name of the game will be finding the music that you like." ²⁹

Until recently, music of the 20th century was driven by the ability of distributors, working in partnership with retailers and radio to push content and build artist careers. The vast amount of potential content was funneled through what the industry chose to back and promote. Everything else was left to wither in obscurity.

In the new reality, however, where it is not vital to sell 100,000 copies and sell out arenas, the new need is to build of awareness with the fan and the monetizing of that relationship.

People interviewed for this examination who are closest to this reality recognize that they live in that parallel universe, but this does not daunt them. They, by and large, have a keen awareness of what it takes but they often lack the means to make it happen.

The Artist Site

A primary music and artist discovery route for many fans will be social or community sites like Friendster and MySpace - communities of like-minded fans that will be created around the artist and his music.

Within the last year, countless examples exist worldwide of the power of community sites to drive relationships into enormous success stories for artists and their music, often without the presence of any physical product.

Consider that within the last 12 months, numerous Top 10 positions of UK sales charts have been held by bands that developed through this channel and that digital music services such as iTunes, Musicmatch, Rhapsody, MDSN and Virgin Digital report that community features are major drivers of discovery for new music.

Free downloads, chats (often with the artist participating), fan exchanges, merchandise and live performances announced and driven through these sites are familiar features found on these sites.

This is the word of mouth at play.

Harking back to the earlier comments about diversity in Canada and its people, it doesn't require a huge leap to understand what all this potential means for artists and communities in Canada.

²⁹ Kusek and Leonhard, *Future of Music*, p. 154.

Referencing and Recommendation

(Collaborative Filtering and Recommendation Technologies)

"Most consumers want and need tastemakers or taste-agents - credible personalities and proven entities that package programs and expose us to new music." ³⁰

One of the key drivers behind monetizing music and one that has serious implications for both artists and creators is referencing and recommendation software.

Beyond the initial discovery, the development, deployment and use of referencing and recommendation software will be critical for the music industry.

More commonly known as collaborative filtering – most of us have experienced this type of application for some time. Pioneered by people like Amazon, the most familiar version is the "People who bought_____, also bought", and "If you liked_____, you would probably like_____)". In essence, these are applications that recommend products and services based on the buying and preference habits of other people who have similar habits.

Imagine programming your music through and latching on to a provider who will guide you to new musical discoveries. These sites become your friends who sat around with you in the 60s and played 45s together. These are the clerks in record stores in the 80s who knew your tastes inside out and steered you to new discoveries – new adventures in music.

Wouldn't you be more than happy to belong (for a modest fee) to such a circle?

In the future, not only will we see this form expand, along with playlist sharing, but we will see the spread of the application to include radio streaming and cross-genre recommendations.

"The Musicmatch Internet radio network's most popular channel is the Musicmatch ArtistMatch service. With ArtistMatch, users select their favorite artists, and the system programs the channel with those and other related artists, much like Amazon offers book recommendations to its customers upon login." ³¹

In a more hands-on application, artists and labels could, and probably will, provide similar referencing through the hyperlinking of their websites.

While not a focus of this examination, imagine the revenue potential between monetizing referencing and recommendation to cross over into other products and services.

Video Games

At first sight, this may seem like an odd subject to be introduced here – given its track record of cannibalizing time and dollars from the music industry, as well as television, film, and, according to some, quality family time.

³⁰ *Ibid.*, p. 57.

³¹ *Ibid.*, p. 61.

Video games generated \$25 billion in worldwide revenue in 2005, \$10 billion in the United States alone.³²

As an example of the power that gaming can bring to music, consider,

*"When Electronic Arts ships their new "Madden" football video game, each song on the game will receive over seven hundred million spins in the first six months. ...Compare the number of spins per song on the game with potential radio spins, and you see that these songs are being heard on video games more than the no. 1 record in America is being heard on radio over the same time period."*³³

Once the domain of numbing techno repetitive bass driven backgrounds, games now feature "A list" artists often releasing new material on a game platform before going to other platforms and deliveries.

HOW WILL MUSIC BE MONETIZED?

Aside from the traditional sale of CDs in brick and mortar and virtual outlets, the monetizing of music in the future will be realized across a broad spectrum of revenue channels.

This is not meant to be an exhaustive exploration but will serve to illustrate some of the opportunities that currently exist and that will exist in the near future.

It is important to grasp the broad range of potential offerings to appreciate the importance of access.

The cardinal rule will be that, in the future, the financial reality for music will be based on the accumulation of micro payments. The days of basing financial structures in 1 in 10 artists selling multiplatinum are, by all accounts, over. For all the indie bands and labels, this was never really an option.

*Nobuyuki Idei (strategist and chairman of Sony Corporation) Los Angeles Times, July 2002 "[The record labels] have to change their mind-set away from selling albums and think about selling singles over the Internet for as cheap as possible - even at 20 cents or 10 cents - and encouraging file-sharing, so they can also get micro-payments for those files. The music industry has to reinvent itself; we can no longer control distribution the way we used to."*³⁴

This is a subject that was explored in much greater detail in *The Long Tail*, which originally appeared in *Wired* magazine in October 2004.³⁵ This is highly recommended reading for a fascinating take on the marketing and financial possibilities of selling deep catalogue across different cultural content, notably movies and music. (Note: An expanded version of this article has recently been issued in book form.³⁶)

³² Tenth Annual MediaWise Video Game Report Card, www.mediafamily.org/research/report_vgrc_2005, accessed August 2006.

³³ Kusek and Leonhard, *Future of Music*, p. 69.

³⁴ *Ibid.*, p. 93.

³⁵ Chris Anderson, *The Long Tail*, www.wired.com/wired/archive/12.10/tail_pr.html accessed August 2006.

³⁶ Chris Anderson, *The Long Tail, Why the Future of Business is Selling Less of More*, July 2006, ISBN: 1401302378.

At least for the next while, song and album downloads will continue to be a player. We've already covered the issues of digitizing and non-compatibility of systems. The issue of rights and licenses must also be addressed and is covered later in the report.

Subscription and Utility Models

(Will the average music consumer prefer to own (permanent downloads) or rent (subscription and utility models) their music?)

Two options much talked about when this report was being prepared were the subscription model and the utility model.

Both models provide easy access for the consumer to music and attractive opportunities for the music industry. In the opinion of many who contributed to this examination, the subscription model is probably a bridge to the utility model.

There are major obstacles to overcome, but the technology and platform industries are focused on their game plans, and it is not solely music driven. There are much larger stakes in play and if music, and more specifically, Canadian music, doesn't get on board, the train is going to leave anyway.

With the application of recommendation software and true portability, the accessing and personalization of music choices would be a reality beyond anything we have experienced to date.

Although providing enormous choice and easy access, the challenge will be greater than ever to expose content and monetize that content.

The Subscription Model

Subscription models continue to grow in popularity and for many they are a vast improvement over the pay-for-downloads model. Current leaders in the field include Rhapsody To Go and Napster To Go.

In exchange for a monthly or annual fee, subscribers have unlimited access to a large library of titles playable on any Windows-media compatible digital music player including, naturally, your PC.

The catch is that you don't actually own the content – you have access to the music as long as you continue to subscribe to the service. Once you stop your subscription –the music disappears.

Still, for a fee of approximately \$10-\$15 per month, having access to all that music is pretty attractive as opposed to actually buying it.

Many subscriptions provide you with an option to buy a title, usually for an amount less than an iTunes download.

For an additional monthly fee, options also include access to a long list of Web radio stations, plus the ability to create your own: pick 10 artists you like, name the station, and click the play button.

Clearly, price and the portability will drive this model to increased penetration.

The Utility Model

Although there are countless jurisdictional and operational issues that are presently unresolved, for many, the real future may well lie in the utility model.

The utility model, the way it is most often talked about today, is akin to your monthly electricity or phone bill.

No one really knows how much it costs to turn on a light bulb, let alone dry a load of laundry. All we know is that we get a bill at the end of the month, it's usually the same from month to month (winter months excepted) and we pay it.

As it is viewed today, the utility model for music would be very much the same.

Included in your monthly ISP or cellular phone bill would be a basic monthly charge that would allow you access 24/7 to all the music on the service. Additional features and services would be billed incrementally. As is the case in the subscription model, you wouldn't actually own the music (unless you chose to pay for the download) but it would be yours as long as you were a subscriber to the utility.

What happens if you wake up one morning in the not too distant future and you find a message waiting for you on your computer telling you that thanks to Windows 11, you can enjoy all the music, all the time, 24/7? The cost is buried within your ISP billing - and it's not going to necessarily be a lot of money. Even though you will never really own the music (once you stop subscribing, the music's gone) you can have your music, anywhere, all of the time.

This is the crack in the dike.

Now let's go a step further. You will be accessing your music through an identifying code or account and, if you have the same code/identifier on your cell phone, you would be able to access your music through the same account. Your music just got portable – at home through your computer, portable through your wireless handheld, next step, your car. Carry your music with you everywhere, anywhere anytime – portable and seamless.

Advantages

For the music industry, the revenue produced from this model would be mostly bottom line – it represents pure licensing income with very little cost.

*"Imagine if all of the 1.4 billion cell phone users around the world paid only one dollar each, per month, to get access to a basic music service. This would already amount to half the value of worldwide CD sales, per year."*³⁷

Another advantage would be the legitimizing of online content and, thanks to utility billing, it would appear to most to be free.

Other advantages to the consumer would be clean music files – free of truncated files, no threat of Trojan horses or viruses, poorly tagged metadata or variable sound quality, and best of all – legal, with no threat of lawsuits.

There are similarities in both models and there are obstacles aplenty, not the least of which is the unresolved issues of rights and licenses.

³⁷ Kusek and Leonhard, *Future of Music*, p. 33.

Rights and Licenses

The question of who will be responsible for the establishment, collection and distribution of proceeds covering Canadian copyrights for the Canadian music industry as well as the quantum for those payments remains unresolved as of the writing of this examination.

The fact that these questions remain unresolved even at this late juncture should be of concern for the Canadian music industry as a whole and undoubtedly represents an obstacle for some to develop business plans, strategies and opportunities to go forward not knowing what the financial implications and obligations will be. Without a resolution to these issues, the Canadian industry risks being shut out of a global change in music acquisition and revenue to the detriment of all, including the rights holders.

It is not an exaggeration to say that we cannot wait two more years to resolve some of these key issues. We need to clear the decks with a workable solution and move on to get into this global market.

Failure to do so won't deprive the world of Canadian artists and content, it will just make it harder for the world (and Canada) to access them legitimately because legal distribution channels and, more importantly, those that will actually be compensating creators, artists and the industry, may not be carrying that content.

Interestingly enough, independent artists/bands and labels who are not caught up in the fray will probably make their way into the landscape before the larger more established players. Somewhat ironic.

Cell Phones, Ringtones, Callback Tones, Truetones

Mobile-based music revenues accounted for \pm \$400 million of a \$1.1 billion digital pool in 2005 according to the IFPI³⁸ and according to market research firm eMarketer, revenues are projected to grow to \$7.7 billion by 2010 from \$434 million in 2005 representing 65% of all digital music revenues.³⁹

As stated earlier, in 2003 ringtones alone were a nearly \$3.5 billion⁴⁰ business and are projected to grow to \$6-\$7 billion by 2008.⁴¹

It seems odd, but many are more than happy to plop down \$3 for a 12 second snippet of a song to identify a caller than we are to pay 99¢ for the full song download. Some of it has to do with convenience (not having to go through an often complicated check out process and the cost is buried somewhere in the monthly mobile bill), some it has to do with personalization.

Aside from the potential to generate revenue from the models we already understand, ringtones and related products have the potential to become the new single.

³⁸ IFPI Press Release – *Global Digital Music Sales Triple to \$US1.1 Billion in 2005 as New Market Takes Shape*, www.ifpi.org accessed August 2006.

³⁹ eMarketer Projects \$7.7 Billion Mobile Music Purse in 2010, Digital Music News, June 2006.

⁴⁰ *Consumer Study Shows Immersion VibeTonz Features Influence Mobile Phone and Content Purchasing Behavior*, Immr.client/shareholder.com, accessed August 2006.

⁴¹ Kusek and Leonhard, *Future of Music*, p. 70.

Imagine receiving an artist's new single to sample (or keep) over your phone, share with your friends, or feedback to the artist.

Recently some wireless providers have added a service to keep subscribers informed of concert announcements. Subscribers also have the option to review seating options, purchase tickets and, in some cases, a security code can be transferred to the wireless, making the coded device the ticket for entry.

Endless possibilities.

WHAT NEEDS TO BE DONE?

Much of the discussions and input from contributors to this examination centered on one key factor – the need for marketing.

"In the future, the opportunity to influence, and thus market to, large groups will lie squarely with the ability to reach them quickly, inexpensively, and of course virally, via peer groups and via the smart leveraging of social networks."

⁴²

There is no stock answer to reply to the wide range of content, artists and genres that make up Canada's music mosaic. While certain activities are "givens" the relative importance to each artist and his success will vary based on the target audience and the marketing and distribution channel selected.

As an illustration, a model could closely mirror a model that we are familiar with today: CD driven content supported by appearances and live performances – monetized at physical and virtual retail, with perhaps single song downloads, maybe ringtones. The music may be included in a film and/or television score, or perhaps a gaming track.

Another model could be an artist literally giving away his tracks to a fan-based community created through viral activity on community social web sites. The monetization may come from the actual sales of the tracks but more than likely won't. Fans could pay for participating in a weekly web chat with the artist, and the content may become live performance driven.

These are but two examples and the permutations and combinations of possible synergies and models are endless.

The key is discovery, and converting the discovery into revenue through whatever works for that artist and content. The access and distribution of the content may drive the revenue of the model without being monetized itself. It is of critical importance to make this distinction.

WHO WILL DO WHAT?

Given the specific nature of the marketing and promotion initiatives that will probably be called into play, it is likely that we will see the continued growth of specialized players who will create and implement solutions for artists and content. They may not

⁴² *Ibid.*, p. 106.

necessarily be part of the music industry but they will have demonstrated the ability to work with constantly evolving technology, to drive content and to grow revenues.

The industry value chain as it currently exists will undoubtedly continue to play a major role going forward but with the erosion of the traditional distribution and delivery platforms and the emergence of new models and new revenue streams.

(The current value chain and its predecessor model were profiled in a recent examination of the industry *Profile of the Sound Recording Industry in Canada* prepared for Telefilm Canada by Nordicity Group Ltd., September 30, 2004).

In the past, the roles of creator, artist, producer, label, manager, publisher, distributor and retailer were pretty clear. This is changing partially because of the liberation of the industry – the possibility for any artist or creator to build a following and to monetize that content. Here are some of the changes.

Artists

For many artists, the balance of power is shifting in their favour.

Thanks to technology, artists can now communicate directly with their fans and manage that relationship. The flip side of this advantage is that because of this easy access and the sheer number of artists in the world who have access to this phenomenon, it is progressively harder for artists, especially new and emerging ones, to get any meaningful level of exposure and discovery in the hyper-competitive environment.

Artists will need allies and professional support especially when it comes to marketing and business development.

Managers

While labels were often the bastions of representing the artist in most things commercial, events in the last decade have changed the reality for many of them.

At the top end of the scale, fueled by mergers and reality checks, major multinational labels/distributors have shed artists by the boat load. Looking for someone to manage their careers, many artists turned to their managers.

Managers often get very low (if any) fixed income guarantees but in return may receive a percent of the artist's total revenues, usually encompassing many revenue streams.

Today, managers are finding themselves more and more involved in a broad spectrum of activities - selecting distribution channels and negotiating agreements, marketing agencies, public relations people, technology deals and sponsorship packages to name but a few.

As managers assume more of these responsibilities the question remains - will this become more the staple of the industry and what then is the future role of the labels?

Labels

Notwithstanding the above, many indie labels have strong relationships with their artists and perform many of the key functions as well as often acting as the producer.

They have a profound network of connections and relationships that can facilitate and drive the content that they choose to promote. No individual can hope to compete with the complex set-up necessary to make this happen on an individual basis.

Through their well-established networks and contacts, many labels will continue to provide front line services and support to their artists.

In recent years, new models have been developed by some labels that engage the artist directly in the business side through joint ventures between labels, producers and the artists and others forms of participation, such as an a la carte approach to services, some provided by the label, or the artist or by third parties.

Through these new ventures, artists assume some of the risk in return for a larger piece of the revenue pie. This is an indication that the splitting of the revenue that was the traditional model will probably not predominate forever and this will give some labels the opportunity or need to reassess what services they provide and how they expect to be compensated.

Publishers

Different parties in the value chain may assume the responsibility for the publishing activities but, more often than not, the publisher assumes this role.

Thanks to the compulsory mechanical royalty on all records sold and revenues derived from public performances, publishing revenue represents a sizeable part of income for songwriters.

Both publishers and their clients, the songwriters, derive direct benefits from the broadest possible distribution of their works. With digitalization, the possibilities for revenue generation have grown exponentially, not only because of access for the work, but also because of a myriad of opportunities that have arisen for income generation – ringtones and calltones, sync revenue from film and television productions and the tremendous potential of video gaming, where not only is income realized from placement within a game, but, as has been demonstrated over the last few years, by the creation of awareness of music within another market - the gamers, who often go on to explore and download repertoires of artists they discover through gaming. It is fascinating to note that one of the most successful bands due to the gaming phenomenon is AC/DC – their music having successfully been placed in many Top 10 games.

When we look at the Internet and digital networks, what we see are gigantic publishing machines- huge distributors of data (although we prefer to call it content) that is snapped up for audio and visual consumption.

Ultimately, distribution through digital networks will not only yield significant revenues for the publishers and their clients, but also with an accuracy and transparency that had not previously been possible thanks to tracking and reporting software based on actual consumption rather than on weighted estimates based on sampling.

Global Licensing

A formidable challenge remains unresolved – publishing and licensing rights are traditionally controlled and administered geographically. The shift to global licensing will be long in coming for many, and may prove difficult to apply due to pre-existing contractual obligations. In a twist of fate, the careers of new and emerging artists stand to benefit from profiting from global licensing before established players will be able to take their seat at the table.

Aggregators

Aggregators (*aka* Digital Service Providers) are a relatively new entrant into the mix.

Aggregators fill the gap (in reverse mind you) that one-stops and sub-distributors did from 1960-1990 for the major distributors.

Many platforms and providers cannot and do not want to deal with millions of potential content providers. They have turned this joy over to aggregators – entities that may be specialized or broad based who will be the portals between the content and the platform.

In a simple model, anyone in the value chain, for example a label, manager or a distributor, may contract with different aggregators for different functions – an aggregator for digital download sites, another aggregator for sites of a different nature, and yet another aggregator for ringtones in the Pacific Rim.

The Blurring of Roles

Not only are roles changing but there is substantial blurring between who does what.

Many of those participating in the examination saw the future in terms of the centralizing of activities and the emergence of more polyvalent players who would direct and manage the strategy and business activities that bridge the artist and his content with the consumer.

The majority of participants in this examination were united on at least one other point:

Each of them believes that they are going to be the one to manage the process in the future.

Whether they were distributors, labels, managers, publishers or artists, they each believed that in the new business model, they would be the ones responsible for bridging the activities.

Interestingly enough, each one of them may be right and this is one of the fundamental conclusions the writer came to through the preparation of this report.

As pointed out earlier, the formula or business and marketing strategy may and will vary from artist to artist, from project to project. We need to abandon the concept of specific activities being assumed by designated identifiable groups and recognize that in the future, everyone is going to be a hired gun based on their niche and ability.

The question will be more about what is to be done and what are the expected results.

It will not be about whom.

It will be about aligning the interests of key stakeholders into one entity that will drive the business and distribute the benefits to the partners.

To put it more succinctly, success or failure will be measured by seizing opportunities, monetizing the content, and maximizing the revenue. The decision maker may not be the one carrying out the work but he will plan, co-ordinate and ultimately assume responsibility for the realization of the "plan".

In this transition, the competence of the individual to manage the activities will be paramount. That individual may presently be a publisher, a label, a distributor or none of the above.

The answer, then, - precise and vague – is that the function is understood but the origin of the player is not important. The ability to get the job done will be the deciding factor.

HOW WILL MUSIC REVENUES BE REALIZED AND DISTRIBUTED?

Compensation

Traditional Revenues and Models

At least for the foreseeable future, traditional revenues will continue to exist for players active in the current model.

Revenues from the sales of finished goods, downloads, touring, derivative revenues, publishing and auxiliary rights will continue to flow, managed and driven by a broad array of players in the music industry, each taking his administrative bite out of the apple.

With time, the importance of some of these revenue sources will shrink due to the emergence of more important sources of revenue.

Evolving and Future Revenues and Models

The future revenue model will likely be driven by a myriad of micro payments and the need to access the platform options will be matched by the need to create awareness and affinity.

As subscription and utility models flourish, the revenue generated will be dependant on actual usage – the importance of creating awareness of the content and building fan communities will be imperatives in capitalizing on and maximizing this opportunity.

An often quoted option is a fee added to monthly billings of services like ISPs, mobile and wireless service providers. The means to redistribute the revenues based on actual activity has already been developed and vetted and would be attractive for the music industry.

Other options under review include a utility or blanket license or tax (in some countries this form of tax has been in existence for some time) that could be augmented with taxes on digital media players.

Some have debated the merits of providing a similar tax or license that would permit unlimited downloading that would also be supported by additional levies on blank media and media players. This option seems to have fewer adherents as the more popular opinion is that in the case of utility models, the actual percentage of people who will actually choose to download will prove to be very small and in the event that the download is chosen, most services will provide a fee per download to permit the download.

Most of the participants who had an opinion on this matter were of the opinion that they would ideally like to see the issue of fees and disbursements resolved between the players themselves including the rights organizations. In the event that this proved impossible, then the option would be for the government to become involved as it has in the past with other forms of media, notably radio and cable television.

What Are The Needs?

Existing distributors were fairly united about what they saw as the greatest needs.

Whether it was to acquire and implement new software to run their businesses, create new technology entry points, proprietary web sites supported by artist sites, or branching into activities such as marketing, the needs were the same.

Funds are required for building infrastructure capacity and for human resources including training. Respondents in this category reported that their existing personnel did not have the qualifications and/or skills to drive the business to where it had to go.

There was also a profound sense of frustration at what they perceived to be a shortage of time that for them get their business plans developed, operational and performing.

Discussions with other interested parties and groups were interesting because almost to a man they understood the need to move forward on these challenges. They endorsed the need for aggregation and the probability of new models and paradigms. Where it became illuminating was that with almost no exception, respondents saw it as an opportunity for each of them to fill that role.

The vast consensus was that as an industry, they were going to find themselves with a challenge for which they were not equipped.

With all the platforms and the changing environment, the retooling required, the skills development, the ability to just step back from the day to day to strategize and plot the course, how will all this play out?

5. CHALLENGES FOR POLICY AND FUNDING

The overarching challenge is to ensure access for Canadians and the world to a broad range of Canadian content reflecting Canada's talent and its diversity.

Beginning with the SRDP (*Sound Recording Development Program*) and more recently the CMF (*Canada Music Fund*), programs in the past have been developed and implemented to support policy and industry objectives for the Canadian independent music industry.

Canada has a long record of supporting the production and, latterly, the marketing of Canadian recordings. In part due to the lack of sufficient funding, other components of the Canadian independent industry were not as supported as these activities were.

Within the last few years, many argue that the challenge facing the industry and the policy is that we are heavily invested in producing content (also argued by some that the cost of production has actually been decreasing over the last decade) while not providing support to the content and, as outlined in this report, recognizing that the content in the form that we have come to view it is not the revenue driver but the means to realize revenue in other forms (monetizing the content).

Publishing and Licensing

Participants in this examination all expressed frustration with the inability to resolve the issue of jurisdiction and tariffs for publishing and licenses in Canada.

Due to established procedures and protocols, it appears that this issue will not be resolved before late 2007 at the earliest (the Copyright Board will be hearing the matter in hearings scheduled for September 2006 and February 2007) which, for many, is too late.

As discussed earlier, the uncertainty surrounding this issue has made it difficult to transact and plan business developments going forward for many players, not the least of whom are Canadian digital download sites such as Puretracks (www.puretracks.com), who also provide white label applications (the generic operating, control and sometimes fulfillment systems behind the brand of a client) for many Canadian sites, and Zik (www.archambault.ca).

Global Licensing

As we have already noted, a major challenge for publishing is that, as in most countries, licenses are issued for territories. In the unfolding universe, this becomes clearly unworkable and the risk of legal interventions and complications when music is distributed globally has given rise to sleepless nights for many.

In the illegal world of P2P downloads, this issue has already been resolved – there are no licenses – so – there is no problem.

Music is available, right now, virtually anywhere in the world.

In the attempt to recapture the legal distribution of this music (we have looked at various models to monetize it) it is of paramount importance that the ability to globally license be fast-tracked.

The headache of existing contracts exists – not only with artists and labels, but with labels and distributors operating in other jurisdictions.

No one interviewed for this examination had a solution to this mess but everyone understands what an impediment and threat this imposes on the Canadian independent music industry.

Technology

Non-Compatibility

As was the case with BETA and VHS, and similar to the current competition between Blu-Ray and HD DVD, we have to contend with competing and non-compatible technology in the case of the music industry.

To briefly re-cap, as an example, at the present time downloads using iTunes technology cannot be played on non-Apple devices. As well, there are other formats that serve different supports and to digitize across all of them is foreboding.

In France, Apple recently was directed by the courts to allow for interoperability of their systems by their competitors. The issue is still under review and the how and why have not been finalized.

Clearly it would be in the interests of the industry, for financial reasons as well as those of access, that the interoperability issue be resolved. At this point in time, it appears that the only way this will be resolved is by legislative decree.

Time on its own may eventually take care of this problem. If wireless based distribution becomes the model, and Windows based technology becomes a primary driver, most access will effectively be supported by predominant software.

Digitizing

Regardless of what path the future takes, we have a core problem in Canada and that is one of digitizing content.

The technology problem discussed above compounds this problem as well because when digitizing the content, the question becomes into what format or formats, incurring time and expense at each step of the way.

The reality is that at the present time content is being produced, often with public money support, and it is not being digitized.

While projects supported by the CMF currently require the availability of a finished good (CD) and the guaranteed involvement of a distributor as a condition to the release of the final support payments, no similar condition exists for the digitization of the product which is the technological equivalent of the CD.

The need to have content ready to distribute is a given, and it should be mandatory that all product receiving public support be made available through digitization as a matter of contract.

Back Catalogue

This of, course, does not speak to the massive amount of back-catalogue that has not been digitized nor the impressive volume of music being produced every day that does not benefit from publicly funded support.

As to the question of digitizing the entire back-catalogue – this is questionable.

Much of the content that was released in the past never achieved any significant sales volume. To dedicate scarce time and resources to provide digital versions of content that never sold in the past is not a great idea.

A Question of Heritage?

There are many who argue for the digitizing of content for heritage purposes.

Historically, we never asked the industry to convert 78s to LPs, LPs to 8 tracks, 8 tracks to cassettes, or cassettes to CDs. The decisions were based on commercial viability.

It should be left to the rights holders to determine if they thought there would be sufficient potential revenue in the future to merit digitizing the content and if so, this should be done at private expense.

Physical Distributors

The predominant business model for independent Canadian music distributors is not only at risk, but the countdown has probably already begun for some.

An argument heard from virtually all of the independent distributors interviewed is that they are the ones who defend the distribution and availability of Canadian content and. As such, their role is vital.

They are, however trapped in a vice.

One jaw of the vice is their traditional point of sale – the bricks and mortar retailer – who is undergoing massive changes of his own. Specialty retailers will more and more become a thing of the past as the sales of top numbers continue to be driven by Big Boxes who are not tied to the business strategies of the industry, and by extension, the strategies of the distributors themselves.

The other jaw is a lack of financing.

Recognizing the problem, some distributors have begun direct marketing to the public through their own web sites, an option that requires substantial infrastructure support as well as development and marketing support.

If and when they get a site up and working, then marketing kicks in and here again the needs are for more human resources and infrastructure.

The distributors who were more aligned with technology recognize, for example, that a key driver for them will be the creation and maintenance of artist sites – acknowledging that it is about artist brands and not label or distributor brands.

Music consumers will seek out and frequent artist sites that inform and engage them. The need to create and populate these sites will be an ongoing activity and will need to be a key component in the strategy of whoever is going to drive the content, be it the distributor or another player.

Distributors who were interviewed typically do not generate enough from their existing distribution activities to adequately finance their new models. Moreover, their current human resources are not necessarily the ones who are qualified or those that are needed to drive the new model. Finding and training the new team will take not only financing but time – two things that the distributors feel that they lack.

Note: In the past, access to many publicly funded support programs and encouragements were dependant on having signed distribution agreements in place. Quite often this proved to be meaningless, because, for the most part, the distributors did not control the points of sale (an exception would be, for example CBS Records who owned A&A Records for a period of time). Even with agreements in place, if retailers didn't bite, that was the end of the road.

By making music available through the platforms outlined in this examination, it seems obvious that getting to the platform is what counts and developing the marketing and fan-community support needs to follow.

Will aggregators and/or distributors become the ones who will funnel the product to the points of sale – the technology platforms? Perhaps, but the method in which it will then be accessed does not require the effort that was required in the past consisting of sales personnel, physical distribution and finished goods.

The new requirements will be for supports such as artists' sites, recommendation software and marketing over a wide and more personalized range of activities.

Distributors are positioned to assume this role of aggregators but so are others, some of whom currently have nothing to do with the industry. In some cases, distributors may even become the aggregators of content to larger aggregators.

Diversity

The portrait of Canada and Canadians has changed dramatically in the last decades and the culture of Canada has been enriched by the experience. Canada is a country that is not only diverse in its make-up but a country that thrives on its diversity.

Support systems and channels established in the 1950s and 1960s still prevail and often they do not reflect the diversity that makes us Canada today.

Thanks to the technological revolution in music and its access, the solutions may be played out before us but we need to take responsibility to nurture and foster this diversity.

As a matter of economic need and driven by the new technology opportunities, consideration should be given to provide support to collective initiatives that will allow Canadian communities to band together to access the new platforms and monetize

their content, which would have been beyond their reach in the past because of the costs involved.

Digital Download Services

Two examples of Canadian services are Puretracks and Zik both of whom suffer from non-compatibility with iTunes, who has a commanding lead in market share.

These sites do not have access to the immense marketing and promotion budgets that Apple does, and to make matters entirely worse, they are competing with a giant whose business model does not depend on the sale of music, but rather one who uses the sale of music to sell their own hardware.

If you bring into play the questionable future of paid downloads as it morphs into subscription and utility offerings, if there is a future for these players, they will need to transform their business models to accommodate new opportunities.

Contributors from this group reflected much of the thinking of the physical distributors - that they are the bastions who defend and promote independent Canadian content.

In reviewing the sites and options available, their argument seems solid – the visibility and range of Canadian offerings is impressive when compared to non-Canadian sites – but can they survive without having to resort to foreign based content as the principal source of revenue and, if so, that comes with what cost? Moreover, how can they attract customers who primarily own hardware which is difficult if not impossible to use with their downloads?

Discussions with some of these players lead one to think that they see an aggregator role in their future, within their own sites and certainly as packagers of Canadian content for other providers.

There is another point that needs to be made here. Looking ahead to the wireless future, many carriers have signed contracts with foreign suppliers to provide and to drive the content. Even if they chose to do so, their contractual obligations with foreign providers would preclude them from converting to a Canadian conceived product or provider.

Secondly, the cost of having to adapt the technology required to provide the wireless content in the event that a client could be found, would be high and beyond the reach of most, if not all, of the Canadian providers.

It would seem that a probable role for these players going forward would be to aggregate the content to foreign platforms who would provide end delivery to Canadians.

6. FUNDING

Parties interviewed for this examination agreed that the Canadian independent music industry is going to require financial support to survive the transition from the current access model to the new and to function and prosper in the new models as they come into play.

In the past, funding support was directed to specific activities undertaken by specifically identified types of providers. Recently developed programs have taken a different tack, providing corporate support rather than project support. The support provided also covers a broader range of activities than had traditionally been the case.

As we go forward, the blurring of roles, the influx of genres and the volume of content will make some of the earlier approaches obsolete.

To move forward, we need to acknowledge that the song is not the whole story – it is the song that will drive the revenue over a wide range of activities.

In some cases, there will be no revenues from the song, or even the album (or collection of songs - albums being a holdover term from the past).

The revenues driven by that content will be where it's at for the industry.

Infrastructure & Marketing

To monetize the content, there will be a need for infrastructure and marketing support.

It would appear that in the initial stages, infrastructure will be more important but if we have learned anything from the last 5 years, it is that technology is growing exponentially and will continue to grow at such a rhythm that the need to stay on top and keep pace with it will be a major cost center for the future.

As for the marketing component, because we are late out of the gate, we need to play some serious catch-up and the expense required will be substantial.

If we also suspend, for discussion, the existence of a distributor as an identifiable role and substitute in its place the act of distribution or access, the path seems somewhat clearer.

When we discussed blurring roles, it really did not seem obvious to anyone where the pilots of the new model are going to come from, but everyone knows or accepts that this is a model that is coming into play now.

Taking all of the above and filtering it through the lens of results-based management, the opportunity seems to somewhat define itself.

The Question of What

If there is going to be public funded support for the Canadian independent music industry going forward, regardless of how it chooses to support production, the diversity of business models and opportunities will make it impossible to define the precise character of what will and should be supported in terms of access and marketing.

Going forward, support programs may target specific types of activity, such as infrastructure and marketing, but they should leave the choices to the applicants to apply as their needs dictate.

What will become paramount is supporting and rewarding success as measured in the realization of outcomes and revenues.

The creation of a fund that would be accessed by applicants based on a combination of admissibility requirements and distributed according to their share of the combined revenues and outcomes is probably the most desirable and fairest option.

Although it probably will prove to be impossible to include all forms of revenue (especially in the early versions of a support program), key revenues will need to be identified and if necessary converted to a common measurable base. This will be of critical importance to evaluate the level of participation of each successful applicant to the support program.

There has often been discussion in the past to level the playing field for publicly funded support programs to compensate for variances in the real world – for example classical music sales versus that of urban pop.

The same exercise will probably need to be applied to categories of revenue because not all are equally lucrative – so ringtone sales, micro payments from subscriptions and/or utilities, concert sales, merchandise sales - all will have to be considered and possibly weighted in terms of fairness.

The Question of Whom

The thorny issue is that of “who” – who gets the money and based on what?

Interest groups, music industry organizations and groups within those organizations, have shown themselves very adept at pleading their own cases but not necessarily that of the totality. The Canadian music industry will need to make greater effort to act in unison on issues that affect the various players within the industry and a serious effort will need to be made to try and find a common ground with stakeholders to gain their acceptance on the principle of rewarding results.

Subsequent discussions will need to define who should receive the support and this will prove to be the real test.

If a model evolves where there is one driver that can easily be identified within the process, then this would make life easier, but chances are this won't happen.

The real question, though, is that with the changes that we have identified in this examination, will it be necessary or even possible to identify one group as being the ones who will provide necessary services to the exclusion of all others?

The answer is - probably not.

It therefore becomes critical to define what the outcomes are and by applying admissibility criteria, opening the doors to a variety of players, each of whom would be measured by his performance in realizing the stated outcomes.

Keeping in mind the prevailing model with all of its players and roles, and

looking to the future with all the new players, the new access possibilities and the new skills, the question of transparently identifying targeted outcomes, measuring those outcomes and rewarding those who succeed, will be the order of the day.

By taking this approach, public policy will be allowing the free market to determine how it may best function while driving specific outcomes.

In cases where one entity will be driving the entire project, or in others where different players fulfill different functions, the rewards will either be cumulative or not depending on the model. The structure of this model will drive the stakeholders to ensure that their partners deliver to the best of their abilities because of the link effect of success through the entire range of revenues.

The drawback of the current reality is that it only drives certain results because the others are not measured nor are they rewarded in terms of publicly funded support. Arguably, the private sector profit incentive should be enough, but in reality, the project often chases the dollar, often with disappointing results.

LOOKING AHEAD

The Canadian independent music industry has been swept up in the changes created by the decomposition of traditional models and the opportunities and challenges created by new platforms and new technology.

The ingenuity and creativity that served the industry well in the past will be called into play with more intensity than ever before.

The question of distribution, of access, to diverse and rich Canadian music content will be paramount for the industry and for Canada.

The Canadian industry will have the opportunity to compete on a global scale for the minds, ears and revenue of music fans everywhere.

The need to develop public policy on some of the issues explored in this report are of utmost important to maintaining Canada's competitive position in this unfolding landscape.

The need to rethink old support models and develop new funding supports will challenge the industry, our creators and our policy makers alike – but we truly have no choice. For to fail to do so, would run the risk of silencing our creators, our artists and our traditions from the global stage.

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Methodology

For the purposes of this examination, interviews were conducted with individuals and groups considered to be a representative sample of the Canadian music industry.

Included in the sample were individuals and groups representing traditional areas of activity including distributors, managers, publishers, labels and industry associations. Administrators of components of the Canada Music Fund were also interviewed as were individuals from new technologies and platforms including wireless and mobile providers, as well digital download services.

Interviews were conducted between June 1, 2006 and August 24, 2006.

Follow-up interviews were conducted where required for purposes of clarification or when issues developed in later interviews that suggested this course of action.

Literature and web-based reviews were conducted on an ongoing basis throughout the time line in an attempt to provide a timely and accurate examination of the subject.

The author wishes to thank the participants for the candor and their willingness to participate in this examination.