

I've written about the music [industry a lot on this blog](#). The music industry faces a lot of challenges, not the least of which is convincing people to pay for their products. Which is exactly why I tend to get confused when they do deals that commoditize their products and reinforce the notion that music is free.

Let's start with music videos. Music Videos used to be promotional. Labels sent them to cable networks, TV shows big and small that played music videos, clubs, websites, etc. Music Videos were commercials for music. They were enticements for people to buy CDs.

Then things changed.

The Labels realized that businesses that needed music to survive should be paying for the product. So they licensed the music. When customers did pay or live up to their side of the bargain, they pulled their videos.

The changes got more dramatic when the iPod/iTunes Music Store and sale of digital singles and albums took off. Music customers started to become comfortable not only with buying digital music by the download, but also with using their computers as a staging platform to transfer music to portable devices.

Then those portable devices got fancier. They started to support video. Portable media players that support video, created demand for music videos. Which meant that music videos immediately went from commercials for music, to being a product itself. Buy a song with no video, 99 cents. Add video, \$ 1.99 .

Which leads to the question, is a downloaded song worth 99cents ? Is a downloaded music video worth \$1.99 ? Which leads to the bigger question, what is the best way to generate the greatest amount of revenue and profits from music ?

Some people speculate that on the net, where there are eyeballs, there is ad money. If there is enough ad money around music, sell the ads, give away the music. Personally, I think that's a fool's game. Advertising is cyclical and ad cycles and pricing don't match the qualities that sell music. Music is personal. Everyone has their own preference and how advertising is sold and consumed may not match. Plus, for music labels, the minute music is valued relative to ad sales, they lose control of their product. They lose pricing control. They lose control of their destiny. The last position you want to be in is hearing why revenues are way down because the advertising market is down. That CPMs are down. That there is too much inventory, etc, etc. All things that have nothing to do with music. You can't all of the sudden start charging \$1.99 for a downloaded music video that weeks ago was free.

So if labels are licensing their catalogues for download or progressive download (as opposed to streaming) without limit to websites and getting a percentage of revenue, they are setting themselves up for a huge hit, and not just financially.

You think the Dixie Chicks or Barbara Streisand or Green Day might be a little upset if videos for any of their songs have pre-roll ads, or text ads, or banner ads for a Republican candidate for Congress ? You know what is going to be harder than trying to keep copyrighted videos off of a hosted website ? Tracking what advertisers are acceptable to an artist.

But I don't think the labels would make that mistake. Risk their relationship with artists or control of their business to share some ad revenue ? I don't see them doing that as part of a license to any video hosting site. Despite reports that suggest the contrary, my guess is that the labels made an exceedingly smart deal this time around. The speculation has been that the labels didn't want to be left out of the "latest thing" , that they didn't want to miss the boat or make the same mistake they made with Napster. I think it's the other way around. Google didn't want to miss out on an acquisition. I'm guessing that this time the labels got the best of the deal.

If reports are true, and 40% of the labels were able to do a deal that paid them in aggregate, 50mm dollars worth of Google stock, I'm guessing all they gave up was just a limited license to use their videos for some limited time period with a TON of strings attached. If I had to guess how the labels characterized the deals internally, they probably agreed not to sue the sites for a limited period of time while they tried to develop software that helps protect their copyrights, figured out a DRM strategy and proved out what the potential revenue opportunity really is. For giving Gootube this opportunity, they get what amounts to 4k shares of Google stock each. That's 50mm worth of stock. More than 10mm each. They are probably laughing at how many music videos and songs they have to sell in order to net 50mm dollars .

It's a great deal for Google too. 12k shares of stock, even if it's worth 50mm dollars has a minimal impact on shareholders and it protects Google for the short term . The question is for how long and what comes after the deal expires ? You didn't think the license was forever did you ?

Which takes me back to the question of digital music videos and songs and getting paid. Downloaded Music Videos and songs are basically the same thing on a portable media player like the IPOD. The music is still music and sounds the same when you are listening whether you watch the video or not.. This means that they can't give away music videos. It would be the same as giving away the song. Why would anyone ever buy a song on iTunes if the music video was available from a video hosting site ? They wouldn't. Which is exactly why I don't believe we will see the labels licensing their music videos in exchange for a share of advertising revenue in any but a pure streaming environment like Yahoo has. The licensing issues have been worked out on the streaming side. Downloading video, which is what Gootube and most video hosting sites have a lot of work to do before it can work for the labels. It's just not going to happen the way the sites are currently structured., Right now, Gootube is turning music into a commodity. Users have the perception that it's free and always will be. That will hurt the labels in the long run and they know it. For 50mm , 3 of the labels were bought off. Smart move on their part if it's a short term move.

Of course there is the problem of every other content and rights owner. They are going to want their cut as well....

It will be interesting to see how it all plays out.