

TILEYARD EDUCATION

Music industry strategic thinking

Today

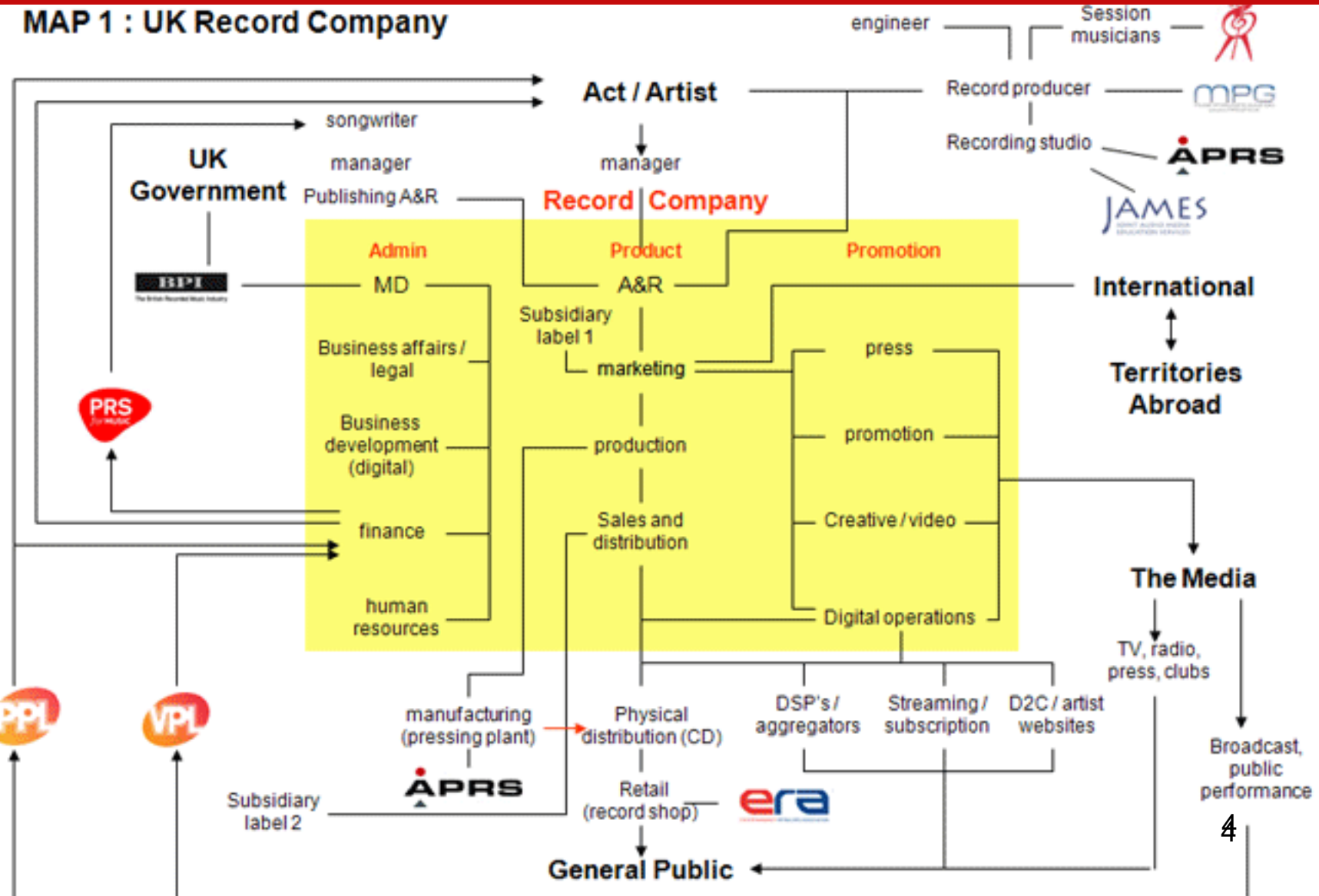
10-1115:	HARRY LECKSTEIN: TILEYARD EDUCATION
1130-1:	MICHAEL HARWOOD, CHARLIE ARME, JASON SHARPE: TILEYARD MUSIC
2-3:	MICHAEL HARWOOD, CHARLIE ARME: TILEYARD MUSIC
3-330:	ALLEN MCKENDREE PALMER PALMER GLOBAL INC PUBLISHING
3.45-430:	WILL SPENCER: MUSICGLUE
430-5:	ASHLEIGH DAVIES: AVID / PROTOOLS

Agenda

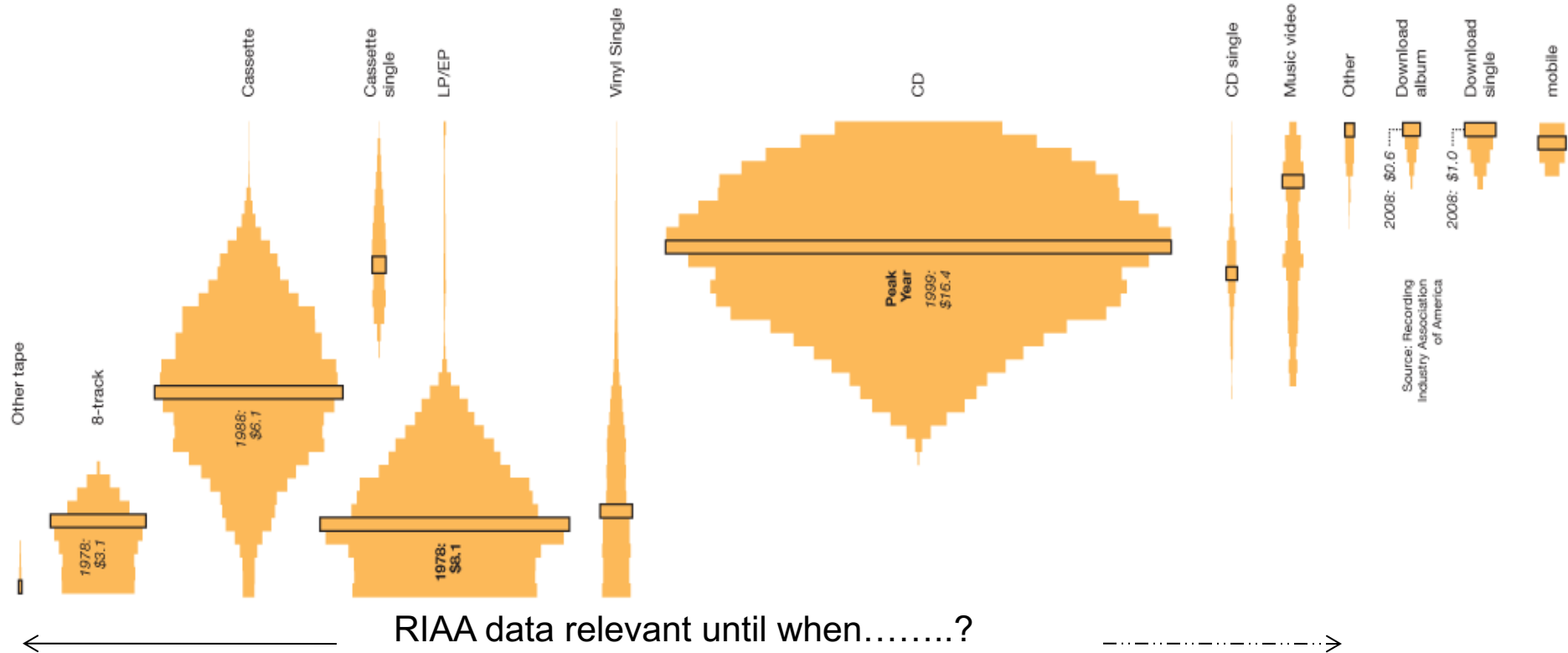
- Today's subject - relevance and context
- The music industry model
- A recent history of the music industry
- Current strategic themes
- Where's it all heading?

The music industry - structure

MAP 1 : UK Record Company



Graphical distribution of music sales since 1973 (RIAA)

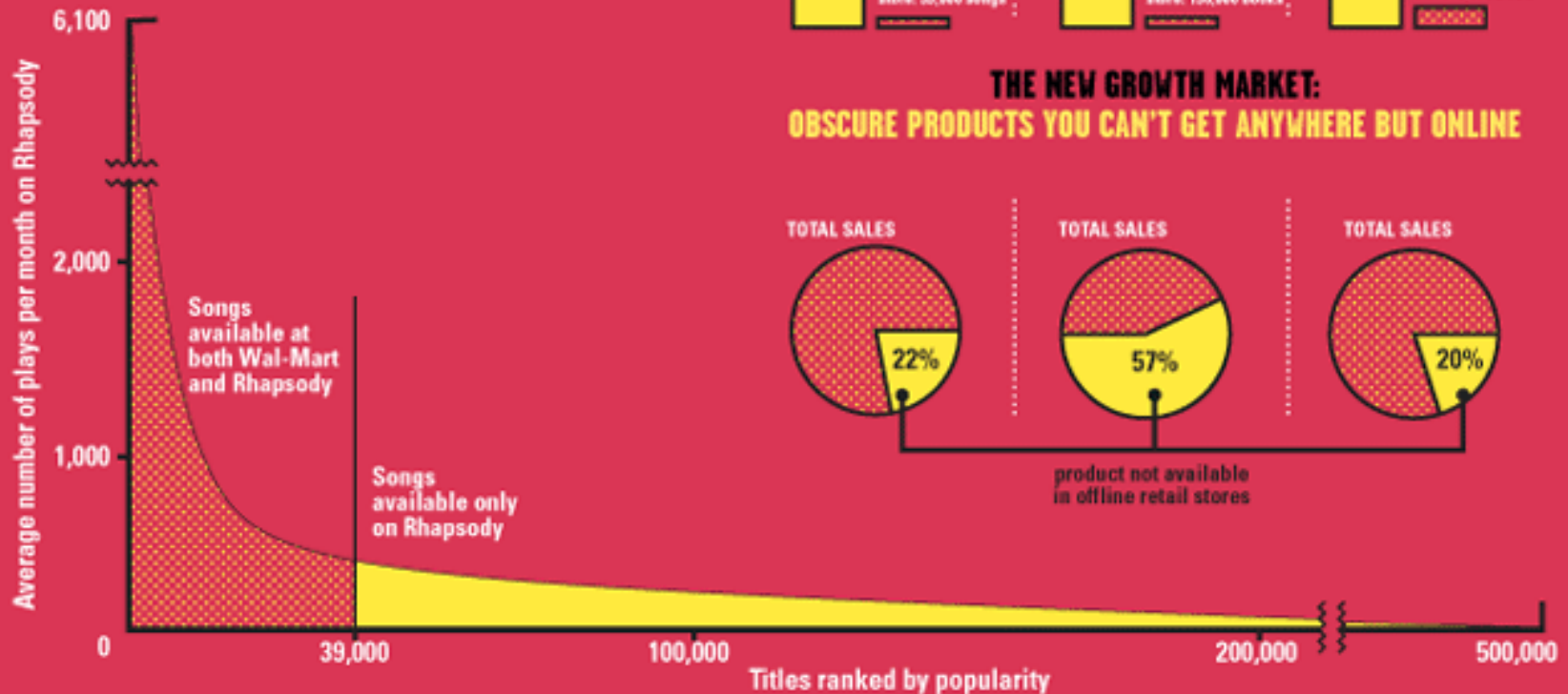


Who controls the formats?
Where is touring, merchandise etc?

The Long Tail

ANATOMY OF THE LONG TAIL

Online services carry far more inventory than traditional retailers. Rhapsody, for example, offers 19 times as many songs as Wal-Mart's stock of 39,000 tunes. The appetite for Rhapsody's more obscure tunes (charted below in yellow) makes up the so-called Long Tail. Meanwhile, even as consumers flock to mainstream books, music, and films (right), there is real demand for niche fare found only online.



The music industry model

- Trickle-down economics and the push model
- Control:
 - music choice
 - distribution
 - value chain
 - price points
- So, the music industry, good or bad?

A recent history of the music industry

- Digital distribution *and* production
- The advent of the MP3
- Napster, 1998, Metallica and all that
- 2001 - “Rip. Mix. Burn.”
- 2003 - The single is dead, long live the single
- CD Baby
- Social networking
- Music bloggers

Strategic themes

- Market led
- Artist renegotiation
- Artist as project - Music_360
- New artist-led distribution models
- The rise of music democracy
- 'Folk' Music / Tribes - Seth Godin
- DRM
- New stores - Amazon MP3 - the death of DRM?
- Licensing
- Ad supported / subsidised models
- Owning connection - back to Tribes

Can full DRM-free music sales be just around the corner?

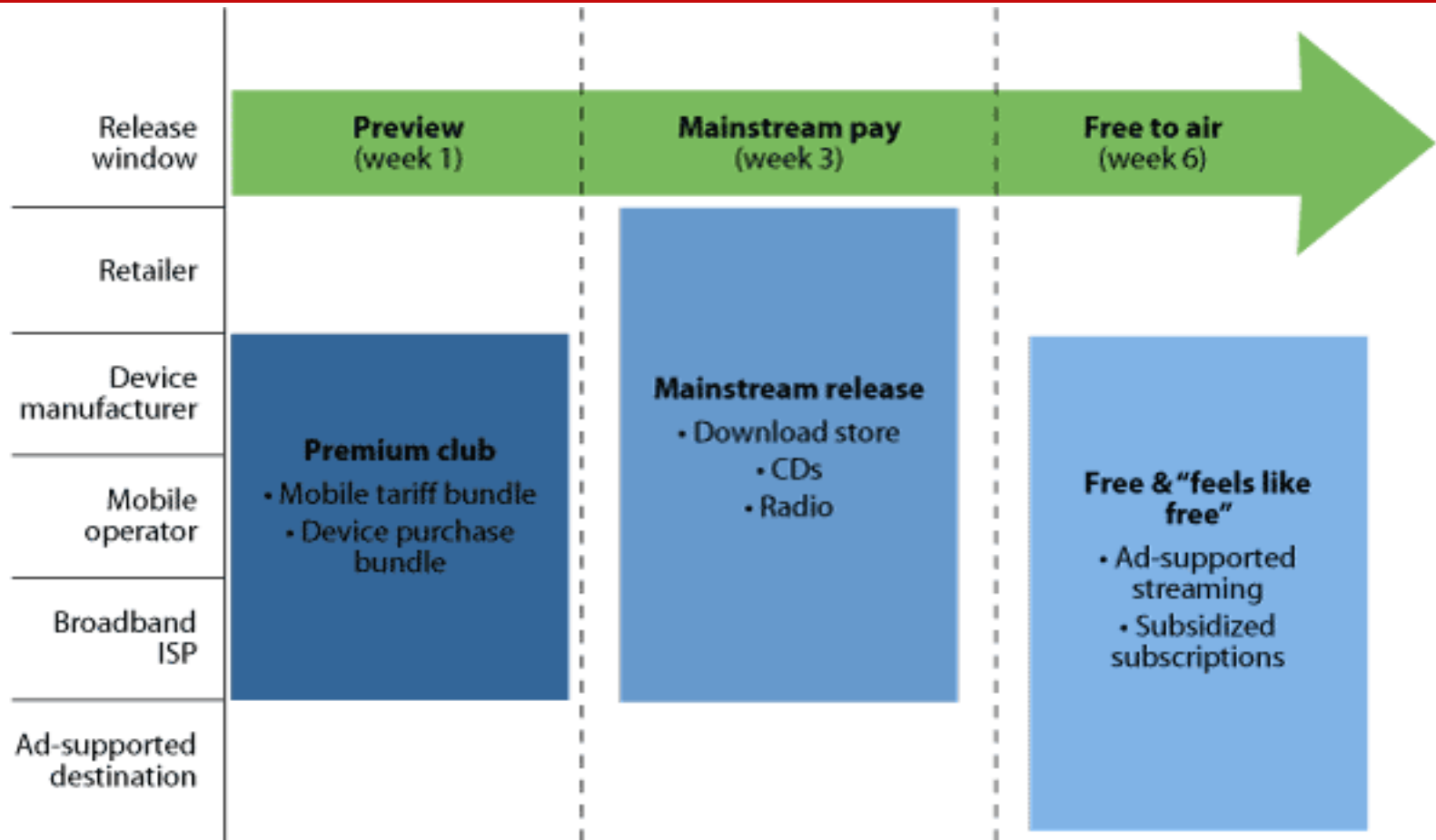
Major positioning on DRM

- **EMI** is DRM free on iTunes with higher bit rates and a higher price/track
- **Warner Music Group** wants variable pricing on the track level including some hit product above \$.99 cents.
- **Sony BMG** wants to work with iTunes using an agency model.
- **Universal** wants watermarking on the individual track purchase level.

Music industry strategy and the majors

- Do they continue to set the tone for the industry?
- What is music's law of nature?
- We are transitioning, but to what?
- Intermediation vs disintermediation - who/what belongs in the value chain
- Group exercise

Alternative industry models



Source: Forrester Research, Inc.

Where's it all heading?

If the music majors are to survive, as some relative entity, they might consider...

- Tearing up the old model: from music product sales to merchandising, souvenirs and anything else we can build around music
- Overhaul of the core music product - *from album to releases* as part of a continual artist-fan relationship with artists delivering a steady stream of creative output:
 - e.g. back stage footage, covers, remixes, mobile apps.
- Content no longer seen as a way of selling albums and gigs, but as an end in itself.
- Leaning on artists and their managers
 - less marketing, more targeted
 - artist responsibility for talent development
 - and* for audience development
- Focus on access and attention
- Bundles / variable pricing / subscriptions and flat rate charges / packages *and* repackages: music ubiquity