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The US music industry spends billions of dollars in anti-piracy measures, yet loses USD 5 Billion annual revenues to piracy.

Stricter legislation, innovative technology, public awareness can help reduce music piracy.

The fight between the music industry and pirates has been playing out like a cat-and-mouse game since before the glory days of Napster and its ilk. With the proliferation of Internet and related technologies, the whole thing has turned into a whack-a-mole – as soon as one site is shut down, another one pops up. For the music industry, victory – if it ever comes – would be Pyrrhic at best, considering that the US music industry alone has invested billions of dollars in anti-piracy measures. Yet, it still loses about *USD 5 Billion*¹ in annual revenues to piracy.

It's time for the industry to change its one-dimensional outlook and adopt a new perspective to fighting piracy. The industry has three

strategies at its disposal, which can be deployed simultaneously to curb piracy:

1. Continue the battle against piracy through law, technology, and awareness programs
2. Redefine the business model that renders piracy toothless
3. Wean music lovers away from piracy

Continue the Battle against Piracy

- **Strong IP rights and stronger legislation** – The industry needs to work closely with law enforcement agencies to identify and trace online pirate services, bring stronger litigations against perpetrators, and engage

¹http://www.ipi.org/ipi_issues/detail/the-true-cost-of-sound-recording-piracy-to-the-us-economy

governments and judiciary systems to create an environment that punishes piracy. In 2012, such a legal action closed down megaupload.com, a Hong Kong based company that ran online file storage services.

- **Technologies to identify and trace illegal distribution** – Music piracy happens because of a collusion between two parties – providers of illegal content and providers of file-sharing technologies. The industry can tackle both of them by developing new watermarking methods that can trace the source of illegal distribution, and by working with online stores to remove infringing apps and restricting their access to illegal websites. Additionally, ISPs too could keep tabs on the downloading activity of accounts on their bandwidth.

- **Prune the web for pirated content** – The industry should actively pursue cleansing operations to

eliminate accidental piracy – where music is distributed by individuals without an intention to indulge in piracy. With the emergence of online platforms for music collaboration such as SoundCloud, which enables its users to share and promote their music, the onus of ensuring that no copyright-protected content seeps out has fallen on the labels.

- **Public awareness campaigns** – *The National Geographic* runs a program to educate young students about piracy. The highlights of the program include introducing the concepts of piracy and sensitizing individuals about the impact that these crimes have on the world economy. This framework can be applied to the public at large.

Redefine the Business Model

In the good old days, music lovers purchased albums comprising ten to twelve songs, which were priced accordingly. With the onset of the digital era,

consumers began purchasing songs à la carte at prices as low as USD 0.70 per track through iTunes. Today we are in the third stage of the evolution of music business. Streaming services, such as Amazon Prime Music, offer songs for as low as USD 0.00012 per track*.

It is interesting to note that these streaming services have driven down costs per track to such low levels that it is making a dent into piracy!

A recent study conducted by the Columbia University found that nearly a quarter of the Internet users in the US would willingly pay a *monthly fee*ⁱⁱ for unlimited media access. This is evident from the fact that online services that let users listen to music at no cost with audio ads, or for a monthly fee, grew a combined 39 percent from 2013. A recent study conducted by *Midia Research* found that in future, the subscription model will grow more than the download model. The study notes that “by 2019... download revenue will decline by 39 percent, leaving streaming and subscriptions representing 70 percent of all digital revenue.”

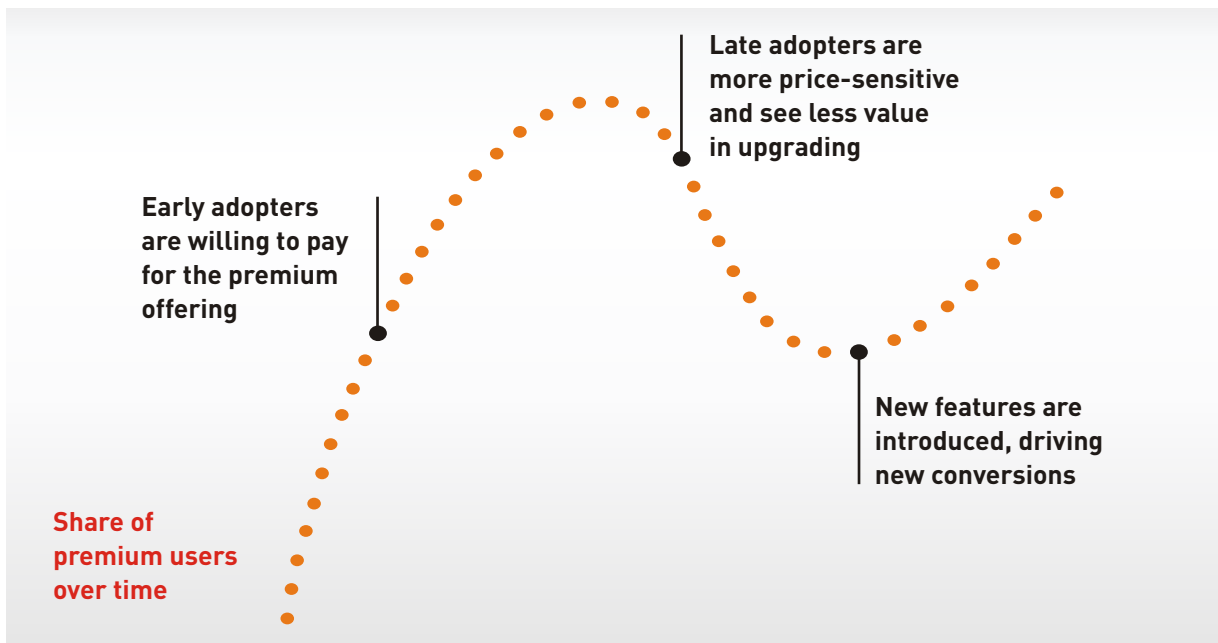
*The price paid by a subscriber for a plan divided by the total number of songs that are available for download on the music streaming platform

ⁱⁱhttp://www.ipi.org/ipi_issues/detail/the-true-cost-of-sound-recording-piracy-to-the-us-economy

And then there is "Freemium" whether in the form of differential pricing, or cross subsidy. Online news publications have sustained their business with the cross-subsidy freemium model for years now – where a few paying customers cover the cost of servicing the masses.

The gaming industry has seen relatively greater success in its experiments with differential pricing freemium model – same product (game plot), but with different levels of experience, from Free-to-Play (F2P) to Pay-to-Win (P2W). Needless to say, a significant number of users migrate from F2P to P2W.

All that the industry needs to do is figure out the special music experience that users would be most willing to pay for – content, per se, can be free. As a case in point, Spotify has leveraged freemium by offering the USD 9.99 unlimited download and ad-free music version of its services.



How Cash Flows from Customers to the Music Company in a Freemium Model

However, industry players need to realize that cash flow in a freemium model is not linear; hence this model is advised

only if they have an emergency cash reserve. *The Harvard Business Review* notes in an *article*ⁱⁱⁱ that companies using this model can see their cash flow "... rise and fall and then rise again in a predictable way over time. Those that don't account for this phenomenon risk failure."

Wean Music Lovers away from Piracy

The best days of 'concert' business are still ahead of us. In 2010, Celine Dion made more than *twice the money*^{iv} from concert sales compared to sales from her album. Since 1989, Rolling Stones have

ⁱⁱⁱ<https://hbr.org/2014/05/making-freemium-work>

^{iv}<http://www.theequitykicker.com/2010/01/22/top-artists-concert-revenues-typically-2-3x-their-album-sales/>

earned *three times more money*^v from concerts than from album sales and licensing. Madonna signed a three album pact with record label, *Interscope*, at a base price of *USD 1 Million*^{vi} per album, while her contract with concert promoter, Live Nation, is valued at *USD 120 Million*^{vii}. There are many such examples. The industry can adopt a loss-leader strategy and let go of revenue from album sales, if it results in higher concert ticket sales.

Though not unprecedented by any stretch of imagination, this is a surprisingly underutilized tactic. When Radiohead self-released its album *In Rainbows* in 2007 as a 'pay-what-you-want' download, a majority chose to pay nothing. Surprisingly, the album was a commercial success. It entered the UK Albums Chart and US Billboard 200 at number one, and sold more than 3 million copies. The bigger surprise,

however, was the success of Radiohead's tour that followed the release of the album – it was their biggest event ever, selling 1.2 million tickets. Surely, the publicity they received from free downloads had something to do with it.

More recently, U2 partnered with Apple to give away their latest album, *Songs of Innocence*, for free through iTunes. Not only did this *largest album release of all times*^{viii} expose U2 to over 500 million users in one fell swoop, it also earned the album a free marketing campaign, reportedly worth around USD 100 Million. How much more glory will U2 achieve because of this exposure in their ongoing "iNNOCENCE + eXPERIENCE" Tour is yet to be seen, but they have already earned over USD 22 Million in less than three weeks of their six-month long tour. As they say in showbiz, any publicity is good publicity.

Weaning music lovers away from piracy is the most effective strategy. It includes adopting a loss-leader strategy and letting go of revenue from album sales, if it results in higher concert ticket sales.

The music industry should redefine its business model, which includes introducing subscription and freemium models.

^v<http://fortune.com/2013/07/21/inside-rolling-stones-inc-fortune-2002/>

^{vi}<http://www.rollingstone.com/music/news/madonna-signs-three-album-deal-with-interscope-20111214>

^{vii}<http://www.reuters.com/article/2007/10/11/us-madonna-livenation-idUSN1140445720071011>


^{viii}<http://lyndr.com/u2-gives-away-new-album-gets-100-million-by-apple/6073/>



Conclusion

Even if we discount the fact that over 80 percent of illegal downloads would never have converted into sales anyway, we really cannot ignore the fact that heavy downloaders actually end up buying *30 percent more music*^{ix} than non-downloaders. It's amply clear that even if the music industry wins the war against piracy, it wouldn't necessarily be a victory worth celebrating. The real challenge that the industry needs to figure out is not how to stop people from accessing free music, but how to get people to come back for more, preferably with their wallets handy.

^{ix}<http://piracy.americanassembly.org/where-do-music-collections-come-from/>



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