

The Digital Delivery of Music

**Business Plans and Methodologies for the digital delivery of
Australian Music**

For the Australia Council for the Arts

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Executive summary

This report reviews ways the online digital delivery of music may be utilised by clients of the Music Board of the Australia Council, and Australian musicians more generally.

It examines trends in music in an international and Australian context, and notes that the current model for retailing music - dominated by the 'big four' labels and by the compact disc - is both under attack and in decline, though some areas such as the live music sector, publishing and musical instruments sales continue to experience growth.

Online digital delivery of music, currently dominated by Apple's iTunes system, involves a move away from street front stores, and 'physical' copies, towards portability (including mobile phones). Online and mobile delivery continues to be a major area of growth for the industry. Download services and streaming to personal computers remain the dominant mode of delivery of digital music, though downloading services to mobile phones are also available, and despite constraints, are growing. Digital Rights Management (DRM) is currently the sector's most significant issue.

In addition to being a burgeoning delivery mechanism for music, the Internet continues to develop a plethora of opportunities for the promotion and marketing of all kinds of music. Offsetting the opportunities for sales is the increased opportunity for illegal downloading.

Australia is following all these international trends, although they started and continue to develop more slowly than in other parts of the world.

There are already a variety of download services to personal computers active in the Australian marketplace, ranging from Apple's iTunes service, through Telstra BigPond and Optus to services such as Nine MSN, the ABC, JB HiFi and Harvey Norman, as well as a range of independent suppliers such as Sound Foundation, Martian Music, Inertia and Creative Vibes. The sector has been increasing in activity since the arrival of iTunes in late 2005, but is still changing rapidly:

- Online delivery formats are varied, as is pricing and the approach to DRM. This is not helpful to consumers using a variety of playback devices.
- Delivery models are not settled, and a significant number of sites included in the survey have undergone re-badging or substantial alteration in the past six months. It is likely that this turnover in terms of approaches and formats will continue in the future.

- While there is a diversity of sites, mainstream sites online tend to replicate each other's strategies, and provide a narrow emphasis on popular music.
- There are already a substantial number of download capable sites active in an Australian setting and any attempt to enter this marketplace would require serious investment of time and capital to succeed.

Selling music into the Australian market via these sites does not generally involve selling Australian music as a genre. While Australian music is a key concern of the Music Board, Australian music is not perceived as a significant genre term (in the way that pop, jazz, blues, classical and so on are genres). Though it doesn't have a significant role in selling music, the concept of Australian music can be useful in terms of the marketing and promotion of Music Board clients and the Australian industry more generally, as demonstrated by sites such as the Australian Music Centre, Jazz Australia, Triple J Unearthed and so on (many of which have been supported by the Music Board).

These sites also reflect the niche interests and diversity of musical activity funded by the Board. This diversity is - in both a cultural and commercial context - the most significant aspect of Music Board funding, but this diversity creates complications for online distribution.

- The Music Board is not a music label, nor could it become a successful music label without forsaking diversity. The major labels aim at commercial success; independent labels (or subsets within the major labels) tend to target a niche audience. No label would have the diversity of approach and content contemplated by the Music Board - inevitably some areas would be cut from the catalogue on the grounds of it being of minority interest, or non-commercial even within a niche context. If the Music Board were to contemplate embarking on marketing and distribution, whether online or via other mechanisms, it would have to start thinking of itself more as a label, in both the commissioning and selling process, and this would be to the detriment of its current policy of musical richness through cultural diversity.
- The Music Board's emphasis on live performance is important for many institutions as well as individuals, but it also forms what might be termed a 'virtuous promotional circle'. Performers can use their websites to promote their performances, which in turn can be used to sell CDs (often as a promotional tool rather than a major revenue earner), while CDs can also be sold online as a way of promoting the artist and as a way of enticing them to live performances.

- In this cycle, the main revenue earner is the ticket at the door, with other promotional tools deployed to ensure healthy sales. Varying this by shifting from CDs to online digital delivery would simply provide a variant element in the virtuous circle, though one not easily available at the stage door.

Online distribution as part of this virtuous circle has thus far tended to take the form of downloadable or streaming music samples, and a significant number of Australia Council funded artists already provide this kind of interactivity on their web sites.

However some performers resist reducing their performances to the relatively low quality level of reproduction available through mp3 or mp4 formats - believing that their music is primarily for performance in a space rather than for recording. Other artists resist embarking on promotion via the Internet because of the time and expense involved, and because the ongoing maintenance of an Internet presence interferes with the more directly pleasurable and immediate requirements of performing or composing.

- The Internet can be perceived as a relatively chaotic, noise filled and occasionally dysfunctional virtual world where it is possible to feel many forms of rarefied music face indifference. Hence there is a role for aggregation and clustering around styles and genres of mutual interest to performers and consumers.

As a result the onus is upon the performer or the composer to engage with their audiences and with online merchants in the private sector. If it is not possible for the private sector to sell music profitably, it is unlikely that any government agency could manage - or outsource to a third party - this kind of business activity in a way that is commercially sustainable (or provide significant revenue to musicians).

Music Board clients, both individuals and institutions, especially those active in the 'art' music area, were sceptical of the commercial viability (or the aesthetic benefits) of online selling, while commercial players emphasised the significance of issues involving rights if a funding body were to become active in online selling.

A review of Music Board funded performers and composers (and institutions) showed that most have in place at least basic, but often sophisticated, web sites (or web presences through third parties), which are designed to promote and engage with audiences, and to sell product where available. Many now perceive the Web as an essential way of interacting with audiences. However the level of functionality required by Web 2.0 activities has yet to become widespread.

The online presence of Music Board clients indicates that they attempt to reach their audience in a variety of ways. It also suggests that these activities are as diverse and as fractured as much other activity on the web, but that the private sector has carved out niches and multiple spaces for all kinds of Australian music, often organised along the lines of specific genres and allied musical interests.

In attempting to counter this sense of scattered energy, the idea of a unifying central site has theoretical appeal, to provide a base for the promotion and selling of Australian artists and their music. However - apart from practical issues such as rights management - such a comprehensive site would face many philosophical difficulties, including branding and merging of diverse genres and practitioners, while being unlikely to work on a sustainable commercial basis.

In reviewing the commercial sustainability of online digital delivery, the report examines various business models, including 'a la carte', ad supported, free and subscription models, and the use of 'white label' services and Application Service Provider (ASP) sites - together with the difficulties such businesses face in relation to Digital Rights Management (DRM), though DRM might well prove to be a short to medium issue as the 'big four' begin to experiment with selling DRM-free music.

Other business models include 'old' physical selling of CDs versus 'new' digital downloads, the leveraging and branding of product via Internet marketing, and donation, 'shareware' or engagement models whereby artists deal directly with their client base.

Many of the largest retailers of online music are involved in the business because it helps drive adoption of their other services or products, for example ADSL broadband or iPods. The profitability of these large sites is uncertain because of the infrastructure costs of establishing and maintaining them.

The costs of online delivery are an issue in all forms of delivery of music to clients, and a number of theoretical models and associated costs are described and discussed, with the costs involving administration, infrastructure, ingestion, reporting, hosting, delivery to mobiles, cross platform delivery, help desk costs, mechanisms and costs related to E commerce, and marketing costs.

The implications of costs versus revenue potential are also examined, and the sustainability of likely models is reviewed. Whether the model is a custom download site, or a 'white label' site (i.e. one taken off the shelf from a supplier and 'skinned' to provide a new visual identity), the results suggest it would be difficult to sustain any commercial model for the download of music involving only the Music Board's client base.

Deployment of any of the models available would duplicate, rather than enhance, models already existing in the commercial sector. While some of these models involve high risk and low revenue potential, there is no point in duplicating low volume sites, and the amount of capital involved in high volume sites - together with the consistent need for intensive marketing - is simply not practical for the Music Board's current level of funding.

Nor is the Board or the Council in a position to extend a limited model involving their clients into a model that would involve artists outside its client base. There are many commercial generalist music sites in the Australian market, and it is unlikely the Music Board could compete effectively with them without similar substantial expenditure on marketing and administration.

Accordingly, the Board should consider other strategies to assist its client base in developing skills to deal with the expanding business of delivering music by digital means.

Some of these strategies and mechanisms could involve using what is now commonly called Web 2.0 techniques, which provide ways for artists, institutions and communities to engage with and sell to their client base. The Music Board can encourage its clients to engage with these strategies, and can itself become involved in a variety of ways.

There are many simple mechanisms available for setting up low cost marketing websites, either through hosted services such as Blogger or through more dedicated sites with domain names reflecting the name of the musician, ensemble or organization. The nature of most musicians' businesses, with the focus on performance, recent releases or news, means that the blog form is ideal as the basis for a site, and there are many simple tools available, including a range of inexpensive or free content management systems. These can be supplemented by presences on social networking sites such as MySpace or Facebook, and through placing video of performance on YouTube or Revver, although it should be noted that there are licensing issues involved in placing such material.

While it would no doubt assist musicians for the Australia Council to maintain links from its home page to their sites, the primary marketing resource for individual musicians should be their own pages, and consideration should be given to funding online marketing presences for musicians and organizations funded by the Music Board.

Such low-cost ventures are only applicable to marketing strategies. Actually selling music online needs to involve either third party solutions or stores, or complex infrastructure.

Joint ventures or partnerships will not be easy to find for either the Music Board or for its clients, whether individual or institutional. However to encourage its clients to engage with digital delivery and the Internet, it would be appropriate for the Music Board to allow such costs (whether simply listing product on a site such as Martian Music, or developing other forms of selling) to form part of grant applications, with this made explicit and even encouraged in the guidelines.

The guidelines should also recognise and encourage the need for a marketing and business plan, preferably with clients indicating how they might incorporate digital delivery into their strategies for engaging with potential consumers of their music.

This could also have an affect on the design of current programs conducted by the Music Board. For example, at the moment the Board provides, in its presentation and promotion area, grants towards CD recordings, with costs capped at A\$7,500. Some 10-15 such CDs might be funded in a year.

The results have been described as mixed - with many artists unable to sell their CDs into the marketplace, so that they have basically been used as promotional tools, or business or calling cards, or finally 'archived under the bed'.

CDs are of no use to some artists, such as those who most value live performances, while other artists are not interested in live performances, preferring to work in a studio and fetish-ise the CD (or vinyl or some other recording mechanism). People have differing attitudes to the value of recording works, and the function such recordings can play within their career. It is also true that the Internet now allows an artist to determine what they might chose to give away - samplers, preview clips, mp3 files - and what they might chose to sell.

With the trend towards the delivery of many forms of music in digital files already well established, the Board could profitably review its CD program, and consider allowing alternatives. For some artists - especially those working live venues and wanting a hard copy to sell to their customers - CDs remain useful.

For others wanting to explore the opportunities offered on the web, alternative forms of production involving digital files, and alternative marketing strategies - whether community or personal or commercial - are now also useful in terms of establishing a local and international career. Accordingly guidelines and funding should recognise and encourage this kind of diversity.

Given limited resources, and limited funding available for artists to generate their work before promoting and selling it, the key question is how the Music Board might best apply the

available money in a way that has most impact in terms of benefiting its clients.

Accordingly, the report reaches the following conclusions:

- While it is appropriate for the Australia Council to seek to enhance revenue for composers, performers and institutions in its client base in any way possible, the reality of website development, administration and billing would be that administration and other expenses would consume any recoupment.
- If in a bid to make recoupment more likely, the Australia Council were to extend any such website to include non-Australia Council clients in its operations, it would in effect be setting up a commercial activity which would compete in the marketplace with already established private sector operators.
- The Music Board funds music across a broad spectrum, but it does not constitute the kind of deep catalogue necessary for a successful online music service.
- The Music Board is not a music label, nor is it expected to or should it commission music or offer grants solely on the basis of perceived commercial appeal.
- Limited-term funding is problematic for Websites. As most Internet publishers have discovered, running a website is not a project with a finite scope. It is a business, with ongoing demands over many years in terms of resources and budget. It requires constant administration and marketing in order to be successful.
- Most online music sites currently face difficulties achieving profitability for a variety of reasons. Any Australia Council site (or partnered site) would face similar difficulties.
- Online business models are constantly changing, as are forms of web content distribution. However, opportunities are available for artists and communities to develop low-cost online presences.
- Thus far the Music Board's partnerships with commercial providers for online music have been disappointing, and it is likely that any further pursuit of partnerships with retail online sellers on the basis of promoting Australian artists or Australian music is unlikely to be successful.
- Initiatives with organizations where there are synergies may well prove useful culturally, but such ventures are unlikely to generate much in the way of revenues. Nor should such initiatives be judged on the basis of revenue. As a result, any joint ventures should be implemented and

judged on the basis of their cultural benefits and their promotion of Music Board clients, whether institutional or individual.

- Because the Music Board funds on a grants basis, it should not become involved in rights and other commercial issues required for the selling of music online.
- The amount of money available to the Music Board each year to disburse to artists and institutions is limited, and it is unlikely to increase in the short term.
- Accordingly, the Music Board should prioritise its expenditure and its engagement with digital delivery in other ways than attempting a major online music selling website, or by attempting to underpin the distribution of music by subsidising private sector operators.

The Music Board of the Australia Council is correct in identifying musical delivery by digital means as the way much music will be sold in the future, with current trends to online delivery increasing at a rapid pace as the major labels begin to embrace the medium.

Accordingly, its client base, as with the Australian music industry in general, will perforce have to deal with this new form of delivery, and its implications for performance and physical sales. It is therefore recommended that:

R.1 Development of online strategies should primarily be through the artists themselves.

- Musicians are invested in their own success; they therefore are the most appropriate people to drive their own careers, and they first of all must be encouraged by the Music Board to engage with online promotion and delivery of their music.

R.2 Digital delivery should be emphasised in the Music Board's application guidelines.

- The Music Board can reasonably expect that clients making application for a grant are able to include an indication of how they expected to interact with new online digital delivery mechanisms. In particular the guidelines should require:

R.2.1 information on the artist(s)/institutions current presence online, whether it is via a personal website, via a structured third party site such as the AMC, MySpace etc, or via other Internet mechanisms (e.g. blogs).

R.2.2 information on the artist(s)/institutions intentions regarding a future online presence, and plans for using

digital delivery as part of a more general marketing strategy which identifies target audiences.

R.2.3 budgetary details in relation to digital delivery plans - including costs of digitisation, and costs of online presentation or delivery, whether personal (e.g. cottage web site delivery) or third party (e.g. cost of placement on a site such as Martian Music)

R.2.4 information on the realisation of the client's marketing and digital delivery plans on acquittal of funding.

Changes to guidelines should not be construed as being prescriptive, restrictive or narrow. Some Music Board clients are mainly performance based, some have an ongoing and valid promotional and selling interest in delivery via CD, and some devise music that can't be satisfactorily encoded in forms suitable for digital delivery online.

However the guidelines should make an explicit request for information in relation to an online presence and digital delivery, and if the client doesn't consider them useful, then alternative marketing and delivery strategies the client intends to pursue should be outlined in any application.

R.3 Reasonable costs associated with an online presence and digital delivery should be encouraged to form part of a Music Board application, and to be funded by the Board

- The Music Board should consider funding the costs associated with digital delivery - such as recording, encoding, and site membership - especially where these sites deliver returns direct to the artist. While it is not recommended that the Music Board fund or subsidise ostensibly commercial sites, where artists can prove direct benefits and reasonable costs, the Music Board should consider funding the artists to participate in such activity.

R.4 Current CD recording program guidelines, and the program itself should be reviewed, with digital delivery an acceptable alternative to physical delivery.

- Provided Music Board clients can provide an acceptable rationale in their application, they should be allowed to make digital delivery their end point, as opposed to providing a physical CD. The emphasis in the guidelines on the current CD recording program should be amended to allow alternative forms of marketing and delivery. (However CDs remain a viable form for the delivery of music and the guidelines should also acknowledge this).

R.5 Music Board guidelines should be modified to recognise web activities and web promotion as important selling (as well as delivery) tools. The Music Board should accept reasonable costs of such activities as part of an application for funding.

As the Music Board recognises that current forms of Web promotion materially assist artists as promotional and selling tools, reasonable expenses should be allowed as part of client applications. On an institutional level, such funding should recognise that online activities provide mechanisms for enriching Australian culture by bringing anyone connected to the Internet into contact with music funded by the Music Board, and more generally with all kinds of Australian music. Guidelines should recognise, even emphasise and support this kind of activity by individual artists and institutions.

R.6 The Music Board should consider ongoing education and information for its client base in relation to online marketing and digital delivery.

- Such education and information strategies can be delivered by way of seminars providing an opportunity for clients to meet third party online distributors, musicians already experienced in the area, and experts experienced in web marketing and delivery mechanisms. Seminars might be linked to funding rounds, or otherwise made a yearly feature of the Music Board calendar.

R.7 The Music Board should make online marketing and digital delivery part of its own database of information, which can be used to advise its clients.

- While preserving client confidentiality, the Music Board - having made alterations to its guidelines requiring information in applications - should make this information part of its database. In particular clients presence online, and use of third party distributors etc should form part of the Music Board's database. This information can be supplied to the Music Board's clients in a generalised way to assist them with their applications and their own marketing and delivery activities. The Music Board can also support new forms of delivery by drawing the attention of artists and institutions it supports to various promotional and selling mechanisms available online, and should make itself open to any ideas presented to it to improve or enhance these mechanisms for individual artists or institutions.

Because the situation online is in constant, and rapid change, attempts to formalise this information via online

delivery or an information handbook would quickly become out of date, but a database of client activities would usefully inform both Australia Council staff and their clients.

R.8 As part of the Australia Council, the Music Board should consider ways the Australia Council website can be improved to deliver information regarding online marketing and delivery to its clients.

- The Australia Council website currently doesn't maximise information regarding online resources, nor does it encourage a sense of community.

For example, it is difficult to discover specific information in relation to music decisions music clients, and music resources, The Arts Resources function doesn't provide an intuitive interface to this kind of information, nor does the site encourage a sense of community, as opposed to delivering primary information on grants available and application paths.

While this should be construed as a longer term aim, it would be possible for the Music Board to use the Australia Council to convey information on its clients, and the ways they use the online world for promotion and digital delivery of their music. Music Board clients already have a rich and varied presence online, as detailed in this report, but such activities are not prominent on the Australia Council site. For example, links to some of the artists mentioned in this report might well provide examples for musicians wanting to learn via their colleagues and via activities encouraged and funded by the Music Board. While some of this information is embedded in the site, it is not easily accessible.

Following the example of its client base, the Music Board and the Australia Council should consider the benefits of renovating its own site - even if only the Music Board subsite - in such a way as it can engage with its community of artists.

Recommendations

The Music Board of the Australia Council is correct in identifying musical delivery by digital means as the way much music will be sold in the future, with current trends to online delivery increasing at a rapid pace as the major labels begin to embrace the medium.

Accordingly, its client base, as with the Australian music industry in general, will perforce have to deal with this new form of delivery, and its implications in relation both to performance and to physical sales.

This report recommends that the Music Board adopt the following strategies to deal with new forms of music delivery:

R.1 Development of online strategies should primarily be through the artists themselves.

- Musicians are invested in their own success; they therefore are the most appropriate people to drive their own careers, and they first of all must be encouraged by the Music Board to engage with online promotion and delivery of their music.

R.2 Digital delivery should be emphasised in the Music Board's application guidelines.

- The Music Board can reasonably expect that clients making application for a grant are able to include an indication of how they expected to interact with new online digital delivery mechanisms. In particular the guidelines should require:

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R.2.2 information on the artist(s)/institutions intentions regarding a future online presence, and plans for using digital delivery as part of a more general marketing strategy which identifies target audiences.

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However the guidelines should make an explicit request for information in relation to an online presence and digital delivery, and if the client doesn't consider them useful, information as to alternative marketing and delivery strategies the client intends to pursue.

R.3 Reasonable costs associated with an online presence and digital delivery should be encouraged to form part of a Music Board application, and to be funded by the Board

- The Music Board should consider funding the costs associated with digital delivery - such as recording, encoding, and site membership - especially where these sites deliver returns direct to the artist. While it is not recommended that the Music Board fund or subsidise ostensibly commercial sites, where artists can prove direct benefits and reasonable costs, the Music Board should consider such activity a reasonable part of an application.

R.4 Current CD recording program guidelines, and the program itself should be reviewed, with digital delivery an acceptable alternative to physical delivery.

- Provided Music Board clients can provide an acceptable rationale in their application, they should be allowed to make digital delivery their end point, as opposed to providing a physical CD. The emphasis in the guidelines on the current CD recording program should be amended to allow alternative forms of marketing and delivery. (However CDs remain a viable form for the delivery of music and the guidelines should also acknowledge this).

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As the Music Board recognises that current forms of Web promotion materially assist artists as promotional and selling tools, reasonable expenses should be allowed as part of client applications, On an institutional level, such funding should recognise that online activities provide mechanisms for enriching Australian culture by bringing anyone connected to

the Internet into contact with music funded by the Music Board, and more generally with all kinds of Australian music. Guidelines should recognise, even emphasise and support this kind of activity by individual artists and institutions.

R.6 The Music Board should consider ongoing education and information for its client base in relation to online marketing and digital delivery.

- Such education and information strategies can be delivered by way of seminars providing an opportunity for clients to meet third party online distributors, musicians already experienced in the area, and experts experienced in web marketing and delivery mechanisms. Seminars might be linked to funding rounds, or otherwise made a yearly feature of the Music Board calendar.

R.7 The Music Board should make online marketing and digital delivery part of its own database of information, which can be used to advise its clients.

- While preserving client confidentiality, the Music Board - having made alterations to its guidelines requiring information in applications - should make this information part of its database. In particular clients presence online, and use of third party distributors etc should form part of the Music Board's database. This information can be supplied to the Music Board's clients in a generalised way to assist them with their applications and their own marketing and delivery activities. Music Board can also support new forms of delivery by drawing the attention of artists and institutions it supports to various promotional and selling mechanisms available online, and should make itself open to any ideas presented to it to improve or enhance these mechanisms for individual artists or institutions.

Because the situation online is in constant, and rapid change, attempts to formalise this information via online delivery or an information handbook would quickly become out of date, but a a database of client activities would usefully inform both Australia Council staff and their clients.