Opinion: Will Page

Wanamaker's solution?

It was John Wanamaker, a devoutly Christian merchant from Philadelphia, who in the 1870s not only invented department stores and price tags (to eliminate haggling, since everybody should be equal before God), but also became the first modern advertiser when he bought space in newspapers to promote his stores.

He went about it in a Christian way, neither advertising on Sundays nor fibbing (thus minting the concept of "truth in advertising"). And, with his precise business mind, he expounded a witticism that has ever since seemed like an economic law: "Half the money I spend on advertising is wasted," he said. "The trouble is, I don't know which half."

Wanamaker's 'wasted half' has been recalculated to be worth around half of the $428 billion global advertising industry. That's a lot of money to spend on reaching the wrong audience, or none at all. In America alone, the size of Wanamaker's wasted half is estimated to be $112 billion; ten times that spent on recorded music by the American consumer. Now consider displacement: could that mis-targeted advertising be re-targeted through advertising funded music models? Could this newly found ability to target adverts, and the lowering of barriers to entry into the advertising market, bring net additional revenue to the music market? Big numbers, sure, but bigger economic problems stand in the way of realising them.

One of the most immediate problems is that of defining copyright when placed in a commercial context: is it a price taker or a price maker? The copyright tribunal process is an established example of copyright being defined as a 'price maker', as it provides an intermediary to settle disputes between two sides in a market place: rights holders and rights users. But when a prospective advertiser considers using music to reach consumers they could always use an alternative 'carrier', (e.g. newspaper, TV). And Return on Investment, not the Value of Music is their key driving force. As such, musical copyright is more akin to becoming a 'price taker', with the advertiser able to choose which carrier to invest in.

Whilst the intuitive objective of pricing copyright is to 'protect the value of music'; a more challenging task could be to redirect traffic from illegal P2P towards monetisable 'venues'. As a backdrop let's remind ourselves that the lesser-known file sharing site Mininova.com recently celebrated its four billionth download, (it passed the three billion mark just four months prior). Not only does this put iTunes claim of 'two billion downloads a year' into some form of relative context, but it also reinforces what monetisable venues are: somewhere where you can extract something, as opposed to nothing.

Reality check: for an ad-funded music model to function there is a need to bridge the gap between the value of capturing the consumers' attention and the value of a track of music. This multi-sided problem is arguably, at least initially, best resolved with market forces.

Thus far, the focus has been on the two sided market problem facing the rights holders and users. But trying to introduce an advertising funded model creates multi-sided problems which exhibits inefficiencies across its own fledgling supply chain. Firstly, the way in which advertising is priced seems increasingly out-of-date, with the most common denominator remaining Cost-per-Mille (cost per thousand impressions), which is akin to pricing targeted adverts with an mechanism that still carries elements of Wanamaker's 'wasted half'. Secondly, the online advertising supply chain has yet to sort itself out, both in terms of personnel and cost structure. Deeper consolidation is already underway, especially in the roles of media buyers, sales houses and publishers. Companies like affiliate specialist TradeDoubler.com are well worth watching in this context.

When viewed together, both music licensing and on-line advertising appear in a state of disequilibrium. At the moment (keeping the math simple) a ball park figure for licensing a minimum download is priced at around £0.44p for the record company and £0.06p for the publisher, implying a CPM rate of £500 to an advertiser. To put this into context, a high profile Financial Times online advert has a CPM of roughly £50. While this ball park figure is striking, let us not forget the distortions as advertising revenue flows in, and royalties flow out. Commission charged by the publisher, sales house and agencies significantly raise the 'required' CPM further. Similarly, the cost of collection, at the record label and collecting society end, will reduce the net revenues distributed as well.

What the music industry needs to reckon with is two fold; supply of music is infinite, and music is only one of many possible mediums for an advertiser to reach their audience. At the moment no songwriters are getting paid for P2P traffic, which means that any value that can be realised by redirecting illegal traffic to (licensed) legal sites is beneficial. However, the advertiser (and indeed the advertising market) sets the price.

So the question the advertiser is asking the music industry; are you (song writers, artists, publishers and labels) willing to accept a relatively low income from ad-funded models in order to divert some of those Mininova users back towards "venues" where creators receive at least some reward for the targeted listeners they bring to the targeting advertiser.

And the question the music industry is asking the advertising industry; are you willing to find a more efficient pricing mechanism that is built around targeted advertising which will allow the true value of music to be realised and rewarded, rather than applying CPM (and Wanamaker's 'wasted half') to an attentive targeted audience.

Will Page is the Chief Economist of the MCPS-PRS Alliance. He would like to thank Guy Phillipson, CEO of the Internet Advertising Bureau for his valuable insight and helpful comments. More info: www.iabuk.net