

Music labels and artists enlist apps to power their next-wave digital fight back

Music: the 15-second download

- 5 The format and technical characteristics of digital music made it the first segment of entertainment and media to encounter the full force of digital disruption—and it looks set to be the first segment to emerge with a next-wave digital value chain.
- 10 With mobile devices, bandwidth and apps now ubiquitous, and consumer preferences shifting from music downloading to streaming, apps are emerging as part of the future of music distribution—using flexible, scalable back-end systems to track, manage multiple revenue streams and adopt new models.
- 15 The outcomes could include a return of niche independent labels nurturing selected talent and selling content direct to audiences of committed consumers—and a drive by labels to re-architect their infrastructures to compete with the technology giants.



Hardened by years on the digital front-line ...

The music industry has spent the past decade in the front line of digital disruption and disintermediation. From Napster to iTunes to Pandora and Spotify, music has been the sector tasked with pioneering the pathway to digital growth, as other segments of entertainment and media looked on with a blend of trepidation and admiration.

The factors that put music at the forefront of digital migration included its relatively small file sizes and available content formats. Whatever the drivers, the effect on revenues has turned music labels into masters in managing marginal decline. They've adapted aggressively to digital whilst also retaining physical distribution.

However, there's now light at the end of the tunnel. Just as music was the first segment to encounter the full force of digital disruption, so it looks set to be the first to re-emerge with a value chain fully reinvented for digital. It's now about deeper digital

media transformation to enable cost-effective, responsive and deeply creative audience engagement, supplemented by anytime, anywhere distribution direct to consumers via mobile apps. This in turn can enable music labels hand-in-hand with artists to drive immersive engagement and counteract the competitive threat from technology companies.

... music blazes a trail into the next-wave digital era

How will the music industry achieve this fightback? Let's start by looking at the basic building-block of the new music landscape: mobile apps.

The ongoing explosion in app downloads (see Fig. 1) reflects the presence of several key ingredients—including ubiquitous penetration of mobile handsets with rising power and functionality, and persistent high-bandwidth broadband access. These same factors are seeing consumers' preferred means of accessing music shift from buying

downloads to subscription-based music streaming services.

Music is being driven increasingly by video (and mobile video in particular)—and apps can create a great immersive experience for video and audio. Over time, common app interfaces for consumers' chosen services will work on an ever wider range of devices—expanding beyond handsets and tablets to devices including TVs, motor vehicles and more. So, wherever someone is, a familiar app interface will always be within reach, or at least earshot—but with more power and functionality via the device connection.

The app-powered future emerges ...

So, what better way to distribute music? The key to seizing this opportunity is developing artist apps that reside in consumers' service apps but that are also independent, controlling the entire direct-to-consumer (D2C) interaction for a label, artist, manager, or other music

content owner. This control enables the app to sell the full range of music content formats and associated incremental revenue—audio, video, merchandising, live concerts, free-to-consumer ad-funded or sponsored content, and more.

This future is already taking shape. Services such as *BandApp* are enabling artists to upload their music from iTunes or SoundCloud into an app and sell it directly to their fans—with one band member quoted on its site commenting: “BandApp has given us a direct link to the pockets of our fans, we can record a song in practice and offer it to our fans that night! It’s changed everything.” A fan on the same site says: “It’s like being in a record shop where all the music is new and totally free to stream.”

For consumers, the attraction of music apps is further enhanced by the ability to store their own content from any source in the cloud and access it on any device. And as these trends gather pace, music apps will increasingly be sold as bundled elements of third-party contracts ranging from telecoms to utilities, driving broader commercial uptake.

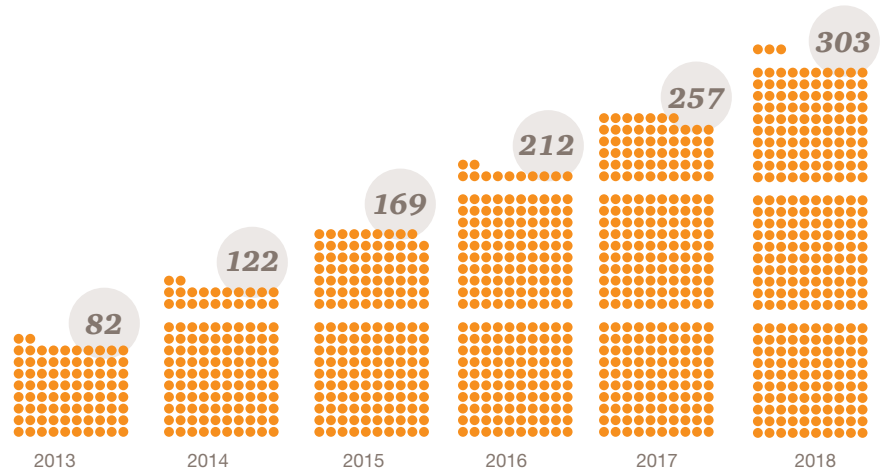
As new services and distribution options emerge, music companies will need to become more agile to embrace these opportunities and engage fans in more immersive and multichannel ways—delivering a consistent and high-quality experience across all devices.

... demanding enhanced technology infrastructure

To succeed in this ecosystem, the investment in front-end apps will need to be balanced by spending on infrastructure and IT systems. This will include investing in the development of new platforms and internal systems, while taking costs out from decommissioning legacy inflexible systems and specialist groups that may run them.

Fig. 1: Global app downloads will more than treble over the next five years

Number of global app downloads (bn) 2013–2018



Source: *Global entertainment and media outlook 2014–2018*, PwC, Informa Telecoms & Media

A realignment of investments to digital workflows, distribution and direct engagement will offer new rewards, if driven from a flexible, scalable and responsive corporate architecture, with a culture for embracing new opportunities and winning back the fragmented audiences, with great product and deep connections.

Key to success will include bringing rights and royalties upstream into the early stages of the production process and digital supply chain, enabling rapid validation of rights and content distribution. At the same time, registering this content and tracking it across all environments will yield new opportunities with commercial value—some as-yet undreamt of.

Back to the future of music?

How will this new value chain impact the music industry? One effect is that it could fuel the return of independent labels like those in the 1950s and 1960s, run by people with a passion for particular genres of music and the ability to discover talent.

In the new digital wave, labels could grow being dedicated to discovering high-quality talent, and then building 360-degree models for a select handful of artists, using the technology companies for creative campaigns and distribution. Some indies have already been successful in focusing down and using majors for global distribution. In the future, it may be the technology companies that could fulfil that secondary requirement.

A further impact of pervasive connectivity and music apps is that crowdsourcing will become an increasingly viable way to enable scalable funding for global campaigns by independent artists. And labels will have the opportunity to re-architect their infrastructures to compete against technology companies and drive their new D2C relationships in a more dynamic way, by offering new specialist experiences and audio or visual products that they create.

Bringing music back to the people

In many segments of entertainment and media, the overall effect of digital has been to democratise content creation, distribution and consumption. Music promises to exemplify this impact—effectively bringing easier and more location-agnostic access to music back to the people who love it.

So much of music is about lifestyle, ambition, community and enjoyment. With authenticity and relevance layered on top of these elements, music becomes a richer and more engaging experience. New technology and higher-quality file formats bring these experiences even more fully to life, and reintroduce a high-quality, more home cinema-like experience.

Looking forward, the roll-out of super-fast broadband will enable streaming and other digital music services to regain the warmth and depth of music consumed on vinyl and the crystal clarity of CD. This will be achieved by upgrading the ‘tinny’ sound quality of MP3 to a much higher-quality experience, as is being pioneered now—but in a more readily available model.

The result: audiences will find their imaginations recaptured and love of music reinvigorated through deeper, more meaningful experiences. And the rights owners that remaster and distribute music direct to consumers through ubiquitous apps—and manage and monetise the resulting transactions and experiences—will realise significant value. Put simply: a win-win both for music consumers, and also for creative companies and artists.

Ten questions to ask:

- 1. Are you embracing the lean transformation that flexible technology can realise?*
- 2. How have your talent, content and distribution strategies evolved?*
- 3. Do you have a single view of your artists and products content across all distribution platforms and devices?*
- 4. Are you actively developing apps to distribute and promote your content direct to consumers? Where are you focusing?*
- 5. How does your product distribution break down between physical, downloaded and streaming—and how is this balance shifting?*
- 6. What economics will drive the need for lean operations?*
- 7. Are your current back-office systems up to the job of tracking multiple revenue streams across various types of interaction on a range of platforms and devices?*
- 8. How early in your digital production value chain do you address rights and royalties?*
- 9. Where do you see your business fitting into the multifaceted music value chain now taking shape?*
- 10. How far have you progressed in your plans to advance beyond MP3 to offer consumers richer and higher-quality digital music file formats everywhere?*

Outlook insights: an analysis of the Global entertainment and media outlook 2014–2018
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