

The new challenge: IT infrastructure for a digital music industry

When we first started selling tracks for 99 cents on eMusic in 1998, we knew we were opening a Pandora's box of business and technology questions—standards, scope of rights, illicit copying, DRM—but as digital distribution has evolved from a trickle to a flood, does the industry really have the IT infrastructure necessary to make sure artists and songwriters get paid correctly?

Granted, discussing IT infrastructure is not as exciting as the latest business model, but it is time to face the facts: investments in the right kind of IT infrastructure are critical to a label's very survival in the digital era.

Standards organizations are beginning to address the needs for industry standards for efficient information sharing among companies involved with digital music. Though the dialogue is promising, we remain years away from seamless interoperability among record labels, music publishers, and the music download and subscription services. Until then, labels will continue to be faced with ingesting massive amounts of incoming digital sales data from a variety of online music services—each producing their own data format. Labels continue to face the

daunting task of deciphering complicated data formats in order to calculate accurate royalties to artists, publishers and the rest of the profit chain.

Anyone who has ever seen a monthly digital sales report from one of the download or subscription services can appreciate how challenging the task of digital sales accounting has become: matching millions of transactions--some downloaded, some streamed--in a variety of data formats, against millions of tracks, each containing multiple content components, all of which are produced by hundreds of thousands of artists, producers, and songwriters, represented by tens of thousands of labels and music publishers, each having a colorful variety of revenue-split arrangements with each other.

The old-style or "legacy" accounting software developed to track physical sales and calculate royalties have not kept pace with the needs arising from the music industry's shift to digital distribution. To keep up with the flood of data and complicated royalty splits, major labels are dedicating full time IT staff to modify their software to decipher the sales spreadsheets and process data in an attempt to extend the life of their existing legacy systems.

While this practice of updating the legacy software may work temporarily, even the majors will be looking to outsource the function of royalty processing as digital becomes the primary method of

distribution in the coming years. Survival in the digital age requires a new kind of software, one that is flexible, scalable, transparent, and accessible from anywhere one has access to a web browser--with a back end infrastructure that can handle anything the creative business affairs lawyer can throw at it.

Just as record labels outsource their payroll accounting to experts who monitor the latest tax laws and spread the costs over thousands of clients, so too will record labels outsource their royalty accounting. The cost of building and maintaining a modern royalty accounting system from the ground up would require an investment that is not feasible for one record label, even a major. No. Now more than ever, record labels need to focus on their core competencies: marketing and A& R, not building information systems.

Artists in the digital age are increasingly evaluating labels based on how effectively they maximize online sales opportunities and manage the royalties from those revenue streams. By providing access to accurate and transparent royalty reports, record labels will establish trust with all members of the profit chain and greatly reduce the chance of audits and costly legislation. In an era where the attorneys representing artists are carefully evaluating digital sales accounting records, it is critical for labels to equip themselves with an infrastructure solution to ensure that every royalty participant in each transaction is paid accurately and on time.



Does adopting the right technology ensure that a label will be successful in the digital era? Of course not... but, in this digital world, the inability to manage sales data with the right infrastructure pretty much portends failure.

We've come a long way since that first download transaction from eMusic. That one transaction has now become billions. Yet, as there was hope at the bottom of Pandora's box, there is a solution at the bottom of transaction overload: the scalability and elegance of good web-based technology.

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