

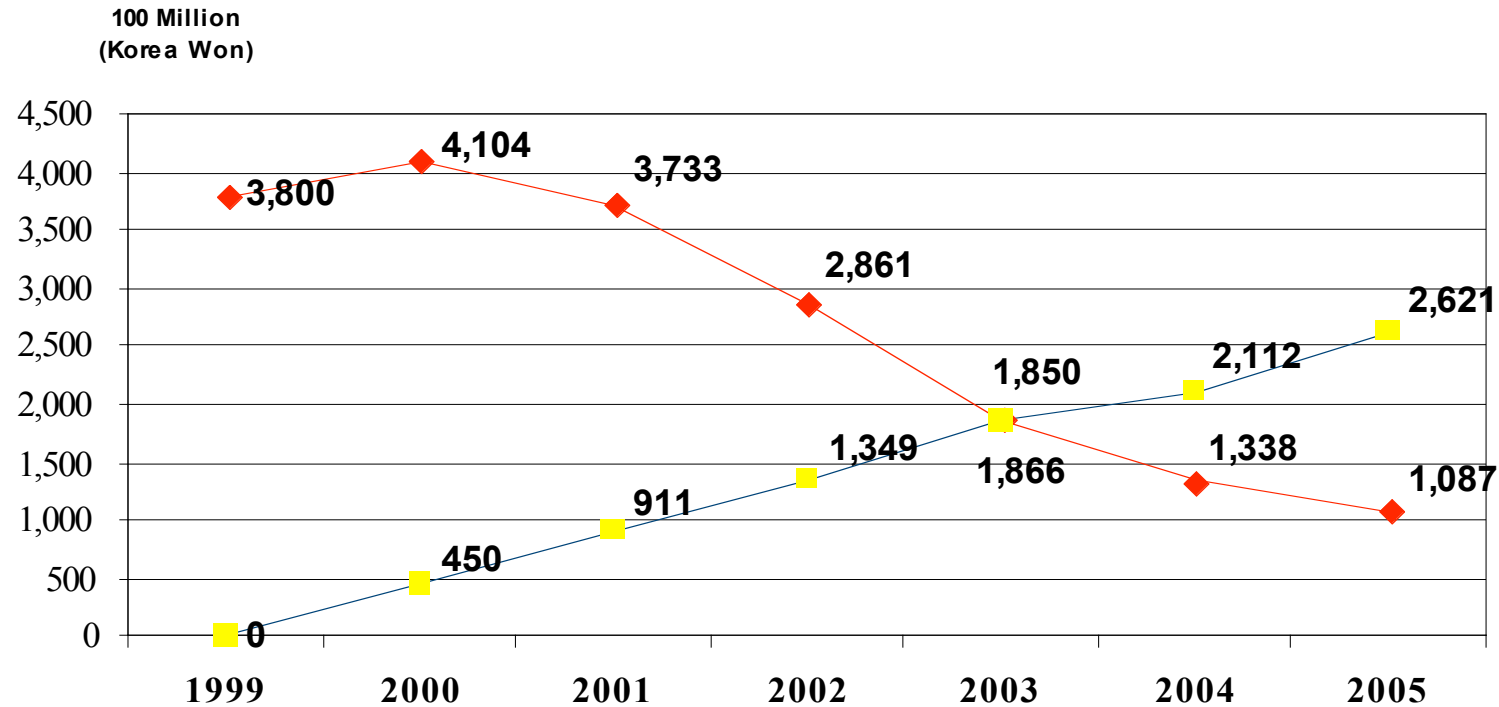
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***Does Rule of Royalties Facilitate Dynamic Capabilities
of Digital Distribution Management System
- the case of mobile telecommunication industry in South Korea -***

Jong-Seok KIM (Gabriel)

**Manchester Institute of Innovation Research
Manchester Business School**



- First Country where digital sales overtook physical sales (IFPI 2008)
- Size of Music Market: 29TH in Physical, But 4TH in Digital Sales
- First movers of digital music services: ring back-tones, portable subscription services over the world
- Still 80 % of music files illegally distributed and consumed

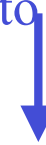
Evolution of Digital Music Services in Mobile Industry

- Ringtones(Bellsori) – 2000
- Ringtones(Live Bell) – 2002
- Ring-Back Tones(Colouring) – 2002



- Portable Subscription Services – 2004

Limited Copyright Management
System
(Decentralized to Service Providers)



Digital Distribute Management System
Centralized to Mobile Operators



- **Digital Music Services: Customized and mass production of services – Unlimited combinations of digital sales, not likely accounting in physical sales on CD or Broadcasting**
- **DDMS Functional Elements and Technologies**
 - Contracting and sourcing music contents from license holders (IPR DB System)
 - Making payment system to license holders according to different digital music services (Royalty Payment System)
 - Protecting copyright from illegal usages or impingement (DRM)
 - Securing reliable distribution on different digital music services
- **DDMS incorporate rules of royalties**

“...It took longer time than what we expected, in order to set up new rules among license holders, because we spent much time to make license holders to understand new technology (new services), and make them to agree to royalty rates of new services....”

“ In order to develop a technical system of royalty distribution, rules of royalty distribution are critical. First, we just used existing rules in order to develop a technical system of royalty distribution. Eventually, when we gave a birth of new rules along with license holders, we was able to complete development of system of royalty distribution...”

- **Rule-Setting Processes of Royalty:** not simple arrangements, but complex processes where psychological, economical, legal, and technological factors are mingled through repeated interactions among economic agents
- Mobile operators need to establish new interactions with economic agents in music industry in order to launch portable download services.
- Three Legal Collecting Societies, many Intermediary Organizations, Others
 - **Korea Music Copyright Association (KMOCA)**
 - **Korea Association of Phonogram Producers (KAPP)**
 - **Korea Performing Artist Association (KPAA)**
- **Trading Licenses: Intermediary orgs and others > Three Legal Collecting Societies,** due to less credibility to collecting societies among license holders
- Due to illegal market of music songs and squeezed market in physical sales, license holders tried to receive proper rewards of their creativities and had some ill feelings of new technologies.

- **Try to be familiar with music business practices, especially copyright contracting**

“..We organized many group studies to learn music business and industry, which we have not ever imagined that we will do music business in my company. We spent much times to learn it with partner companies. It feels like the blind man, who is touching elephant.”

- **Referred royalty rates of streaming services**

“...We thought it had better strategically use previous rule as reference of new rule, because it would take a long time and difficult to create new rule....”

- **Shared knowledges with online music service providers**

“...We just try to follow as much as possible by looking into how online service providers have done, what business practices are in music industry, how economic agents in music industry as well as in online-music industry have used business practices, and how economic agents have followed business practices and rules in music industry. We did not want to change old rules but tried to follow old rules, which have been formulated...”

- **Started to negotiate new rules with license holders**

- Dose rule of royalties constrain that firms adapt digital distribution management system?
 - **Yes to First Mover!!!**, the first mover delays introducing digital distribution management system of new digital music services
 - **No to Follower!!!**, the rule facilitates introducing digital distribution management system of new digital music services, because followers just use the rule as reference, which first mover set up along with license holders, when followers imitate first mover's digital music service.
- Uneasiness of rule-setting process brings about slow evolution of digital music services, especially, slowing down variations of digital music services
- Further investigation of factors on rule-setting process: cost (incentives), credibility (trust), knowledge difference, different identity, market power, etc.

End of Presentation
Thank you!