The Future Digital Economy
Digital Content – Creation, Distribution and Access

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Presentation by Philippe Kern, Secretary General,
Independent Music Companies Association
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IMPALA is an organisation set up in 1999 which gathers more than 2 500 music companies in Europe. For more information please visit www.impalasite.org

95% OF CREATIVE COMPANIES ARE SMEs (micro enterprise) whether they are music or film companies – mostly driven by passion considering the risk in the business.

These industries have the following specificities:

- They evolve- in Europe notably - in a very fragmented market (language, culture). They are essentially local companies catering for local customers
- They evolve in a market that is heavily concentrated (7 majors in film – 4 majors in Music – 80% market share / Universal and sony bmg control 60% – they are historically followers of the majors' business model.
- They are undercapitalised and no financial institution in Europe wants to invest in Europe in company with intangible assets unless there is some form of state intervention to guarantee the risk.
- They have a poor understanding of the technology – lack of resources

However collectively Indies are a large major with a 20% market share.

They are technology and consumer friendly (none of them implement anti-copy system) – they are not in a defensive mood – they see that music is extremely attractive to consumers and that demand for music has never been so high.

They develop the large majority of new artists – being Anglo American or local repertoire. They normally work the long term – with no pressure from shareholders to deliver albums and results every quarter. Artists are to be nurtured and developed over 3 to 4 albums. Max Pezzali – the former speaker and a star in Italy – started his career with an independent label.

The development of artists is an art in itself – independent record companies know how to achieve this. They develop music that set trends with extraordinary influence on society.

Those companies look to the future as an opportunity.

Their advantage - they have low overheads and can move quickly and more effectively.

The market for recorded music depends basically on the competition between 4 oligopolists – may be soon three.

Respected futurologists and university professors predict that the power is switching to consumers? This is something the independents are looking for.

WHAT ARE THE CHALLENGES?

Access – access – access

1. The number one priority is accessing the new market place – independents are offered discriminatory terms or sometimes no terms at all. They are victim of a pick and choose policy in the digital environment because there is no structure that caters for the management of their rights.
2. Building bridges with the ICT industry. There is certainly no conspiracy of excluding the indies – they are indeed difficult to locate (and this needs to be addressed).
3. Leverage copyright assets – with financiers in particular.
4. Engage with customers
5. Monetiser P2P transaction and help create a legitimate market place

WHAT IS THE INDIES' STRATEGY?

It is no good to complain about the majors getting it wrong – what can the indies do?

1. First step **-** Get organised.

Impala was set up in 1999 with the aim to consider the independents response to the challenges ahead. Like Christianism a few hundred years ago the music industry is experiencing a schism. 2500 members throughout Europe, a network of 19 countries throughout the world decided to consider how to take their future in their own hands and break free from the traditionalists. The motto: acting collectively will bear more results. The Entertainment industry's concentration poses risk to music creation and distribution.

The first action of IMPALA was to challenge the concentration in the music business. First the Warner EMI attempt in 2000 and then the SONY BMG merger with a challenge before the European Court of Justice, still pending.

2. Set up a licensing platforms – a content management system **-** to make it easier to access independent repertoire for licensing purposes.

3. Engage with the operators – Fastweb, Telekom, BT should not only talk to the majors, there is a lively independent community out there with valuable repertoire

If they want to build community – indies can help them "creating a cool customer experience".

WHAT CAN THE REGULATORS DO ?

THE REGULATORS'ROLE IS Essential – when you deal with creation you deal with public interest objectives – culture diversity; pluralism , consumer protection , protection of minors. The market is not always good when it comes to support the art – art is often non commercial. Public intervention will remain necessary especially in a culturally fragmented market.

Today commercial operators have a poor record in making available different music .

The society should not only focus on addressing the consumers' need , or cater for a market place that would only know about the top 50 albums. Surely we want also citizens that in the years to come will still celebrate Mozart birthday anniversary. Regulators have a role in sustaining a diverse artistic creation, distribution and education.

The Digital ecosystem need to include culture in its consideration – this means addressing:

- Strong enforcement of anti trust rules to enable market access
- The copyright framework. Mme Rita Hayes Deputy Director General from WIPO stated rightly that copyright contribute to the wealth of nation (not only to the wealth of companies and individuals)
- Means of investment in creativity and diversity. In Europe politicians should consider creation like they considers innovation – A & R is the equivalent of R&D. Public funding for innovation and R&D funding is given priority. Music is a driver to new technology (Ipod) – sustaining creativity is sustaining innovation. Financial engineering mechanisms developed for the technology sectors should also be tailored to the needs of the creative industries. Content is king but poor.

CONCLUSIONS

The industry is once again seriously challenged by innovation – new format, new processes, new business models (P2P-PVR).

The industry is confronted with a new business – download singles are overtaking CD sales, consumers are less loyal to a band (more loyal to a community than to an artist).

The indi labels have less problems in breaking free from the old business models.

Their ambition is to avoid that music will be commoditized and devalued in bundling schemes making music a loss leader to sell other products..

Creation remains king in the digital age – independent producers are in the driving seat. Because they are on top of the creative process, they are the main force to discover new talents and to connect with music fans.

My message to all is: engage with the independent music community – they are keen to participate in the development of a diverse and plural market.

A special message to the regulator:

Market Concentration puts consumers' choice and diversity at risk. Homogenisation is bad for society and bad for business.

Hopefully digital services will want to be distinctive and original – indies can help the digital market to be plural and democratic. They are ready to contribute.

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