MUSIC MATTERS – THE ASIA PACIFIC MUSIC FORUM

INTERVIEW WITH GARY CHEN

GARY CHEN, CEO, Top100.cn, is at the cusp of a huge breakthrough in China and he knows it. The Beijing based co-founder of Top100.cn, a download service, believes that the possibilities are limitless now that Google has signed a deal with the company. With Google's clout among advertisers and the website's partnership deals with all the major labels and more than 140 smaller ones, there's now a way for the legitimate service to take on Baidu and other unauthorized pirate sites. More importantly, it's a big step towards monetizing the industry on the Mainland in the 21st century.

Ahead of his upcoming forum at **Music Matters**, Chen talked to Scott Murphy at length about how the past has prepared him for the present and the future.

Let's talk about your background a bit. At one point you studied in the States. Can you tell me more?

Chen: I was born in China and I went to college here at Beijing University. Then I went to Brandeis University, got my Masters Degree in finance and worked in the States at a finance company for a couple years. In total, I was there for nine years. I came back in 1998 and started and started a small talent agency called Pulay Talent Agency.

Why the switch from finance into entertainment?

Chen: It was just a personal decision. Even when I first went to the States in 1989, the plan was always to come back to Beijing at the age of 30 and do something that I really loved, which is music.

Did the Tiananmen Square incident affect your decision in any way?

Chen: I started applying in 1987 but wasn't able to get a scholarship. My parents only made about US$100 a month. It was impossible for me to go to a school like Brandeis at that time, but I managed to get a full scholarship and I got some money to live every month.

What were your thoughts on the U.S.?

Chen: I never felt that I was a poor guy when I was there. From the first day I arrived there until the day I left America--the first two years I was a poor student but never felt that way. I always felt like I had money. I could even buy a used car; my first car was $400. I really felt that America was indeed a good, great country. Everybody has a chance. It doesn't matter what your background is.

So why did you go back to China?

Chen: How do I say this? At that time I felt I could get more opportunities to participate and join the business to do the stuff that I really love, which is the music industry. I had no experience in the music industry. It's very tough. My first project in the music industry was that I promoted a tour of a Chinese rock singer whose name is Cui Jian and then I promoted a tour for him in the States in 1995. I was totally an amateur, I didn't know about venues, the booking, I just called a lot of places.

It was baptism by fire?

Chen: Totally, I spent all my savings and went over my credit card limit. I was the single promoter. Even though it lost a lot of money, it was greatly rewarding to do that before the age of 30. Then I came back and set up Pulay, a talent agency, and then became his manager (Cui Jian) for a couple years.

Where do your own musical tastes lie?

Chen: I pretty much like every kind of music other than reggae. It's too cold for that here in Beijing. I love classical jazz, I love rock and the other thing that turns me on is nu-metal stuff. I love the Nine Inch Nails, Beasties Boys, Kid Rock, etc. Classical music is good too.

When you came back to China, what was the music industry like there at the time?

Chen: The musicians needed help. At that time, in the early 1990s, they could get assistance if you were a big star and an emerging musician. They could make money on tours and concerts. I envisioned that maybe it was time for a company to be set up like CAA or the William Morris Agency. I always loved reading those books about those people to see how they could build the business. For the copyrights related to CDs, China has a huge population and music is a retail business. The more people who consume, it's a bigger market. Piracy was dominating at that time, and we felt we could change things.

10% of the legitimate market share means a billion RMB in China. Honestly speaking, we had some idea, but if you look back today we really have learned a lot. Back then the vision wasn't so clear. We jumped in and began to learn. With the Pulay Talent Agency, at its peak we had 22 musicians, including Cui Jian, top producers (including Wong Faye's producer), singers from Taiwan and we worked together with Warner Music at that time. We represented artists from Taiwan too and some part of their business.

Was it a satisfying time?

Chen: We learned so much because we signed artists and bands from Beijing to Guangzhou. We tried lots of things. We signed all these artists, helped them negotiate their business and were involved in over 400 concerts from 1998-2004 and we tried lots of things. All the business surrounding an agency business, we tried. It was a great time for me to learn all the business.

How does it feel to have seen all the growth in China with music companies?

Chen: We made lot of mistakes. But at that time, there wasn't really an industry. A lot of big companies are now in the business like Google, Nokia, Apple, Motorola, everybody. Back then it was all personally financed and very traditional and very typical. A lot of people jump into the industry because they love it and it is indeed a great business to be in in many other countries, like in the States, UK and Japan. If you want to work hard, and love the music industry and build a company, and if it becomes successful, you enjoy it financially and in your personal life. Pulay was one of the pioneers and there were others too, like Zorro. Looking back today, it's just life. You made a lot of mistakes. You can say that's meaningless, but I learned a lot. If you're asking me what can work, I may not have an answer for you. But if you ask me what a company should not do, I may have lots of answers for you.

In 2004, I remember we had a board meeting and in February 2004, the board and shareholders decided to slow down the business of Pulay and not renew many contracts. The profit margin was so thin, even though we had done lots of projects and lots of things but it was so hard to make money.

You had to think about the next step at that point?

Chen: Right. At that time I thought it was painful to accept, the fact that we should stop or slow down. Looking back from today, I was lucky that I got all the members telling me to look at the music industry from the perspective of monetizing the business.

I spent the next year, almost without doing anything---trying to figure out what we should really do and take action. Obviously, you see it's not the internet. It's really about the distribution, how to sell music,

how to monetize music, how to establish the sales and distribution channel to monetize this music business. Unless the artist and music label get paid, it's impossible to sustain and grow the music industry. I decided to become a music sales person. I came back to China to produce music and become a music executive, a label sort of thing. That's really fun to create something. We all thought that selling something was boring. But the six years of experience, made me determine that--if I love the music industry, I was determined that I would devote my time to help to be part of the process and build the music sales and distribution platform in China.

That's why I built cn100 in China. I was lucky to get Erik Zhang, who managed Yao Ming and I was lucky to get Yao Ming. He decided to invest a couple million US dollars to this project.

What did he see in it?

Chen: I personally didn't have much conversation with him, but I felt that he is a great person, a gentleman, with a big heart and really open minded. He has a great instinct of what he should and shouldn't do and the rest will follow, including money. I believe my other shareholder Google and my partner Erik all believe that if we have over 200 million people browsing the internet and downloading music in China, there must be a way to figure out the business model. Once we do learn and figure out the monetization and build the business model, that will create a huge value for the music industry. That's what we believe. The first two years we tried the pay model, just like iTunes, we tried 1 RMB per download and subscriptions at 10 RMB per month, but the result and the business result didn't support that pay model in this country.

Why didn't it work?

Chen: The user's behavior and habit was established. For example, they would just go to a pirate site or pirate search engine and in three clicks they can already download music which is DRM free. They could transfer it to iPods, their iPhones. If it's a pay model, you are paying 1 RMB which you can get from a pirate site. There are over 1,000 pirate sites doing that. Number one, they have to pay for the legitimate service. That process can take six to eight steps. You search music, then you get the music you want, then you need to get another six or eight steps to get it. Once you get it, it's a DRM file. You bought it but you can't do anything with it. The DRM mode becomes history. Users didn't like it. You're talking about hundreds of millions of people illegally downloading from sites. The legit sites were getting 2 million downloads a year. That's nothing in terms of revenue. It's not even a business.

It seems you have different names and platforms, can you explain this more?

Chen: We have three platforms that are all the same entity. Orca is just our official name and Top100.cn is our website (www.top100.cn)

What do you offer on the site today?

Chen: We changed our business model from last August. Google launched a music search engine with Top 100. In August we changed our service model to a free download stream. We offer services like playlists and also created a widget for users. Let's put it simply. Google will focus on music searches. Top 100 will focus on music content, programming, editorial, and the music community. Top100.cn is becoming a new music media company because we generate music from advertising. If its labor intensive, Google says it should be done by us.

Why are major labels applauding this partnership?

Chen: Actually, I think number one for the past 10 years, music labels and the internet technologies have tried lots of things. Now from all these parties, they have realized this is more of a revolutionary change. It's not vinyl to tape, tape to CD. It's about adapting to the digital era. Number one: make customers happy. Provide a great music experience with good technology. Number two, seriously, facing hundreds of millions of users and offering free streaming, not just in China, but worldwide. The action is to figure out a business model and figure out how to make money for the music industry and the artists. The question is how.

If you look at the 80s, there was VH1 and MTV. Like that time, new music media will become a billion dollar business within the next 10 years on the internet and mobile phones. 200 million people are downloading music at one time and China is the second biggest advertiser in the whole world. Last year it was worth US48 billion. Every company, including Chinese companies, is spending their advertising budget in China. China surpassed Japan to become the second biggest advertising country in 2006. If you have 200 million people going to a site, lots of advertisers will advertise on a legit music platform, like Pepsi, Nokia, Armani, Ford, anybody…but they didn't have great services. They have thousands of stores in China. Also with the financial crisis, internet advertising should become more advertiser and user friendly. We're confident. According to an IFPI report last year, online music consumption and usage worldwide—only about five percent is a legit pay model. The other 95 percent is pirated usage. It's been free usage for the past 10 years. We're still trying to debate whether we monetize it or trying to decide how to get the 95 percent of users for free. We're talking about billions of people consuming music online. We can't rely on a pay model, history proved that. ITunes is doing a great job but they are only covering five percent of the people.

I believe that if companies like Google and Top 100 really focus on the hundreds of millions of people, we can build a billion dollar business on the internet. The numbers are there already. It's really about the music industry--the four major and 140 indie labels--people like Lachie Rutherford (Warner)--they take proposals and different business models every day. In the end, what people are trying to figure out is how to make money.

How does your Google deal work in the simplest terms?

Chen: They are more like partners. They must become partners. They are partners. If you look at the perspective, what we wanted to do is become a platform like a Google. Now what happened? For the past two years, Google has had meetings with label executives and talks about services and monetization. I strongly believe the Google China team--they are very open-minded—they're doing a good job on localization. It's a question of how the technology can help the music industry to build the music industry sector.

If you're watching, it's so interesting. The music label execs will say "We wish we could do this. We have artists, radio—everything; a huge catalog." And a Google engineer says "We can do that…we already have that tool." Google is the most successful advertising company in the whole world.

So Google is driving advertising to your site?

Chen: Yes, they must. Google has a huge advertising and client base. They are serving 250,000 advertisers in China alone. They can now say "We've got free music going on." It's the largest advertising company in the whole world. The reason why the music labels join is because they are confident that Google can do the job on monetization. Can we all work together? Yes, we are all working together.

How big is your catalog?

Chen: Currently we have about 1.2 million. We are planning to add at least 500,000 tracks to the Google music search service every six months. For Top 100 we are going to build a legit database for two million tracks by the end of this year. We still need lots of help from all the partners; from music labels, from publishers, etc. There's so much infrastructure work to do. Before, there wasn't a legitimate online music business. You start from scratch and it's more than download streaming.

What is the international and local language split?

Chen: The overall Chinese music catalog is 100,000 tracks, including music from Hong Kong, Taiwan, the Mainland, Singapore and Malaysia. That's all. The rest is all international, English and other languages.

Do you see a preference?

Chen: Consumers want both. They have consumed all this great music from a long time ago. In the 80s, I was listening to the Rolling Stones, now the young kids, they really listen to all kinds of music. If

you go to a good pirate CD store for music in Beijing, almost half the wall is international. The reason why people are telling you only Chinese music sells is because it was dominated by pirates. And on mobile phones, only the Top 10 can sell. They have a limited storefront. Just like Hollywood's film studios are promoting big numbers. With the legit services, I think the Chinese people will be very happy to enjoy music from everywhere. It's a good thing.

Do you think that piracy will somehow be phased out?

Chen: Piracy, will it gradually erode? The CD business has been getting worse every year for the past 20 years. Piracy is like cancer: it can only become worse, not better. All the laws and regulations cannot solve the problem itself. Even in a traditional CD business, whether it disappears in ten years or not, nowadays, traditional CDs, including pirated CDs are selling more than RMB five billion a year. That's a conservative figure.

Every small city in China has a small store selling pirated CDs. It's a business. We should figure out a way to beat piracy with digital technology. A lot of these things were talked about 10 years ago. But it didn't happen much in this country.

Let's say somebody wants to hear the Beatles on your site. How will you go about securing the rights?

Chen: That catalog is not online, but hopefully I will have the chance to talk to someone who manages their catalog and try to persuade them. Maybe it can start in China, which is possible. We will talk about how we can seriously monetize the Beatles catalog in China and provide them with practical but solid proposals on this. Hopefully, it can become available.

That's just an example…but do you foresee a day when the latest new albums of the week can be downloaded as soon as they are released?

Chen: Yes, that's something that we're trying to provide in this country. Even last night we had a dinner with a major label exec and other marketing teams. Right now the major labels globally have a musical release schedule. They have invested a lot of money on this. It's still impossible for every new release in the States to be in China legally right away but many new releases, especially digital releases, are available at the same time. We have access every day and it's growing rapidly. It's to their benefit to be able to monetize it all in this country. They want to make it available but it takes a lot of investment and work.

How many employees do you have?

Chen: I have 36 people, all based in Beijing. Going to other cities is possible. In cities like Shanghai, etc. and Shenzhen (which is possible because we are entering the second stage), we foresee a faster growing pace of the company in the next two or three years. We need help from lots of people to build a bigger team.

What's the Chinese government stance on what you are doing?

Chen: We have always had great communication with different, relevant government agencies, including the China Audio/Video Association. Personally, I was an advisor to the Chairman for about four years before. We also regularly report to the Ministry of Culture on the progress of our project. We also update John Kennedy of IFPI from day one. That's what I have always done. This is something quite big. It's not something that one company and one team can do. We need help and partnership from all the value chain people.

Has there been government interference at all?

Chen: Not really. If you talk about censorship, every country has a censorship system. Personally, lots of great music that I enjoy is not based on great music itself. It's not based on porno stuff or violence. A genre may have that, like rap, but let me give you an example; censorship is managed by the Ministry of Culture, on the CD format. They take care of that. If you want to import a CD, they take care of that. They also have certain regulations on the internet, but they have been very open-minded.

They are giving us recommendations and suggestions about the new system to be built. It's becoming better and better, so the new censorship system will fully support the new technology and respect the internet industry's character and integrity. Maybe a small percentage of the music online will be censored according to the traditional CD technology. You only check the lyrics. It's so easy for technology to check the lyrics.

How about if somebody says "Down with China" or "Murder your mother". Will that be censored?

Chen: I think so. First, I doubt if it will be great music itself. Great music is made by great people. If a musician has limited talent but can only make music like "Down with America" or "Down with China", I don't think it will be good music. Everybody is facing the question. The Ministry of Culture has a job to do. If we all help to communicate more with them, they'll be happy to listen to you. They are one of the value chain partners. Fighting will not create any good result. If the Ministry of Culture is open minded, which they have been, they know it's a huge database. Let's use certain technology to do the censorship first and maybe 900 million tracks will already be approved. Maybe five or one percent may have certain keywords which are sensitive, let's say Tibet, let's say Communist party,out of all the music, I really don't think censorship will be a problem for the music industry.

What excites you most about the Asian music industry?

Chen:

1. Number one, obviously the Google Top 100 search opens the door for an advertising model and other countries will follow. These companies will seriously start doing business.

2. With the increase of the legit online market share, if we can start to get millions (tens of millions, hundreds of millions) of online users to use the legitimate site, the music industry will help to build a one stop service to Chinese music fans. We are in a good place to help sell CDs, concert tickets, merchandising: to sell, promote and online properties and assets.

3. Music fans can enjoy the benefits of new technology.

4. People talk about new media stuff – the new music media will emerge. A new kind of media group and company will emerge. The media industry is a billion dollar business. These are all billion dollar businesses. It will help open door of this advertising business. This is going to be big, a serious business. I'm talking about the whole industry. It will be huge, which is most likely if we pursue opportunities and take action to build a build a new music media business which can compensate for the decline of the physical. A new ecosystem can be built because the old one can be destroyed.

Let's look five to ten years down the line for China. What's happening in your industry?

Chen: Two things: Number one. The legit music business, the total could reach US$3 billion a year, which includes mobile, internet and the physical. Last year, the mobile music and ringtones were over RMB$10 billion, but the payout ratio to the music industry was very low. But the volume of the business was quite big. It's a matter of how the music industry will get paid more. If you will include a track download, the music industry should get a higher payout ratio. The traditional CD music business is still there. I don't think the CD business will go away in the next five or ten years. 100 million families have these players at home. Not everyone will buy an iPhone or iPod. Maybe they'll buy it but they will still have a home system. There are also the cars. There are 50 million private car owners in China. They still listen to CDs or radio in the car. This is the first thing, that overall, the legit music business volume could be the figure I mentioned before.

How about infrastructure?

Chen: On the mobile end, this is being built by the big players around the world. It will be good. And for all the major labels and the internet, the pay model is there now. Now we're talking about an advertising model and more players will come along with the traditional advertising agencies (along with other advertisers). I'm quite opportunistic with all the platforms. It will be pretty sophisticated. The

second guess is that piracy will be almost gone. It will have less and less market share because certain pirated companies will become legit. Some can't afford to close their search engines. This will help….and the music industry will get the benefits.

Bin Lin, Engineering Director of Google China, will be interviewed in a One on One session at the Music Matters forum which will include a live demonstration of the Google Music service. He will discuss how it works and what it means to the music industry.

Gary Chen and Bin Lin will join the Digital China panel at Music Matters alongside Alvin Liu (A8 Digital Music Holdings), Allen Guo (Yobo.com), and Ken Cheung (Warner Music Asia Pacific).

ABOUT MUSIC MATTERS:
Attended by an abundance of industry heavyweights from Asia and around the world, Music Matters is the only conference of its kind in Asia, offering delegates the chance to connect, forge business partnerships and create new business opportunities. In addition to the forum there are three parties showcasing up-and-coming acts from around the Asia-Pacific region.
Now in its fourth year, Music Matters is a forum created with, by and for the Asian music industry and has become a permanent, must-attend fixture on the global music industry calendar. It is solutions driven, featuring face-to-face sessions, keynote presentations and discussion panels with some of the most innovative and successful companies and individuals in the businesses of music, entertainment and technology.

Previous speakers include**: Paul McGuinness** (Manager, **U2**), **Edgar Bronfman Jr**. (Chairman & CEO, **Warner Music Group**), **Edison Chen** (Artist), **Sam Duann** (President, **Rock Records** Co. Ltd), **Terry McBride** (CEO, Nettwerk Music Group and Manager **Avril Lavigne**), the **IFPI's John Kennedy, Charles Huang** (Co-inventor of **Guitar Hero**), Globally renowned concert promoter **Harvey Goldsmith**, **Haji Taniguchi** (Managing Director, **Avex Group Holdings** Inc), **Tero Ojanperä** (EVP, Head of Entertainment, **Nokia**) and many others sharing the stage with a wealth of other local Asian and international music business leaders.

Created, managed and promoted by Hong Kong based entertainment marketing company, Branded Limited, the Music Matters programme is customised with the assistance of an advisory board comprising of senior representatives from across the entertainment value chain including major record companies, independents, promoters, digital retail, lawyers, financiers, mobile and media owners. The ongoing success of Music Matters clearly reflects the deserved attention that the Asia Pacific is receiving from the rest of the world and demonstrates that the business of Music… Matters!

Plug into Asia!

Ends

Music Matters Event Information:
www.musicmattersasia.com
June 2nd – 4th, 2009 (Forum on June 3rd and 4th)
Grand Ballroom, Grand Hyatt, Hong Kong

Contact Information:

Media & Press Registration and Enquiries
Jessica Hyams
jessica.hyams@brandedasia.com
T (852) 2167 8040

Delegate & Registration Information
Amy Laing
amy.laing@brandedasia.com
T (852) 2167 8040

Sponsorship & Media Partnership Information
Konstancija (Stan) Ruza
stan@brandedasia.com
T (852) 2167 8040

Event Production
Tracy Tan
tracy.tan@brandedasia.com
T (852) 2167 8040