

DIGITAL NARM 2007: Day 1

Digital Entertainment Outlook

Leading research firms present their forecasts for selling digital entertainment.

- **Moderator:** *David Gales, The Gales Network*
- **Confirmed Participants:**
 - *Russ Crupnick, The NPD Group*
 - *Matt Kleinschmit, Ipsos Insight*
 - *Mike McGuire, Gartner Research*
 - *Chris Muratore, Nielsen SoundScan*



- The 3 musical genres/categories that are showing the most growth are: Soundtracks, Country and Latin
- According to Matt Kleinschmit from Ipsos Insight, the 2 main behavioral drivers today for music consumers are **CHOICE** and **CONTROL**. One of the main reasons that consumers flock to p2p networks beyond the "freeness" is because they can find pretty much *any* track by *any* artist that they want. Control refers to the ability to freely move the content to any device that they want now - and in the future...



Ipsos Insight TEMPO STATS for 2006: Usage By Service Type

- A La Carte Downloads = 67%
 - Subscription = 17% (*demand for satellite radio is actually higher*)
 - Album Purchases = 12%
 - Bundles = 11%
-
- Broadband only took 5 years to reach 50% adoption in this country (*FCC/Pew Internet*)
 - Napster 2.0 had the highest brand awareness above Apple iTunes
 - 78% of home internet users in the U.S. now have Broadband (*according to USA Today*)



Mike McGuire from Gartner Research thinks that the other 3 major labels will eventually follow EMI's lead to sell DRM-Free files on iTunes, but it might take some time while they sit on the sidelines and take a wait-and-see approach. He also insightfully suggested to the struggling retailers in the audience that perhaps they should embrace the musical expertise that currently exists on the web and bring it into the stores. For example, [Last.fm's](#) scrobbling data and other site's rss feeds can be very helpful tools to help customers pick out music that better matches their personal tastes.

NARM's Jim Donio: Digital is just a way to communicate with customers and it's basically just another marketing tool. Once p2p goes legal will anybody really care? Today's stakeholders need to take ownership of the problems that exist with "legal digital". One of the reasons mobile music hasn't taken off is because the quagmire of not having interoperable DRM. For example, most store clerks can't even explain the process of buying over-the-air downloads or using subscription services on your phone - since there is no standard that works well and is simple to use.

At the end of the day, the music industry needs to provide digital alternatives in the retail store environment. Owning the customer relationship is key - which involves the *billing* and the *technology*.

Step 1 – People buy music because they've been made aware of music.

Step 2 – Make the shopping experience positive and give the consumer purchase options for quick Impulse buys.

Retailers need to match their promise to consumers online and offline in the store. The key to doing this is to integrate **digital/physical/mobile** as a way to *experience* and *acquire* music.

Mobile Marketing: New Frontiers In Reaching Consumers

Mobile companies discuss the rapidly changing marketplace for delivering music and other forms of entertainment.

- **Moderator:** [Antony Bruno](#), *Billboard*
- **Confirmed Participants:**
 - [Gregg Brown](#), *AT&T Mobility*
 - [Dave Ulmer](#), *Motorola*
 - [Alana Muller](#), *Sprint Nextel*
 - [Dorrian Porter](#), *Mozes, Inc.*
 - [Bill Stensrud](#), *Muze, Inc.*



- For over-the-air (OTA) download purchases, Sprint uses AAC encoded files from digital music aggregators Groove Mobile and IODA. Sprint currently offers a catalogue of over 1.6 million tracks and to date, has realized 15 million legal downloads.



- Trying to compete with Apple's iPhone Sprint and Samsung have released their new Upstage mp3 player phone – which sports an ingenious design for an all-in-one, wireless device.



The handset's Lithium ion battery is good for up to 2.5 hours but that's not even half the story. The UpStage comes with a good looking faux-leather carrying case with a large, built-in second battery inside. The phone and the case combine for a whopping 6.3 hours of talk time that recharges both batteries with 1 cable.

- AT&T on the other hand, elected to pursue a different "sideload" strategy compared to Sprint and does not currently offer OTA downloads. As a result, their service works with DRM10 compliant companies like Yahoo/Napster and eMusic's open content.
- A world of converged phone devices is coming soon because that's what consumers want – and everybody has one. (For example Motorola and Nokia are the 2 largest camera makers on the planet.) Two years ago, phones could only hold 1 song, but now models like the RAZR can hold 70 hours of music. Next year, phones will be able to hold 10x that amount.
- Nowadays, phones have surround sound and even offer stereo Bluetooth; battery consumption is only going to get better.
- The mobile music market is growing fast: 3 years from now, everyone will have a mobile phone with music capabilities – including a connection to an integrated digital music store. Mobile phones allow the consumer to *acquire* and *consume* music but today, **the biggest problem holding back the growth is the inherent difficulty in easily getting/xferring your music collection onto your phone.**
- The mobile phone is an integral part of a multi-channel marketing strategy, but buying things on your mobile phone is still in the nascent stage (i.e. swiping your phone over a barcode or using RFID technology)
 - Loyalty cards can give valuable discounts, but they also give retailers the ability to push coupons to your phone. We will see much more of this in the next 5 years.
- In general, we're still in the "Walled-Garden" stage with mobile, but **in 3 years from now – the user will control what he/she puts on their device.**
- With mobile, you have to offer "discovery" before people will buy it!
- Friend-to-Friend discovery is still #1



Case Study: Bridging The Gap Between Digital And Physical Retail
Napster will highlight its new online partnerships and showcase effective solutions to exploit both physical and digital sales.

• **Presenter:** [Chris Gorog, Napster](#)

- According to Napster CEO, Chris Gorog, Napster saw 100 million in sales in 2006 and has seen 100% increase in revenues year over year.
- Napster is the #2 or #3 service in the world selling a la carte downloads, but 80% of their revenues come from subscriptions.
 - Some of the early subscription obstacles were:
 - Closed platform
 - No strong hardware partner emerged
 - Lack of awareness and understanding of the new business model
 - But wait things are changing and there's hope now - all mobile phones being made and shipped are incorporating Windows Media Portable and according to Jupiter, the installed base of mobile phones by 2009 will surpass mp3 players
 - Also, by 2008, 100% of cell phones will be music enabled
- The number of CD units shipped are down 33% since 2000 and despite all the hype, **legal song downloads are just not making up the difference.** It's either time to surrender or time to try something different.

So What do Consumers Really Want? After 7 years he thinks they have enough data to answer this question - **THEY WANT NIRVANA** and he thinks Napster offers the closest service to this.

- Unlimited listening
- Unlimited discovery
- A shared platform
- Free

"The future of music sales is not in per unit transactions – it's in fees – to provide unlimited access in a completely connected world."

Napster has recently partnered with Tower records Japan and is offering successfully offering subscription in the retail outlets.

- They're using the physical world to create digital customers
- They're helping to migrate customers to the new world
- They use the service in the store as a research tool for their customers
 - In doing so, they provide hands on experiences.

Capitalizing On Cross-Channel Marketing: Breaking Down The Barriers

This discussion will focus on building strategic relationships to enable physical retailers to profit from digital delivery.

- Moderator: [Adam Mirabella](#), Sony BMG Music Entertainment
- - [John "Jack" Dennis](#), Destiny Music, LLC
- [Bob French](#), Mix & Burn
- [Chris Hoerenz](#), eMusic
- [Kevin Nakao](#), RealNetworks
- [Jennifer Schaidler](#), Best Buy Enterprise
- [Shachar Oren](#), Neurotic Media

- The next frontier will be in the living room and that's one reason why Rhapsody partnered with Best Buy.
- A key challenge for the industry is to use digital music to incentivise the physical world



- Buying music is not transactional – *it's experiential* (i.e. why offering beer, wine & coffee, etc. helps make sales in the retail environment)

Retailers need to make the commitment to message to the consumer and customize the environment for particular customer experiences because retail will always be important for the adoption of new technology.

- Best Buy has recently placed test kiosks in 4 stores from local Indiana upstart, [Digital Kiosk Technologies](#), because they believe people want to buy tracks and “personalize” the music. So far, they’re seeing repeat traffic to these trial kiosks, which have USB ports and fill Creative Zen devices.
 - Even though Kiosks are turning into basic ‘entertainment systems’, they need to be worked and marketed on the floor by the sales force just like anything else.
 - Use them to promote other products in the store; make invisible products visible; products that are counter-intuitive to what you think.
 - Take advantage of the element of ‘forced discovery’
 - One advantage to kiosks’ virtual catalogues is the ability to merchandise the CD bins for the albums not physically carried in the store. If the store doesn’t have the CD on the shelf, they can direct the consumer to the kiosk to burn the music on the spot that the customer is looking for.
 - Printed compilation on-demand CD’s seem to be more “giftable.”
 - 70% of users will pay more for higher bit rates if available
- Rhapsody has historically appealed to ages 35-45, but in the last 6 months – they’ve seen a lot more younger people signing up for the subscription service.
- eMusic’s audience is mainly 35 and older and the hybrid service caters to older music collectors who are tech savvy.
 - Consumers are used to buying things in a box so “beef up” the gift cards
- Sustained success requires *experimentation* and *entrepreneurship*; you have to morph yourself to reach a new demographic and it’s basically an evolution over time. Make a commitment and stick with it – don’t be so reactionary to the daily headlines.
- **Innovative releases offer bundles:** ringtone, wallpaper and a download because it’s all about creating a value perception to the consumer. Connect the consumer to the retailer’s brand when they redeem part of the bundle – then reconnect with them on an on-going basis. (For example, additional value add could include digital downloads and a membership into a fan club...)
-

Closing Presentation: Hot New Stuff

Attendees will hear exciting updates on developments in Microsoft's new innovative device.

- **Presenter:** [Christina Calio](#), Zune



According to NPD data, Microsoft Zune has an amazing 9.1% marketshare in the portable mp3 player market after officially launching last November, which sounds *amazingly optimistic* to me. Perhaps the uptake is related to the fact that the Zune is currently being distributed in over 31,000 U.S. retail stores. Apparently, there are also plans to have a “family” of Zune devices in the near future. One example of this is their attempt to appeal to a broader female demographic, with the new limited

edition device in hot pink called "[SyncPink](#)."

Calio also said that there will be a "family" of Zune devices in the near future as they try and create a Zune ecosystem. There are also plans to preload 20-30 songs of up-and-coming indie artists with every device sold as well as a solid commitment to engage in artist development every quarter. Also announced for the near future was a series of Zune accessories that will tap into the cross-promotion benefits of Xbox's 6 million subscribers as well as MSN users.

[DIGITAL NARM 2007: Day 2](#)

Thomas Dolby: The Artist's Perspective

- **Artist:** [Thomas "Dolby" Robertson](#)
- **Interviewer:** [Kevin Day](#), Rocket Science



- The point of purchase in the car is still missing in the music industry
- Thanks to the internet, artist and fan relationships are tighter than ever
- 70-80% of his fans still buy CD's over downloads

Major Music Company Presentations: 2007 Digital Strategies

Representatives from the four major music companies will share their respective visions for competing in the digital marketplace.

- **Host:** [Peter Faricy](#), Amazon
- **Participants:**
 - [Thomas Hesse](#), Sony BMG Music Entertainment
 - [Amanda Marks](#), Universal Music Group
 - [Michael Nash](#), WEA Corp.
 - [Barney Wragg](#), EMI Music Marketing



Peter Faricy, Amazon

- According to Amanda Marks, the times are-a-changing...Universal Music Group is no longer a record label – they're now an entertainment company; New Media is no longer "new".



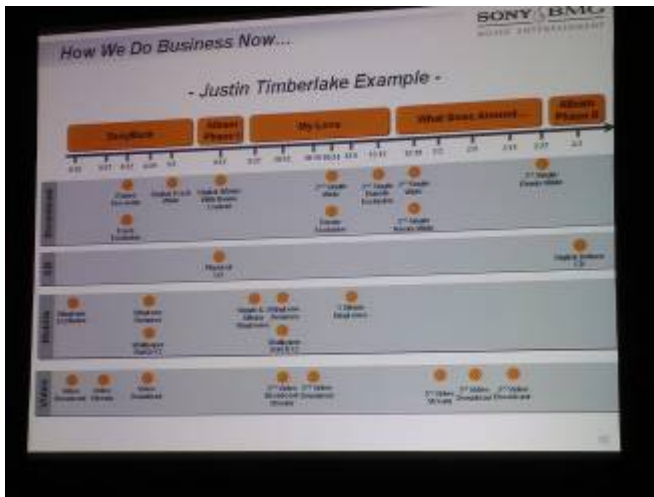
- Universal's digital revenue was 17% last year and is expected to be 22% in 2007
- Their goal is to find a product match that is priced right for each consumer
 - Classical music fans buy more albums than anyone else, with Jazz fans being #2
- Other goals are finding interoperability and ubiquity as they walk the tightrope of balancing artist rights and consumer's desires

- They will consider selling open mp3's if there is positive cash flow growing faster than piracy
- Digits alone cannot sell music; retailers need to do better at converting current website traffic into new types of purchase opportunities.



Thomas Hesse, Sony BMG Music Entertainment

Sony is striving to create a fluidity of experience with their artists; one example is Justin Timberlake whose last album had 71 different pieces of content for sale at the same time.

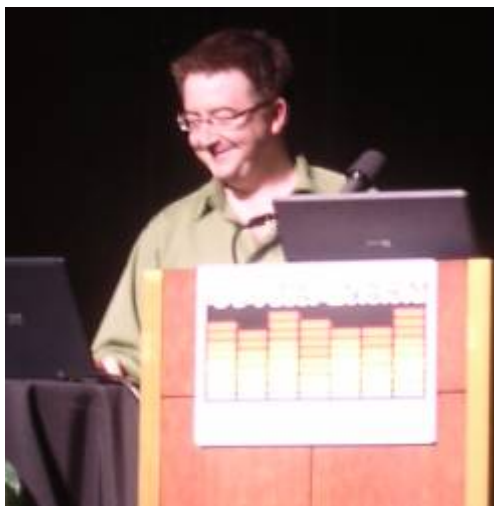


- Expect more bonus content including “vingles.”
- The overall music industry climate is not as bad as it seems on the surface – consumers want more music – in fact they love music! Retailers just need to tap in better to that opportunity.
- Selling SD card formats with DRM are currently being discussed

According to Warner’s Michael Nash, one of the industry’s problems is that it has not re-invented the album experience in the digital space. Vinyl records were excellent vehicles for combining the artist’s voice, vision and brand but this aspect is missing from today’s p2p systems.

- One solution to this problem is called MVI or Music Video Interactive, which provides the best features of physical and digital.
 - Users can create customized ringtones and remix audio tracks
 - This provides a “connected” experience by attaching a network service to the actual product.
- Warner’s current view of DRM is that it should be focused on tracking transaction and enable a limited amount of sampling – or risk the obsolescence of its business model.
 - Of course the industry also needs to achieve interoperability; we can’t keep going backwards though because the CD format is inherently flawed. To survive, content owners need to deliver added value that somehow beats competing with p2p.
- Product innovation is a circular innovation: physical – mobile – online
- Next generation mobile music experiences will include artist-branded user interfaces on phones (for example, priority access to tour tickets really helped sell the Red Hot Chili Peppers)

Barney Wragg is EMI’s new Global Head of Digital, coming on board last November. He stated that the music industry is actually leading the digital entertainment charge compared to other outlets like news.



Currently, the U.S. has a 75% penetration of cell phones and our mobile music business is much more profitable than Europe’s mobile market. To put things in proper perspective, there are 800 million cell phones compared to 120 million iPods...and soon, global mobile music revenues could rival what the entire music industry used to make annually, which was around 33 billion per year...However, he feels the current “locked mobile market” does not benefit consumers.

EMI's current strategy uses **3 Key Axioms** as they try and be the most consumer-focused record label in the market today:

1. Value for Money
 2. Good Product Offering
 3. Ease of Use
- EMI's recent announcement with Apple iTunes was not exclusive and they will sell their DRM-free content in multiple online stores.
 - The music industry is a fixed-margin business

Indie Distribution Panel: Winning At The Digital Game

A group of companies from the independent music sector will discuss how indies keep their edge and uniqueness as physical converges with digital.

- **Moderator:** [Don VanCleave](#), *Coalition Of Independent Music Stores (CIMS)*
- **Confirmed Participants:**
 - [Kevin Arnold](#), *IODA*
 - [Mitch Kolouris](#), *DMGI*
 - [Michael Kurtz](#), *Music Monitor Network*
 - [Matt Laszuk](#), *IRIS*
 - [Jim Logrando](#), *Redeye Distribution*
 - [Brad Navin](#), *The Orchard*



Technologies do not transform culture – Instead, culture transforms technology.

Mobile music is still in its infancy, but SMS text is the real driving force behind mobile data revenues because it's the most profitable item (i.e. 64 billion in first half of 2006).

Only 10% of us use the phone to browse the web - even though 60% of us can.

Best Practices: Marketing To Mobile Customers

• *Presenter: [Steve Smith](#), Media Columnist, MediaPost and Media Industry Newsletter*



American Idol had 70 million phone votes recently (2 million of those were from Sprint customers.) This type of personal connection works very well, especially when the users get to see the results because it makes them feel connected – as if they have individually have an influence on the outcome. Mobile voting is not about personalization – this phenomenon is something entirely different.

Audience participation is increasing at live concerts with text-to-screen technology and many cell phones have actually replaced the traditional “lighter.” The end result is that people will buy songs as they hear them...This is about taking a brand and making it a trusted friend – a feeling of being connected to something special.

We’re beginning to see the proliferation of short-codes (SMS) being printed on packaged goods and in online advertisements....This initiates the beginning of a relationship with the brand.

Using the phone to interact with physical objects (i.e. scancode or RFID tag) lets the phone become the remote control to the world.

Even though “mobile couponing” is still in its infancy, retailers could take advantage of mobile marketing by sending instant in-store text messages which would give you a discount at the register...

To gain an advantage, we need to leverage mobile technology’s unique properties...Think of the cell phone as a medium – a platform that lets the brands in...When you think about it, it’s really a user-driven, customer-centric marketing system.