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— DREW LARNER

# Q/A

## Renting Your Music

*An interview with Rdio's*

DREW LARNER

**I**T'S NO SECRET THAT, thanks to digital technology, the music industry is evolving rapidly and its business model is changing. While owning music, now mostly through downloads, is big business, Skype and Kazaa co-founder Janus Friis is betting that will change. In 2010, the Danish technology entrepreneur launched Rdio, a digital music subscription service. Friis chose Drew Lerner, a movie executive, banker and former entertainment lawyer, to be Rdio's chief executive. For a monthly fee, Rdio, which is based in the tech and startup-heavy Mission/Potrero Hill district of San Francisco, allows subscribers to listen to more than 20 million songs on demand, create playlists and interact with friends.

Since all digital music services essentially provide the same content — songs from artists from around the world — Rdio's advantage, says Lerner, is its heavily designed product, a service that makes it easy to search and listen to all those songs, whenever you want, on any digital device. Rdio is a music service, but it is also an experience designed to keep listeners in tune with the latest musical offerings from the artists they love and to introduce them to what is new.

So where is the music industry headed, now that digital technology has eclipsed more than a century's worth of vinyl records, tapes, CDs and conventional radio? Lerner recently discussed this topic at Rdio's headquarters with Joel Kurtzman, editor-in-chief of *Korn/Ferry's Briefings on Talent & Leadership*. What follows are excerpts from that conversation.

**Q:** *Digital technology has changed the music business perhaps more than it has changed any other business. Where do you think the music business is headed?*

**LARNER:** That's a very big question.

**Q:** *Which is why I'm asking you, given your experience as CEO of Rdio.*

**LARNER:** O.K. Here's what I believe. Our consumption habits for film, TV and music are changing from the ownership model to an access-based model, which is what digital subscription music services like Rdio are all about. The fact is, this shift to a subscription-based model is happening now. The only difference between music and video is that, by and large,

the transition has already happened with film and television, with the success of companies like Netflix and Hulu. At this point, people are used to consuming film and TV content by streaming it from these services. True, people still watch broadcast television and people still go to the movies. But the idea of owning a film or a TV show is becoming a thing of the past. Before joining Rdio, I spent 12 years in the movie business. Back then, revenue derived from DVD sales was a big part of the business. That's now over.

**Q:** *Is this a global shift?*

**LARNER:** Yes — for the most part. However, on the music side, the concept of owner-



ship remains important, which is why people still buy downloads, and that's what drives revenue for recorded music. But my belief is that the ownership model will be replaced by the subscription model, which is what Rdio is all about — the idea of paying one monthly fee to have access to all the music you'd ever want. The concept has been around for many years, and while it still hasn't been adopted on a mass scale, it's where the industry is going.

**Q:** *How much of that transition has occurred? How much of the music business is made up of subscription services like Rdio?*

**LARNER:** It's still a small fraction of the total industry. And there are a lot of competitors in the space. But it's a very hot space, and it's growing. I think the music labels see this as the future of their business, and they want to empower companies like ours to be successful on a global basis.

**Q:** *So the labels see your service as compatible with where they want to go?*

**LARNER:** Absolutely.

**Q:** *What's in it for them?*

**LARNER:** Revenue. At some point digital subscription services will be the lion's share of their revenue.

**Q:** *Will labels do better or worse with the subscription model than with selling downloads?*

**LARNER:** The models are different. On one hand, you can sell a single track for \$.99 or \$1.29, which is the ownership model. On the other hand, you can have a subscriber paying 10 bucks a month for years. So it's a very different revenue model. It's not an apples-to-apples comparison, but I think the recurring revenue model is the one that will ultimately win out.

**Q:** *And what's better for artists with regard to royalties?*

**LARNER:** That's a huge issue and one that I can't provide a lot of clarity on. The way we work is that we have deals with the labels and the music publishers. The labels and publishers have deals with the recording artists and songwriters. Different artists have different deals with the labels and publishers, and I don't have visibility into that because we don't deal directly with artists. What I do know is that the business has changed dramatically. It used to be that artists would tour to promote the sale of an album. Now it's the other way around. Artists release albums to promote their tours. It's not quite that simplistic, but for the most part, artists now seem to make most of their money by performing live.

**Q:** *How exactly do artists fit into the new model, given that subscribers now have access to what is essentially an unlimited number of artists, songs, genres and so forth?*

**LARNER:** That's exactly the point, meaning that users now have the ability to be exposed to so much more music by subscribing to services like Rdio as opposed to being limited to having to make a purchase decision for a particular song or album. Discovery is dramatically enhanced by subscription, which only accrues to the benefit of artists.

**Q:** *Is that good news for artists financially?*

**LARNER:** We're in a transition phase from one business and delivery model to another. My contention has always been that once businesses like ours get to scale (and we aren't there yet), artists will be in good shape.

**Q:** *Given you're in a digital business and deliver your content over the Web, to mobile devices and tablets, and through services like Roku, it seems like you could have gone global on day one. Is that what happened?*

**LARNER:** Not at all. It took a lot of time. We are in 31 territories, but it's a licensing challenge to be able to provide a service like ours globally. As you may know, music has a very complicated licensing structure between publishing and record rights, and it's different in different parts of the world. So going global is a challenge from a licensing standpoint.

**Q:** *Do you have local competitors in Europe, Asia and other parts of the world?*

**LARNER:** Yes. There are a number of local services. But in order to be successful, ultimately, I believe you have to be global — which, as I say, is complicated, but we're on the way to achieving that.

“Being competitive starts with having a better product and a better user experience.”

**Q:** *You didn't start Rdio, but you came in when it was still a very young company.*

**LARNER:** Correct.

**Q:** *How did you go about building the company?*

**LARNER:** In our case, it all starts with the product, and in terms of resources, we're engineer and design-heavy. That orientation is driven by our founder, Janus Friis, who co-founded Kazaa and Skype. His focus has always been around building a great product. But there are a lot of competitors out there, so distinguishing ourselves from the others is challenging, because by and large, everybody has the same content. It's not like selling a movie in a particular

territory where one distributor has the rights exclusively. It doesn't work that way with music. All the subscription services have access to the same content, provide it at basically the same price point and make it available on all the same devices. So, in a situation like ours, being competitive starts with having a better product and a better user experience.

**Q:** *You said Rdio is engineering-heavy. You're a lawyer, not an engineer. How do you make decisions regarding allocating resources when you aren't an engineer?*

**LARNER:** I know what I know and I know what I don't know — and I know I'm not an engineer. So, the key is hiring people in senior roles, like a chief technology officer I can relate to, who can explain things to me, who can — as I always tell them — “explain it as simply as possible.” Ultimately, my philosophy in working with my team is that I have to empower them to make their own decisions and trust that they'll make the right ones.

**Q:** *At a startup like Rdio, what do you pursue first: revenue, capabilities or letting people in your market know you exist?*

**LARNER:** In our case, again, it was our product. Look, no one's profitable in this space yet. It's not a secret. We expect to be profitable eventually. It's true companies are building great products and big user bases, but no one is making money. Even so, companies are getting massive valuations as a result of having built big user bases. So we're focused on user growth. That's our metric. And that's what we're building toward.

**Q:** *You are in the process of leaving Rdio as CEO. Why?*

**LARNER:** In the last six months Rdio has really started to take off, and in thinking about the future, I concluded that someone with a skill set different from mine — deep experience scaling a large subscription-based business — would be better suited to capitalize on the opportunity we have in front of us. I approached Janus and after a lot of back and forth, we collectively decided I would transition to executive chairman and begin a search for my replacement. I want what's best for the company and my team, and I know this is the right decision on both those fronts. K/F