

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

**Organised jointly by the Italian Minister for Innovation and Technologies and
the Organisation for Economic Co-operation and Development**

30-31 January 2006, Rome, Italy

**Presentation by Adam Klein, Executive Vice President,
Strategy & Business Development, EMI Music
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In preparing for this discussion, I have been thinking how, as one from the commercial side of the music industry, I might add value to this conference - I thought that by describing some of the issues on my desk and appointments in my diary, I might give you a sense of what we are trying to tackle - and how!

Like any business executive, I am focussed on how to grow our business --- responsibly and with sensitivity to our stakeholders. Within the music industry context, I feel truly privileged in this quest - I say this because I believe that in planning and executing for growth in the music industry, I am also participating in a once-in-a-lifetime opportunity of completely reinventing a company and an industry in an environment of radical change on multiple fronts - technology being perhaps the primary force: where the known "rules of the game" are being shredded, torn apart -- everyday -- and we are the ones to re-invent how this really socially important industry sector gets refocused and rebounds.

To top off my excitement - I love the world of music - and I get to work in it everyday! For me, it is essential to remember why we are in this industry in the first place - often lost in the tension of daily challenges!

It is equally clear to me that it would be wrong to assume that as the old "rules" are torn up, we can easily write new ones. Technology and social attitudes are moving too fast for us to think success is simply moving from an old structure to a new structure - as that will be old very soon too.

In this context, there is only one certainty, and that is that mistakes will be made along the way but that is in the nature of change! Surely, if we don't try there is no chance of forward movement.

So, within this evolving ecology, on what then do I anchor my planning?

3 key values: remembering first that I am in business, which only succeeds if it brings value to its constituents!

A: I am in the business of bringing unique value to music artists in support of developing their talent, growing them as a "brand" and enabling them to earn well from their talent in the best and, therefore, most innovative ways possible

B: I am in the business of providing music products, experiences, information and unique value to consumers around their relationship to the artists (hopefully the ones we represent) such that they feel their ever changing interests and aspirations are being fulfilled.

C: And, as an executive for a public corporation, I am responsible to my shareholders for profitable performance - giving them confidence that I see a growing future for a music company - which I passionately do!

You all know that to deliver on these 3 values in the environment of:

- greater physical retail concentration which drives prices down;
- greater product disaggregation which reduces the size of an average sale from full CDs to single tracks;
- and rampant piracy;

is, to say the least, a challenge!

Why and where, then, do I get a sense of growth for the music industry - and please note that I have not described this as the "recorded music industry".

A few facts to help focus the discussion (from NPD - North America - Dec 2005 - iPod owners)

"Now that I own an iPod:"

- 81% overall say they listen to more music than before, and 90% of 13-25 year olds
- 68% overall say music is a bigger part of their lives than before, and 83% of 13-17 year olds
- 58% say they buy more music than before, and 61% of 13-17 year olds

and, in a second NPD study (also from December 2005) it confirms an earlier trend we had seen that those who are engaged digitally with music spend more on music overall.

As the base of any assessment of the music industry it is important to remember that the digital revolution is revitalizing the excitement in and involvement with music for most of us.

It is truly elementary marketing (101) --- if you create for consumers products/services they want, allow them to experience through experimenting and charge a price that they feel represents fair value, the majority will come to that party!

The internet and mobile industry have absolutely put consumers in control; they can acquire what they want where and when - and even decide if they will pay! (75%+ buy digitally vs CD because they can buy the individual track they want), whereas primary reason for buying a CD (or full album download (Coldplay 8%)), is that they want all tracks, or simply love the artist. Only small number give physical "security" as high reason.

Whereas the first wave of the internet was really about distribution changes (iTunes, P2P, even subscription), it is the second wave we are now in that is the most fantastic for consumers - it is about them creating their music experience: playlists, blogs, tapes communities for learning from one another, mashing, podcasts...and this is early days!

So, my deep focus:

For Artists:

= The web allows direct interaction with consumers/fans, early direct exposure to fans for relationship building: MySpace / Arctic Monkeys - drives folks to club/gigs. Sure, some "give away" early tracks - always done in many consumer product developments = walk down street and get free gum/toothpaste!

But, for most artists to grow to their full potential, they need:

- great producers
- tour planning and support
- marketing and promotion development to reach consumers where they are!
- direct to consumer link (own web sites)
- to negotiate with big guys (Nokia, Vodafone, Verizon, Yahoo ,AOL) who are developing their service not necessarily an artists career

So, this is clearly about growth as a "brand".

Quite simply, that is a clear part of the future role of a music company.

For Consumers:

Product development that is driven by "consumer needs/wants/sense of value", insights

e.g. Yellow Card - last week in club in NY, photos with mobiles, SMS to go live onto screens at the club through sponsor Verizon for their new Vcast service.

= Coldplay = itunes/ pre-order/ 8% USA of all album sales

= Dem Franchise Boyz (SNAP genre) of 650K ring tunes)
Madonna ring tunes) before album launch

Our Goal : Music experience at arms length (a la coke)

What then, are the new drivers of growth!!

The new drivers of growth include, among the many;

- As \$ to net and mobile - maybe way to monetize P2Ps
- Ring tunes - never there before!
Ring backs / video tunes / voice overs
+ sent to PC - then into a dialogue on the web and a chance to buy more!
Catalogue/playlists/other artists like this/tour tickets
- Kiosks
- CDs as software
- Catalog: 53% itunes / 48% ring tunes (the long tail = ebay made an industry out of this)
- Subscription - spend more on music overall than before
- Promo \$ from mobile / Yahoo etc. New money!
- Video downloads - 4 billion on Yahoo last year

and DRM is there to facilitate = and sure, keep out those who really mean to do bad!

My contribution to this discussion

Focus should be:

From: Our Side

be consumer obsessed (consumer research)
artist obsessed
innovative strides around creating the new music experience

From: Tech Co's Side

interoperability
complete ease of use
price/value

From: Governments' Side

facilitate broadband / fixed line and mobile/cellular
protect IP : that is all an artist has!

....remembering I recognise that we - I can only speak for
EMI - must create the exciting product that commands a fair
value.

It is my sincere belief - and I feel confident of my data, that this spells growth for the music
industry overall!

Adam Klein
31 January 06, Rome