

Playing with the Record Industry

February 22

2009

The music industry should be playing nice with the video game industry instead of whining over licensing fees.

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From Wired: March 2009- Here it Goes Again –by Jeff Howe

Warner Music Group (WMG) is in the mindset that the amount of royalties is low from the video game industries. WMG feels that the video game industry is paying a “paltry” amount for the use of the music that is the main focus/theme of the play-along genre of games. However, WMG should not bite the hand that feeds it, especially with such a prospective new industry.

With the popularity of musical video games (*Guitar Hero*, *Rock band*...) one would think that the record industry would try and take advantage of the prospective revenue and introduction of new artists to the consumer. Instead, record companies are starting to demand more money and royalties from game manufactures, stifling the great asset that it could be.

WMG is in the spotlight for putting up a large fuss. CEO Edgar Bronfman told analysis last summer that “The amount being paid to the music industry, even though games are entirely dependent on the content we own and control, is far too small.” In response to this, MTV Games’ *Rock band* is now boycotting Warner artists.

With the loss in sales from compact discs¹, the record industry needs take any medium that they can and try to turn it to their advantage. When *Guitar Hero: Aerosmith* came out, it earned more money than any single album that Aerosmith released. WMG should see this as a golden opportunity to rebound from the antiquated record industry.

WMG has led the industry in the policy of the “so-called 360 deals”. This is where the musical artist gives the labels a cut of everything that they sell. This would be ringtones, album sales, concert tickets and merchandise. With this mentality, they should be able to see the future that can be had with the digital era.

¹ “This will come as no surprise to anyone, of course, but the only significant area of the music business that is struggling is, once again, CD sales. Bloomberg has noted that album sales in the US declined 14% in 2008. Of course, digital sales continued to grow, and, as recently noted, the concert business is booming.” - by Mike Masnick, January 5th 2009 (<http://www.techdirt.com/articles/20090102/1911093271.shtml>)

From the information presented, WMG need to focus on stabilization first. With all the music now being digital, compact disc sales have plummeted and iTunes is the alternative outlet for revenue. Unfortunately, Apple has pushed for almost rock-bottom prices for tracks. However what is lacked in per album revenue can be made up with the volume of songs that are paid per download. There is a lower cost of producing the albums music and running them straight to the digital environment. With this lower cost, the hit that they (the labels) take in compact disc sales can be made up with the streamline to the digital medium.

After the pause for stabilization and the acceptance of the digital age, the labels can focus and explore more options that were not available to them years ago. An idea that could rival the revenue of iTunes could be found relatively easy in the play-along game genre. With the network of video game consoles and online usage, the video game consumer could mix songs within a video game and submit them to be reviewed and voted upon by their peers.

Allowing the video game industry to use stem tracks² for the songs in games would allow the player to mix all kinds of new music and create a whole new genre of music. This could be seen as a free version of song creation. This would allow the player to create personal musical mixes; then take the highest rated/popular ones and release them in the commercial environment. In other words, the player would pay for the game to play on their system. This would create revenue for both the video game company and the music industry. Then when the player's song gets released in the commercial environment, that individual player—and his peers—buys the track in a download or album, creating more revenue for the music industry. This would also expand the loyalty base and would help bring in more revenue. The more loyal the consumer, the more likely they are to purchase other items from the industry.

² Stem is the audio material based on creating groups of audio tracks and processing them separately prior to combining them into a final master mix.

Allowing this to happen would move the music industry into a more harmonious open system: “an organized collection of parts united by prescribed interactions and designed for the accomplishment of specific goals or general purposes (i.e., inputs transformed to outputs with feedback). Interconnectedness (interdependence) is the key – both within the organization (between subsystems) and in its interface with the external environment.³” With the player/user giving feedback on the music, artist could see this as a type of muse: creativity spawning off creativity.

Allowing the user/player to create their own music mixes on a console is a great example of “Systems as Cycles of Events.” The inputs—which would be the player playing the games and the creation of music—which then are turned into output sales for the video game industry and music industry. This can then be brought right back into another input for another game (or the same game updated) that can be remixed and modified again. This would be like interest on the original investment (the stem song). This cycle could go on and on until the song loses popularity.

In conclusion, WMG should be angling for creative participation and making revenue off of the end results instead of demanding more royalties in the beginning. The music industry and video game industry can make a substantial amount of money if they were to work together. Coming to an agreement of fees towards one another to realize that together they can make increased revenue. This way they would be in equilibrium and the gains could be astronomical. The music industry could make money from a potential artist in the long run. Fan the flames of creativity and ride the stardom that it has the potential of creating—an almost win-win situation. The player/user gains recognition for well designed music, the music industry gains another artist to create revenue from, and prospective players wanting to make it big buying the games and consoles thus creating revenue for the game industry as well.

³ This is the first characteristic from the *Characteristics of Open Systems* handout.