Chapter excerpt

CH 3

HOW THE MUSIC MARKETPLACE IS CHANGING

"For the first time in history the artist is realizing financial success in his lifetime."
– Joe Walsh, rock musician

It's time now to do an environmental scan. In this chapter we'll explore the current "lay of the land" in the music marketplace. An important part of this includes exploring trends that are impacting the way people view and use entertainment products and services.

First, some noise from the trenches. Here are some revolutionary developments from the past few years among artists:

- Letting fans choose how much to pay for your album...
- Leaving the label you've called home for your entire career to hook up with a concert-promotions giant for a $100 million-plus deal…
- Recording iTunes-only one-off singles not slated for inclusion on an album...
- Offering "artist subscriptions" to fans, who pay a flat annual fee for more intimate access to their favorite acts...
- Serving up the millions of songs in your label's catalog to MP3 players and cell phones for one all-you-can-listen-to price per month. ...

All of the above are straws blowing in the wind, indicators of development, barometers registering the sea change in music industry dynamics.

Let's delve a little deeper into this "creative destruction".

When I talk about "trends" I don't mean the common definition of "trendy, faddish or fashionable". Those are usually short-lived, "flavor-of-the-week" happenings that grip the market's attention for a time and then quickly fade into oblivion. Beanie Babies, Pet Rocks and 8-track tapes fall into this category.

What I'm referring to when I say "trends" are emerging meta-currents in our social and cultural lives that herald new ways of living and thinking. These unfoldings have been gradual and sometimes difficult to arrest and analyze.

Nevertheless, they are very real and are changing the world, especially the world of the independent music provider. It wouldn't be extreme to say that for the past 50 years the world has been experiencing a comprehensive global restructuring of economic and social life.

The 50,000-Foot View: Meta Trends in Entertainment Marketing

Entertainment marketing left second-class status in its rear-view mirror decades ago, and as a result, created a heavily trafficked marketplace, constantly faced with the collision of time, money, and changing trends.

There are enormous trends unfolding throughout entertainment marketing. Consider these facts:

- Entertainment marketing is consumed with *speed* – there is little or no time to test-market before release, before one source or another gets word of the buzz on a project and broadcasts it to the world at large. Leaks, Tweets and Diggs distribute awareness at lightning speed.

- Every film and CD is a new product, and each one is different: different content, different audiences, different deal structures. There may be two or three – or a thousand - of these products released every week, yet every campaign must hit the target on the money, on time.

- With film, any misfire – any hint of bad box office- must be counteracted immediately, since the window of first-run distribution is only three to four weeks, at best.

- Budgets for entertainment marketing can be huge - the average marketing budget for a film that costs between $50 and $100 million to produce is between $25 and $40 million - but the burn rate is extremely high, with much of the budget being spent during the six to eight-week period just before and during the film's theatrical release dates.

- The product of entertainment content (whether film or music) is based totally on creativity; therefore, it is fraught with the possibilities of human frailties. Production and release dates can change with the sneeze of a star. Bringing a product to the market often combines a fine balance of crossed fingers and creative finagling.

- Entertainment marketing first focuses on selling an *experience* rather than an object. The audiences must first buy into the event, before the sale of objects associated with that encounter – a highly desirable outcome, not to mention revenues streams – can occur.

- Entertainment is subject to the same whims and vagaries as fashion. Trends and styles change; with the pre-production planning and strategizing stretching out years before actual release, entertainment producers must strive to catch the wave before it crashes into the cliffs of consumer apathy.

- Award shows - not within the control of the marketer - can make or break entertainment products. Very few consumers may care what seal of approval a chair, a car, or a carton of eggs may carry, but the profitability – or failure – of a film, or an album, can rest on the opening of an envelope one evening each spring.

- The changing face of technology carries with it ever-expanding channels of distribution for entertainment products, many of which have their own particular following. Each of these channels must be addressed, and marketers must be constantly aware of the demographics involved in every new format.

- The marketing of entertainment focuses not only on the initial product itself – the movie, the CD, the program, the sports spectacle – but also on all the associated products spun off through licensing and merchandizing. Each product can launch millions of dollars in revenue, if carefully handled and strategized across all channels.

- The global desire for entertainment requires a universal understanding of the language needed to promote the product, both locally and internationally.

Keep in mind that every single one of these factors impacts every single entertainment product - above and beyond all of this is the single biggest challenge facing every release and every promotion: competition from all other forms of entertainment.

That's the 50,000 foot view. Now let's get a little closer to the music entertainment landscape specifically and explore some of the "megatrends" unfolding within it.

IMAGINE

"Bob Marley probably wouldn't have been signed because of his strong dialect, Pink Floyd would have been too weird to take a risk on, the Beatles probably had too strong a regional accent - all of them could have been ignored by record companies in today's environment".

From a discussion titled, *"Label Mergers: Bigger 'n' Better 'n' Rougher 'n' Tougher?* At musictank.co.uk

MEGATREND #1:
Every Business is Becoming An Entertainment Business

Mountain Dew started a record label. So did Artois Brewery, Toyota, and Levi's Jeans. Apple Computer, Red Bull and Nike, three companies outside the orbit of the traditional music business, have spearheaded successful initiatives in the music space that record companies themselves seem constitutionally incapable of carrying out.

Pharmaceutical giant Lilly has chosen music as the primary platform to convey marketing and educational messages to middle-aged men concerning its sexual dysfunction treatment Cialis. The Holiday Inn hotel chain launched its own music label, with its first "signing" being Nashville singer/songwriter Kyle Andrews. Holiday Inn used his song as part of its campaigns in markets around the globe.

If you look close enough you will notice that "the Hollywood organizational model" is quickly being adopted by a number of the cutting-edge industries of the twenty-first century. For example, Andy Grove, former chairman of Intel, compares the software industry to a theater, where directors, actors, musicians, writers, technicians, and financial backers are brought together for a brief moment of time to create a new production. Even though the number of successes are few and far between, says Grove, the process also occasionally creates smash hits. Sound familiar?

In his book *Jamming: The Art and Discipline of Business Creativity,* John Kao of Harvard Business School urges CEOs to integrate the Hollywood network model into their long-term strategic plans. "You need to act like today's version of a Hollywood studio," says Kao, and practice business like an "improvisational jazz band".

It's no mere coincidence that other industries try to model the way the entertainment industry is organized. The cultural industries - including the recording industry, the arts, television, and radio - commodify, package, and market *experiences* as opposed to physical products or services. Their stock and trade is selling short-term access to simulated worlds and altered states of consciousness. The fact is, they are an ideal organizational model for a global economy that is metamorphosing from commodifying goods and services to commodifying cultural experience itself.

Companies way outside the orbit of the traditional music business are awakening to this all around the planet. In early 2008, Bacardi announced that it would help the English electronic duo Groove Armada pay for and promote its next release. Caress, the body-care line owned by Unilever, commissioned the Pussycat Dolls singer Nicole Scherzinger to record a version of Duran Duran's "Rio" that it gave away on its web site to promote its "Brazilian body wash" product. What we are seeing here is every business is becoming an entertainment business. One result of this is musical artists are no longer beholden to traditional "music industry companies" to achieve success.

Most would agree the major record companies served their purpose well: They made recorded music available to us on a vast scale for seventy-plus years, instilling an insatiable appetite for music in the process.

As a result, music *sells*. It has accompanied just about every product that's come to market since the 1930s. In fact, today some of the most interesting music is heard more readily on TV commercials than on the radio. Wherever we go we hear music. Why? Because we love it and we want it. We want it when we drive, eat breakfast, shower, work, make love, shop for stuff – it's the aural landscape of our lives.

We hear music on recordings, on our computers, at concerts, on commercials and at the airport; we listen to music over the phone and in our video games, Walkmen, iPods, Zunes and cell phones. The global demand for music is chronic and ever-expanding.

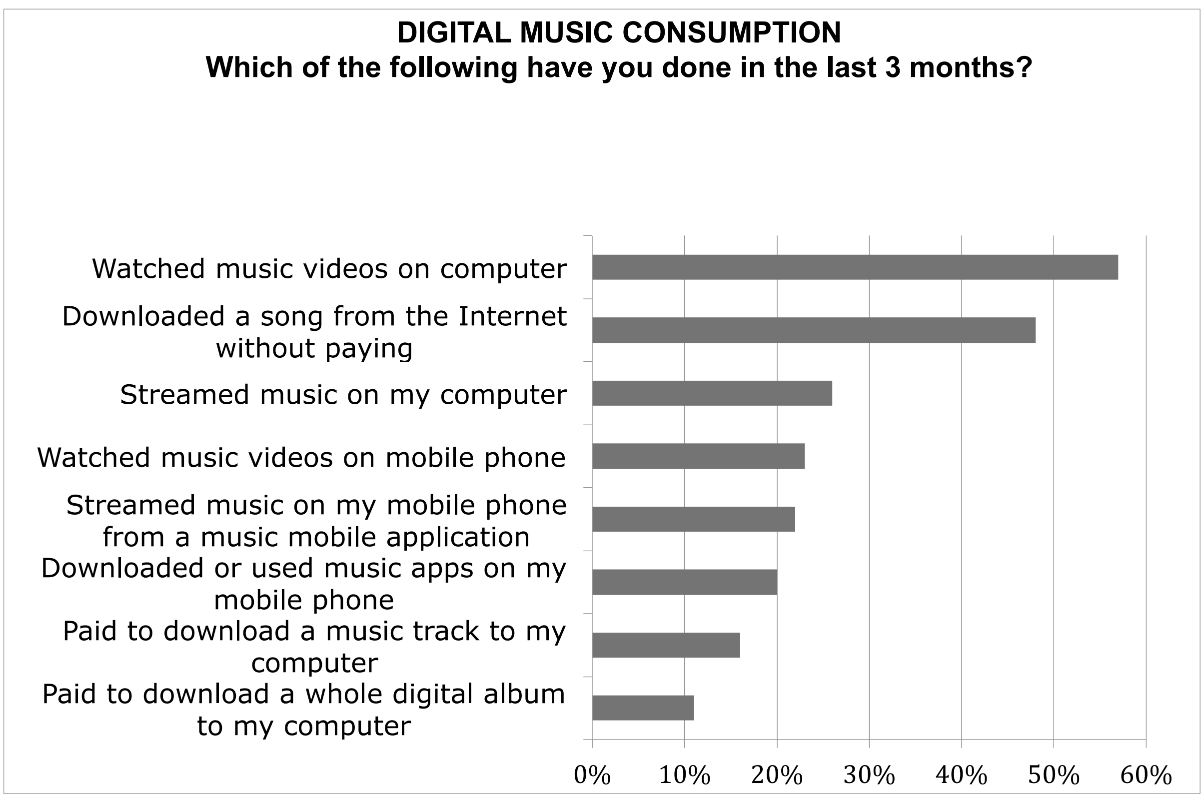
We're purchasing music just about everywhere too. 25 years ago you bought records at record stores; today you can get them at record stores, grocery stores, drug stores, book stores, consumer electronic stores, department stores, plant stores, tattoo parlors, bars, gyms, museum shops, thru the mail, over the Internet, at kiosks, at the airport, at MacDonald's, at Starbucks, at Victoria's Secret, thru 800#s, and hundreds of other places – MUSIC IS EVERYWHERE!

Why?
Because music is a universally loved value and activity, and companies across the board are looking to associate themselves with music and its fans.

The lesson: These trends require a new way of thinking about the "music business" and "music industry careers." It's time to stretch our minds and get outside the box of traditional music business models. The "digital common" brings all kinds of non-music businesses into a space where creative partnerships can develop. Non-music partners are fresh and unjaded, and excited about associating with musical and entertainment arts as a way of adding value to what they're offering.

We should reflect on where musical products and services are *used* rather than on where they have traditionally been *sold*. For example, think of companies you personally resonate with and then focus on those that may have an affinity with the kind of music product you offer. Make an alliance and use that alliance to market your music. Consider Craig Dory and Brian Levine of Dorian Recordings who got their recordings played on all the new hardware at consumer electronics shows. Smart alliances.

Remember, the economic structures of the last century are being torn apart. The rules are being rewritten. Anything goes in the business world today. Therein lie many opportunities *for you*.



Source: ifpi.org. Survey of 3,000 people.

MEGATREND #2:
Rise of the Customer-Creator

Consumers can now get more information about products and companies from Internet sources than previously available through traditional marketing communications. The most productive response to this is to bring customers into the value chain through collaboration and dialogue that make them part of a brand's story – and vice versa.

It's nothing short of reinvention of the business of market communications, a fundamental transformation ***from an intrusion-based marketing economy to an invitation-based model***. This switch from the push model to the pull, from intrusion to invitation, is a fundamental transformation for everyone involved in the business of content, whether the content is a 2-hour film, a half-hour sitcom, a radio program, recorded music, an Internet site, or a 30-scond advertising message. The end users rather than the creators and distributors of content are in control. And that changes all the rules.

The 10 'Demandments' of Customer Service

How to turn the most demanding customers into the most delighted customers

1. *Earn my trust* through respect, integrity, advocacy and quality.
2. *Inspire me* through immersive experiences, motivating messages and related philanthropy.
3. *Make it easy* with simplicity, speed and usefulness.
4. *Put me in charge* of making choices and give me control.
5. *Guide me* with expert advice, education and information.
6. *Give me 24/7 access*, from anywhere, at anytime.
7. *Get to know me* - listen, learn and study me, the real consumer, not just data.
8. *Exceed my expectations* with uncommon courtesies and surprising services.
9. *Reward me* with points programs, privileges of access or other worthwhile extras.
10. *Stay with me* with follow through and meaningful follow-up.

Adapted from, ***The Ten Demandments: Rules to Live By in the Age of the Demanding Customer*** by Kelley Mooney, with Laura Bergheim

Not only is the customer king: now she is market-research head, R&D chief and product development manager too. More and more innovation is being driven by customer feedback. For example, the fan community has a tremendous influence on game design and the games are better as a result. Also in film. When Peter Jackson set out to film *The Lord of the Rings* trilogy, he tapped into the rich community of Tolkien enthusiasts around the world via Internet portal sites like theonering.net and listened to fans' concerns and expectations.

Researchers call such customers "lead users" and their importance to product and service development continues to grow.

The result? – a bounty for music consumers. Today may be the very best time to be a music fan, especially one looking for a connection to a favorite artist or guidance and access to the exotic or rare.

Be it the iPod, alluring satellite radio services such as XM, the fan-beloved minutiae posted on Web sites, the availability of live music performances on Wolfgang's Vault, the esoteric music videos streaming off YouTube or the self-tailored satisfaction of burning a homemade mix on CD at home, there is singular zest to the modern fan experience today.

And so it has gone with the creative arts. From musicians to Hollywood studios, and from network executives to owners of newspapers, the creators and purveyors of arts are realizing that Americans increasingly are unwilling to sit down, shut up and consume their culture in the time-honored fashion of grateful passivity.

The public is now driving the entertainment market. The challenge to the music industry is to respond positively in such a way as to secure the future of music while satisfying customer demand and providing choice.

It's the age of **arts consumer as an empowered co-generator.**
And it's revolutionary.

Revolutions are nothing new in culture. In the 1950s, the rebellion was in the sound of rock 'n' roll, in its swagger and raunchy swivel, and in the 1960s the lyrics reflected and shaped youth culture, fashion and politics. The 1970s had punk and disco skirmishing with big-money rock, while the 1980s saw the rise of hip-hop, a music that waged (and won) a street fight against the music industry status quo.

But by the end of the 1990s the new revolution, for the first time, wasn't in the music itself but in the *medium* - and for the first time the consumer called the tune. They are increasingly in the driver's seat of all economic transactions.

Music consumer reward systems are also emerging. Today's consumers are no longer passive recipients of brand messages. They've become active participants in co-creating the brands (and bands) they love. Have you heard of Artistshare.org or Slicethepie.com? Both are services allowing fans of artists mobilize support for their favorite bands and then participate in the revenue generated by their efforts. This is a fast-growing phenomenon and is examined more closely in chapter 6.

Exception to the Rule?

Is there one institution that has become successful by violating the rule of the customer-creator? I could think of one: Apple. Hand over control to the customer? You must be joking. Steve Jobs controls all—and we want him to. It is thanks to his brilliant and single-minded vision and grumpy passion for perfection that his products work so well. Microsoft's products, by contrast, operate as if they were designed by warring committees. I suppose, to be excepted from this rule means you must be tryuly *exceptional.*

Entertainment & Media Industry Overview				
	Amount	Unit	Date	Source
Total U.S. Communications & Media Spending	1.092	Tril. US$	2010	VSS
Total U.S. Communications & Media Spending	1.416	Tril. US$	2014	VSS
Total U.S. Communications & Media Spending	166.4	Bil. US$	2010	Magna
Total U.S. Communications & Media Spending	389.8	Bil. US$	2010	Magna
Total U.S. Communications & Media Spending	412	Bil. US$	2011	Magna
RADIO				
Full Service FM Radio Stations, Including Educational, U.S.	9,844		Dec-10	FCC
Licensed AM Radio Stations, U.S. (Daytime/Unlimited)	4,812		Dec-10	FCC
PRINT MEDIA				
U.S. Magazine Advertising Revenues, PIB Measured Magazines	19.5	Bil. US$	2009	PIB
Total Daily & Sunday Newspapers, U.S.	2,298		2009	E&P
Total Daily & Sunday Newspaper Circulation, U.S.	46.2	Mil.	2009	E&P
Total Daily & Sunday Newspaper Circulation, U.S. (historical)	59.4	Mil.	2000	E&P
Annual Newspaper Advertising Expenditures, U.S. (Print & Online)	27.6	Bil. US$	2009	NAA
Value of Books Sold by U.S. Publishers	23.9	Bil. US$	2009	AAP
E-books as a percent of Trade Book Sales, U.S.	8.7	%	Oct-10	AAP
TELEVISION				
Licensed TV Stations U.S. (Including Digital & Class A)	1,907		Dec-10	FCC
Basic Cable TV Subscribers, U.S.	60.4	Mil.	Sep-10	SNL
Digital Cable Subscribers, U.S.	44.4	Mil.	Sep-10	SNL
High Speed Internet Subscribers, U.S.	43.8	Mil.	Sep-10	SNL
Number of Global 3G Mobile TV Subscribers (Projection)	42	Mil.	2012	In-Stat
MUSIC				
Album Sales, U.S.	373.9	Mil. Units	2009	Nielsen
Digital Music as a Percent of U.S. Music Sales	40	%	2009	Nielsen
Global Digital Music Sales	4.2	Bil. US$	2009	IFPI
Digital Music as a Percent of Global Music Sales	27	%	2009	IFPI
Satellite Radio Subscribers, U.S.	19.9	Mil.	Sep-10	Sirius XM
Number of iPods Sold during the Fiscal Year ending Sep. 25	50.35	Mil.	2010	Apple
Number of iPhones Sold during the Fiscal Year ending Sep. 25	39.95	Mil.	2010	Apple
FILM				
U.S. Box Office Revenues	9.87	Bil. US$	2009	Adams
Number of Movie Tickets Sold, U.S. & Canada	1.414	Bil.	2009	NATO
Number of Cinema Locations, U.S.	5,561		2009	NATO
Number of Movie Screens, U.S.	38,605		2009	NATO
ELECTRONIC GAMES				
Video Game Software Sales in the U.S., U.K. and Japan	379.3	Mil. Units	2009	NPD
Video Game Industry Revenues, U.S. (Hardware & Software)	19.66		2009	NATO
OTHER				
Wireless Phone Subscribers, U.S.	292.8	Mil.	Jun-10	CTIA
Cell Phone Subscribers, Worldwide	5.3	Bil.	Dec-10	ITU
Wireless Penetration, U.S.	93	%	Jun-10	CTIA
Commercial Casino Revenues, U.S.	30.74	Bil. US$	2009	AGA
Internet Users, Worldwide	1.97	Bil.	Jun-10	IWS
Broadband Subscribers, U.S. (fixed)	100	Mil.	Dec-10	PRE

Sources: VSS = Veronis Suhler Stevenson; Magna = Magna Global (an Interpublic Group company); FCC = Federal Communications Commission; PIB = Publishers Information Bureau; E&P = Editor & Publisher; NAA = Newspaper Association of America; AAP = Association of American Publishers; SNL = SNL Kagan; IFPI = International Federation of the Phonographic Industry; Adams = Adams Media Research; NATO = National Organization of Theatre Owners; NPD = NPD Group; CTIA = CTIA, The Wireless Association; ITU = International Telecommunication Union; AGA = American Gaming Association; IWS = InternetWorldStats.com; PRE = Plunkett Research Estimate.

It is becoming increasingly more difficult for companies to treat consumers like "mass market" ciphers. The trend is towards "mass customization" where consumers' unique needs are front and center. Some marketing gurus call this trend the "1-to-1 Future".

The online environment also allows fans to try before they buy and enables them to experiment with new artists and genres. For example, a middle-aged Kinks fan might discover Blur and then listen to Damon Albarn's Mall Music to discover indigenous Malian artists such as Salif Keita.

Previewability is probably the most important revolution in recent music. Despite what the RIAA would have you believe, the shifts the industry has witnessed haven't been a matter of *quantity* so much as they've been a matter of *quality*. People are making their purchasing decisions less on the basis of hype and blind faith, and more on the basis of what they actually enjoy listening to.

The positive benefit of all this to consumers and the industry alike is that consumers' musical horizons are expanding and there will be more sales of more formats from a wider selection of 'retailers'. To flip Paul Simon's words, "the *music business* suffers, while the *music* thrives."

MEGATREND #3:
Music as Service

"Music is going to become like running water or electricity."
– David Bowie (2002, *New York Times*)

Today, the service (as opposed to manufacturing) industries employ almost 80 percent of the U.S. economy and more than half of the value added in the global economy. The same trend is unfolding in most western European economies.

"Services" include, among others, the health, education, financial, software and administrative sectors. In a service economy, it is human time that is being commodified, not places or things. Services always invoke a relationship between human beings as opposed to a relationship between a human being and a thing.

How does this impact marketing?

The old broadcast model is being replaced by total customer access to, and interaction with, the marketplace. Marketing becomes a network of relationships and responsibilities throughout the value and information chain. "Old" marketing, operating as it does on the venerable model of trying to sell through a vague notion of brand, promotion, entertainment and consumer manipulation, is unprepared for this change.

In marketing circles, using technologies to commodify long-term commercial relationships is called "controlling the customer." Continuous cybernetic feedback allows firms to anticipate and *service* customer' needs on in ongoing, open-ended process.

By turning goods into services and advising clients on upgrades, innovations, and new applications, suppliers become an all-pervasive and indispensable part of the experiential routines of customers. To borrow a Hollywood term, companies serve as "agents," performing a range of services. The goal is to become so embedded in the life of the customer as to become a ubiquitous presence, an appendage of the customer's very being, operating on his behalf in the commercial sphere.

Entertainment can now break out of its old forms. Comedy doesn't need to be 22 minutes long (plus eight minutes of ads). Movies can become serials. Shows can be collaborative. Talent can come from anywhere. Audiences are distributors. We can watch entertainment anywhere.

The digitization and distribution of music to consumers, via the Internet (whether from downloads, subscription streams or the cloud), allows record companies to do away with suppliers, warehouses, inventories, distributors, and shippers, saving on the costs of handling a physical version of the product. The electronic transmission of music products is still another example of the new "weightless capitalism" emerging in the service economy.

KEY THOUGHT

The future isn't about a change in distribution, it's about the *atrophy* of distribution itself. Instead of distributing *things*, we'll get *access*. It's a critical difference. The future isn't about downloading songs and burning CDs. It's about just-in-time customized delivery. Music as *service,* not *product.*

Presenting music as a service, like radio or TV, might seem on the surface to be less profitable than selling millions of CDs, but actually, this change will be positive for the music industry. It will be able to sell more things associated with music. But the actual sale of music as a product will make less sense. It will be a move from transaction-based *push* to flat-fee *pull*. Just as AOL went from selling you five minutes of access to a take-whatever-you-want model, music too will move to a flat-fee model.

Once all of our smartphones, tablets, TVs, set-top boxes, and consoles are connected into the digital stream, then "cloud-based" entertainment will become a reality. The reason the future is so bright is that soon we'll all plug into around-the-clock streaming Internet audio, happily paying a few extra dollars a month to our Internet service provider (ISP) for the privilege.

We're almost there in the U.S.; some European countries are experimenting with it now. But in the next couple of years, the requisite technology will fall into place and the legal hurdles will be cleared. Then most of us will carry a wireless Internet uber-gadget wherever we go – a unified cellphone/personal digital assistant/Blackberry/camera/GPS locater/video recorder/co-pilot for life. This device will receive wireless Internet audio, a loose term I use to describe the various forms of streaming audio. With streaming audio, you can hear the music you love any time, anywhere.

So how will musicians make a living in this brave new world? We will simply expand existing compensation systems. The owners of restaurants, bars, health clubs and other music-playing public venues already pay fees to central clearing houses (the peforming rights organizations, or PROs) that forward the money to composers and publishers based on how often their music is played. One simple option is to put a flat surcharge on Internet service providers of only $7 a month – about what the average household in Canada pays per month on CDs. This creates a pool of money that can be distributed fairly to composers (and their publishers), artists (and their agents or labels), ISPs and the music providers (perhaps like Kazaa or son of Kazaa) – *all based on actual use*.

Rather than shoe-horning an old revenue model into a new technological environment, as "digital rights management" (copy-prevention systems) or other digital audio security schemes attempt, open licensing takes advantage of the properties of digital technology, like ease of copying and distributing. Artists' fans become their top promoters, by passing on the music that they like to friends along with means to connect with the artists, such as Web or e-mail addresses. This kind of "viral marketing" or super-distribution of artists' music provides an unprecedented opportunity for independent artists around the world to pursue their passions. The challenge lies now with these electronic pioneers themselves to use these new tools to create new business models or new twists on the old ones that sustain and enhance artists' livelihood in a digital world.

We are already seeing a pronounced shift of record company income from primary sources (selling records) to secondary sources (collection of publishing rights). Music publishing has remained a paragon of resiliency. With diverse revenue streams from radio, television, advertising and other sources, music publishing not only protects the major music companies from the vicissitudes of the economy but insulates them from the vagaries of consumer taste. In addition, thanks to the digital exploitation of music in downloads and ringtones, music publishing is benefiting from new sources of sales. Witness eMarketer's $3.8 billion projection for North American music-publishing revenue in 2011, up from $3.2 billion in 2006.

In general, labels are not looking to change the media. They're going from today's media to digital wireless delivery. Eventually, it will come down to the point where you don't need the hard medium. But the emphasis online today and for the next several years (to 2015-ish) is to drive consumer awareness and to drive album sales. Afterall, hard-copy CD sales still account for the vast majority of record industry profit.

The old music business of selling packages of music to relatively passive consumers will remain a large business for quite some time. The point is that a very different sort of music business is growing up along side it, one where music is becoming more a *service* than a *product*. The digital revolution is transforming the music business into a service business. No longer will we see the music industry as the selling of goods, but rather, as the provision of a distribution service, not unlike TV. This is why it is important to ask, not so much, where music is *sold*, but where music is being *used*.

MEGATREND #4: New Music Company Models

Organizations used to have stable industries, predictable customers, and five and ten year strategic plans. Today whole industries are being turned completely upside down within two years.

And now the musical industrial complex is losing control. Its members can sue file-traders all they want, but they will not be able to prevent individuals from making their own music and distributing it via new technologies. This is forcing the industry to morph and allowing numerous upstarts to bring new value to a new music economy.

The EMI/Robbie Williams' deal (one of the first "360" or "multi-rights" deals) represented a major cultural shift on the part of a major record company. What made it different was that the deal recognized that everything to do with the artist counts. Traditionally, record companies would spend money developing an artist's income stream through sales of T-shirts, screen savers, ring tones and so-on, only to see none of the revenue. Now they do. The EMI deal included a percentage cut of everything to do with the sales of Robbie Williams's related products, for the label. More and more labels are jumping on the 360 bandwagon.

Perhaps the biggest example comes from Live Nation, the concert heavyweight that is now pursuing a massive, 360-degree music business model a la Madonna, Nickelback and Jay-Z. Even talent agencies, the powerbrokers of Hollywood, are slowly spreading their tentacles into different areas of the music industry. "Traditionally, agencies handled the booking of tours, because the labels wouldn't let them touch anything else," one top agent at Creative Artists Agency (CAA) confessed. "Now, all kinds of models are emerging, in terms of what agents are involved in." Artists are increasingly looking outside of album sales for revenue and trying to exploit all rights as a brand.

Compared to the major record labels, Live Nation's version of the 360 deal made more financial sense because the promoter was better prepared to bring value to the partnership. They were precisely the reverse of the deals made by the labels, which had the expertise and structure to sell records, but little else. Live Nation had been acquiring a wide variety of services over the preceding years including companies that made and sold merchandise, and their savviest move had been to buy a majority stake in Musictoday, a company begun by Coran Capshaw, an alternative marketing maven and as close to an oracle of underground business models as the music industry has produced.

Capshaw, through his first company Red Light Management, had managed the Dave Matthews Band and expanded to handle dozens of bands including Phish, Drive-By Truckers, Ben Harper, the North Mississippi Allstars, Tim McGraw, and the Decemberists. He also bankrolled Tennessee's popular annual music festival, Bonnaroo, and co-founded ATO Records, a label boasting My Morning Jacket, David Gray, and Liz Phair. Musictoday, which is run out of a former frozen foods factory in Crozet, Virginia, employs two hundred people who create and manage internet fan and merchandise sites for artists and process and ship orders—everything from shower sandals to concert tickets—for over five hundred acts including Bob Dylan, Metallica, and Eminem. When Live Nation bought its stake, Musictoday was generating $100 million in revenues.

Perhaps the term *record company* itself is losing its relevance - "Music Company" is more apt, dealing as it does with a bundle of rights, and not just the master right in the sound recording. "I think we'll mutate into a new type of company – a mixture of artist management, publisher, marketing consultant, agent and promoter," says Steve Becket of Warp Records, similar to what Capshaw has done with Musictoday.

Music Publicist Dimitri Vietze of Rock, Paper, Scissors points out that the architecture today is very fluid and label 'models' continue to proliferate. Besides labels that make 360 degree deals, these other models include:

- a studio-based label that records the album and then licenses the recording to another type of label;
- the type of label whose expertise is in marketing and distribution and that just looks for finished recordings;
- the label that just licenses individual tracks for compilations;
- the artist-driven label that only releases their own music (or maybe eventually releases their friend's recordings too);
- the label that only sells from the concert stage, their website, and CD Baby;
- the artistShare model, where the fans are asked to be the patrons and executive producers of an artist (aka, crowdfunding);
- the press-on-demand label, like Smithsonian;
- the label as non-profit (which can then subsidize recording production with grant writing).

Mega-media companies (like major record companies) still play an important role. A "mainstream artist" seeking CHR (contemporary hit radio) fame *has* to align with the mega-conglomerates who own record labels, magazines, TV networks, film studios, and toy companies because these media giants control what hits the mainstream. In that system the artist will be one of a few of several who may get a chance to shine before a hunger for quarterly profits, marketing mis-haps or personnel changes derail a project.

On the other hand, micro-media targets the tributaries off the mainstream and if the artist occupies one of these "niche streams", they have an open and ready channel for exposure to their target audience. Each niche stream has its own burgeoning media culture and the smart combination of high-quality music, good stories, creative event-making and strategic alliances gets the market's attention. Such conditions are allowing many new music business models to emerge.

Remember, every business is becoming a music business – actually an entertainment business. Entertainment is a much-coveted value businesses are seeking to add to their mix all over the world. The traditional music industry is transforming. Companies are morphing into new hybrid service businesses. We need to think outside the box of the musical industrial complex and explore fresh possibilities. What new shapes can *your* company take?

MEGATREND #5:
Rapidly Segmenting Music Markets

The age of the blockbuster is past. Making money through controlling production, distribution, and marketing is a diminishing game. Umair Haque of Harvard Business School's says media 2.0's three sources of value creation are *revelation* (finding the good stuff), *aggregation* (distribution 2.0), and *plasticity* (enabling content to be extended through, for example, mashups). This economy, he says, requires openness, decentralization, and connectedness through niches—not blockbusters. The new opportunities, he claims, lie in the "long tail" market (for more on this see chapter 5).

It's a strange landscape today.

Consider this: When the Grammys started in 1958 there were 28 categories of awards; in 2011 there were 109! Even the pop charts, which have made room in recent years for Gym Class Heroes, Modest Mouse, Arcade Fire, Diana Krall and Franz Ferdinand, suggests there's an audience starving for something other than musical junk food.

The music market continues to segment and each segment has beome a "world", a cultural/economic portal, through which niche companies can create value and success.

Check out the "Music Styles" chart below and then look at the sub-genres of "Dance" on page 53.

MOST FAMILIAR MUSIC STYLES

A Cappella	EarlyMusic	Pop
Alternative	Electronica	Punk
Ambient	Emo	Rap/Hip Hop
Asian	Experimental	Reggae
Bluegrass	Film	R & B
Blues	Folk	Rock
Celtic	Funk	Ska
Childrens'	Fusion	Soul
Classical (pre-20th c.)	Gospel	Women's
Classical (contemporary)	Heavy Metal	
Christian	Industrial World	
Country	Jazz (instrumental) Zydeco	
Crunk	Jazz (vocal)	
>> Dance <<	Latin	
DJs	Mashup/Mixup	
Dub	New Age	

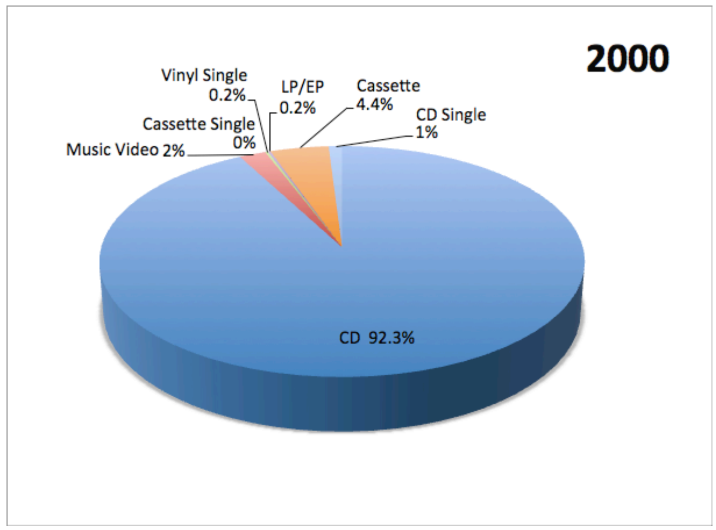
>>see next page

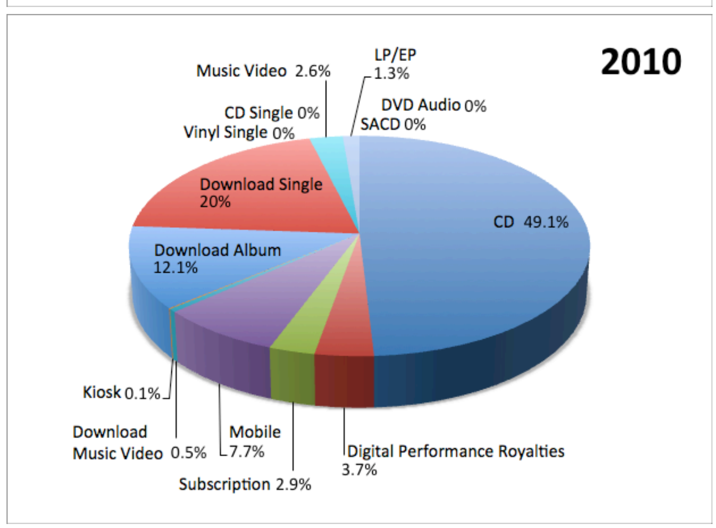
While good news for niche companies, this is bad news for the musical industrial complex. The major labels cannot justify going after these smaller markets because they are optimized instead for the larger, pop mainstream. These niche music cultures can't generate the sales required to float the major label boat. While 20,000 unit sales are a cause to celebrate at a micro-label, they hardly register a blip on big company radar screens.

I have often heard musicians and industry critics alike complain about how the "monopolization" of radio by companies like Clear Channel threatens musical diversity, yet I can hear and obtain more interesting music today than I could ever have obtained in the 1970s or 80s.

It's myopic and selfish to think that some music "deserves" to be heard and some doesn't, as the old music industry preached. The listening public is conditioned to being told what they should like. But the wall has come down, and music fans are becoming overwhelmed with new choices.

AN EXPLOSION OF FORMATS





The new plurality of music requires the listener to actively *listen* for what they like instead of just *hearing* what they are told to like. This means, among other things, there is an increasing need for people willing to guide others through the expanded choices, without dictating choice.

To put it simply, the *patterns* that used to govern music sales no longer work. The industry's biggest successes are now small ones.

Industry insiders are just as confused by the good news as they are by the bad. Here are the kinds of questions they've been asking themselves: Why didn't Eminem break out on the order of the Beatles and sell 10 million copies of every release? Why can't Britney, Whitney, Madonna and Mariah make hits like they used to? Why can't the Strokes break through to the mainstream, stymied at 500,000 units shifted? Conversely, they wonder how a one-off Sub Pop release like the Postal Service's *Give Up* — a mash-up of the niche genres of bedroom electronica and emo-punk — has sold well over 250,000 copies. How could Matador sell a half-million copies of the debut by an unheralded New York band like Interpol? Why are bands like Modest Mouse, the Shins, the Yeah Yeah Yeahs and Wilco selling hundreds of thousands of records, where a few years ago they would have — optimistically — sold 50 thousand? No one knows.

Technology continues to drives new music production. The "cost-of-entry" has been lowered, and the average skill level of recording engineers with it. This is bittersweet. My son never took a music lesson in his life, but with Apple's Garageband software, he's whipping up cool tunes and arrangements that stand up to critical listening. As musicians we have to resist the urge to complain that the masses are now munching our caviar. Music creation is expanding at a dizzying rate.

DANCE *SUB*-STYLES

Though some of these sub-styles overlap with others, each one has been singled out in the marketplace as distinct in its own way.

abstract beat
abstract drum-n-bass
acid house
acid jazz
acid rave
acid-beats
acid-funk
acid-techno
alchemic house
ambient dance
ambient drum-n--bass
amyl house
analogue electro-funk
aquatic techno-funk
aquatic-house
atomic breaks
avant-techno
bass global
big beat
bleep-n-bass
blunted beats
breakbeat
chemical beats
Chicago garage
Chicago house
coldwave
cosmic dance
cyber hardcore
cybertech
dark ambient
dark core
downtempo funk
downtempo future jazz
drill-n-bass
dronecore
drum-n-bass
dub
dub-funk
dub-hop
dub-n-bass
electro
electro-acoustic
electro-breaks
electro-dub
freestyle
future jazz
futuristic breakbeat
futuristic hardbeats
futuristic hardstep
gabber
garage
house
global trance
goa-trance
happy hardcore
hardcore techno
hard chill ambient
intelligent drum-n-bass
intelligent jungle
intelligent techno
lounge-downtempo
miami bass
minimal-abstract
minimal techno
minimal trance
morphing
mutant techno
mutated minimal techno
mystic-step
neurofunk
noir-house
nu-dark jungle
old school
organic chill out
organic electro
organic electronica
progressive house
progressive jungle
progressive trance
ragga
rave
techno jungle
trance
tribal
trip-hop
two-step
underground
world-dance

It's important to recognize that sales income is fragmented as well. We're seeing a splintering of music formats.

People are pointing to the fact that vinyl sales were up last year. Granted it's a niche, but it's important to know there is still a market for something that was left for dead. Some indie rock kids have started a cassette-only label! We have to get used to the idea that no one format will be responsible for over 50% of your music income. It will come from CDs, from paid digital downloads, sponsored digital downloads, ringtones, streaming revenue on radio subscription services, sync licensing, streaming revenue on video and more. Nobody talks about it, but record labels are having to manage up to 100 SKUs (stock keeping units) for one piece of content.

The times do call for creative focus. Mass customization and a segmenting market encourage the development of products and services of a "niche" nature. Since few of us have the time, money or energy to mount national marketing campaigns, it is in our best interest to
discover and concentrate on a niche, a segment,
we can explore towards successful enterprise. Whether the specialty is house, trance, bluegrass or neo-soul, learn to work that niche and scope out relationships and opportunities within it. Review the previous chapter for niche strategy ideas.

Mass customization is part of what Clay Shirky calls "The Big Flip" – where the old notion of "filter then publish" is giving way to the new practice of "publish then filter." Thus, the growing need for *context*.

MEGATREND #6:
A Crisis of Context

"Too much information running through my brain; Too much information driving me insane."
- The Police, 1982

Every spare moment of our time is being filled with some form of commercial connection, making *time itself* the scarcest of all resources. Our fax machines, e-mail, voice mail, and cell phones, our twenty-four hour trading markets, instant around the clock ATM and online banking services, all night e-commerce and research services, 24/7/365 television news and entertainment, twenty-four hour food services, pharmaceutical services, and maintenance services, all holler out for our attention. They worm their way into our consciousness, take up much of our waking time, and occupy much of our thoughts, leaving little rest.

They also overfill us with *information*. In the last fifteen years the quantity of information available online has expanded at an exponential rate: there are now over 20 billion webpages, to say nothing of the images, music, videos, and other forms of media that have propagated wildly across the Internet. This information deluge has grown so large, in fact, that the task of sorting and ordering its contents has come to occupy some of the finest minds in computer science. It's a task of urgent necessity for companies that depend on their ability to create order from the chaos created by almost unlimited choice. This has come to be known as *infoglut*.

Futurist Paul Saffo talks about the different "scarcities" the world has experienced over the past hundred and fifty years. First there was a scarcity of "conduit" (that is, pipeline). Then electric wires were strung coast to cost and conduit was hyperabundant. We then experienced a scarcity of "content", that is, information and programming to fill the conduit. Eventually, content became hyperabundant too until today we're drowning in information.

The new scarcity, according to Saffo, is *context*, that is, point of view – giving meaning to all this information. The increasing flood of information has now created an urgent need for "filters", "editors" and "portals". The need for context is so strong that Saffo sees a time when people like Oprah Winfrey and Glenn Beck will be licensing their "worldviews" to software companies to create products that screen vast amounts of information and present digestible info-bites in an acceptable framework for users!

The great challenge for us, and the web, going forward is no longer breaking down the barriers to creation, it's finding our way through the huge amounts of creativity that's resulted.

A good example of providing context in the hyperabundant field of music is the lowly compilation. Once a mere afterthought of the recording industry, these variety packs of music have emerged as a vital force in the market. Have you noticed all those compilations on the counters of lifestyle retailers Pottery Barn, Structure, Williams-Sonoma and others? One man - Rock River Communications' Jeffrey Daniel - usually chooses the music. If mixing tracks is an art, then Daniel is the most popular artist you've never heard of: his branded compilations have sold nearly 8 million copies. Rock River's annual wholesale revenue is about $12 million, on par with a midsize record label. Read some of its own case studies at rockrivermusic.com

How might you, in your area of expertise, be a meaning-giver in the world of music?
It doesn't have to be compilations. Are you an expert in the use of AbletonLive or on 70s soul? Is bluegrass your passion or is it music education for kids? Are you highly informed about microphones, roots reggae, or lyric writing? How can you put that to use using channels like the Internet and other digital tools?

Provide significant meaning in your niche and people will shove money in your pockets.

MEGATREND #7:
Resurgent Indie Culture

The indie music market is not only healthy – it's thriving. In fact, independent labels are dominating the music scene, garnering the lion's share of 2011's Grammy Awards. Historically, "indie" has been shorthand for second-shelf quality, but it can't be viewed that way any longer. Since the scene's inception in the late 1970s with the advent of punk, some say that the term indie has evolved into something that has far less meaning than the original rebellious, creative, do-it-yourself aesthetic.

The gulf between indie and major artists has narrowed greatly. Major label philosophy used to be "spend the money" because at the end of the day it will be recoupable to the artist anyway, but today's world is all about what makes good business sense.

For several decades now *financial* people have been making all the decisions at the big labels, so they can't invest long term in an artist's career. One or two shots and it's time to move on the next flavor. That presents opportunity for indies. Profit margins and staffing have shrunk at larger labels, so the human resources issues that were an advantage for major labels no longer exist. They are outsourcing almost as much as indies now.

Indie market share has grown from 9% in 1990 to about 20% today. That's based on *Billboard* magazine and Soundscan metrics that see indie market share as comprising all releases with indie distribution. But if you use the measurements of AAIM (American Association of Independent Music), which also counts indie product that goes through major-label owned distributors, then indie market share climbs to over 28% – a significant difference. This is now becoming the accepted metric in the record industry.

In the past major labels kept their foot on the throat of indies by using their financial resources to horde all the opportunities. They can't do that anymore. The majors themselves are in a state of flux. There are cutbacks, mergers and proposed mergers everywhere. All those gulfs have tightened. We are now (2011) looking at a historical crossroad. The state of affairs we now find ourselves in isn't so much an end of the recording industry as it is a new beginning. Today's indies like Fueled By Ramen, Nuclear Blast, Dangerbird, Thirty Tigers, Definitive Jux, Stones Throw, Domino, Beach Street and MapleCore are all making themselves felt in this shaky marketplace for recorded music.

Also, as major label dynamics change, and as management and artists get dropped by these labels, indie label upstarts are able to recruit new executive talent and sign acts looking for more nimble handlers. This is what Sanctuary Records did with formerly-signed artists who still have thriving fan bases.

As the worlds of distribution, retail and consumer preferences migrate to the digital space, indies will be at less of a disadvantage as compared to the majors. It will be artist and music direct to consumer and the roles of many traditional middlemen will be diminished. We used to talk about the CD being the hardcover and the cassette being the paperback. Now we say the digital single is the paperback and the CD is the hardcover edition. Down the road it will be even less important whether you are indie or major, because no one is going to care.

In a real sense, the next Big Thing is… *small*.

The analogy is television. 30 years ago, the three broadcast networks (CBS, NBC and ABC) had a ninety percent plus share of the viewing audience. Today it's less than forty. Where's the other 60%? Watching cable. Though cable channels have miniscule ratings, they're profitable. Why? Because they've discovered and developed their niche. And this is what indie labels do – the Americana sounds of New West Records, Red House Records' focus on singer/songwriters, the creative acid jazz of Instinct, and the deep reggae catalog of Trojan insures listeners they can expect quality discs from each company within their respective niche.

We'll look at how this relates to the "Long-Tail Market" in chapter 5 – "Putting Your Online Marketing To Work."

Other Music Market Trends to Watch

1. "Freemium" Business Models. What is the freemium model? In simple terms it's the delivery of Internet services that are free to the user because the marginal costs of manufacturing and distribution are zero, or close to it. This means that businesses can now experiment with giving away one thing to sell something else. In music, the model can be described as giving away a song and then charging for a "premium service," like a concert appearance. Bands who use this model release free songs through their site or other sites and charge for additional content. The "premium" content is only available to people who pay, so the band covers any overhead incurred in production. Can it work? Both Radiohead and Trent Reznor have recently used this model with success. If you can figure out how to offer your fans a second tier of premium experience, then you can turn some of these into *Super Fans*.

2. Immersive Entertainment Technologies. Color, stereo, surround sound, force feedback, home theater, HDTV, ambient lighting, 3D TV, Second Life, Onverse – see a trend? As technology evolves so does our desire to be more immersed in our entertainment.

Take amBX, a Bristish company recently spun off from Philips Electronics. It created a gaming technology that uses a combination of lighting, sound, vibration and wind to immerse the user in the world they are viewing. Companies are lining up to license it and no doubt we will soon find amBX technology inside various hardware choices, much like what Dolby has done for audio.
At the moment there is one line of products, introduced by Philips that sports amBX technology. Get your hands on the Philips AmBX Premium Gaming Kit and the next time you blow something up in a video game you will feel the rumble under your hands, feel the wind from the blast in your face, hear the explosion in 2.1 audio and your room will turn bright orange to simulate the fire ball the ensues your destruction. Imagine that, three out of your five senses are now involved. One can only imagine the applications possible with a "virtual" concert experience.

3. Mobile Music on the Rise. The "Third Screen" (cellphone-based content including video and music) is becoming a major factor in entertainment and media. As 2010 ended, there were about 293 million cellphone subscriptions in the U.S. and more than 5 billion worldwide. As more and more multimedia-capable handsets are released, the mobile music market is expected to jump from $1.7 billion in 2007 to $7.3 billion in 2011, according to eMarketer. As mobile payment (electronic wallet) options improve, consumers will be able to scan their smartphones on credit card readers on-location at retailers. The technology has major implications for musicians and small business owners and has the potential to revolutionize things like selling merch at shows, as well as how promoters and venues handle ticketing. Square (started by Twitter co-founder Jack Dorsey) and Google Wallet are two early players in this space.

As Jay Frank has observed in a recent interview in *Music Row Magazine*, mobile bodes well for copyright protection as well: "The most encouraging thing for the industry is that the FCC and wireless networks are trying to keep the phone relatively protected. So while it is extremely easy to illegally download a song on your computer it's rather cumbersome to do on your phone. They are actively controlling that environment. As the phone becomes more ubiquitous as an entertainment device the fact that they are somewhat closed systems bodes well for content owners to potentially get more revenue. Those revenues may come from streaming rather than the sale of content, which creates a different set of economics, but at least the theft part of the problem might actually decrease as people transfer to 4G."

4. The Resurrection of the Single. One of the most interesting consequences of legal music downloading is the resurrection of the single. In the 1950s and the '60s, the industry was driven by the A-side/B-side format (many of The Beatles' best songs, by the way, were B-sides), but by the late 1990s, people were basically only buying albums, and record companies didn't see singles as a viable option for profits.

Thanks to iTunes, today anyone with an internet connection and credit card can just download a song for about a buck, changing the entire strategy of how record companies market and sell records. In the 1990s, lame one-hit wonders could sell platinum albums because there was no other alternative. Now, users can download the song, hear 30-90-second samples of the rest of the album, realize it sucks and go about their daily lives free of the weight of the twelve other tracks. This is having the effect of stimulating the creation of a higher quality of music than we've had in years.

Downloading makes the track paramount. Some artists have slowed the process by insisting that their albums not be broken up into singles available for individual sale. Meanwhile, some of the hottest artists have limited the amount of time their record companies can sell digital downloads, waiting to see how the royalties will flow from online sales. Punk band The Offspring, for example, agreed to sell their music on iTunes for only six months.

The conflicts are likely to be amplified as the labels seek to expand online services beyond the U.S. to foreign markets, where the industry earns two-thirds of its revenue. Outside the U.S., the services are confronting a web of different licensing procedures and copyright rules, though the Sweden-based Spotify is demonstrating some success.
And while the major labels are happily licensing U.S. online services, iTunes and other services will have to start from scratch in Japan, where artist management firms—not the labels—control many artists' master recordings.

5. A Yearning for the Authentic. A few years back, here's what Joe Pine, co-author of *The Experience Economy: Work is Theater and Every Business a Stage* had to say: "Our view is that in the Experience Economy authenticity is becoming the new consumer sensibility – the buying criteria by which people choose what to buy and who to buy from. Increasingly, they no longer accept the fake from the phony but want the real from the genuine. Therefore, businesses must render their offerings to be perceived as authentic." Makes sense.

We’re seeing a strong return to basics throughout American life as we seek to bring our complicated and suddenly more dangerous world under control. In an “overcommunicated” society, it's harder to develop a message that penetrates and sticks. The new customer majority loathes artifice and is turned off by manipulative advertising. Powerful brands are simple messages that get through and provide comfort—an assurance of a company that has been and will be around. An increasingly high *tech* society will increasingly value high *touch*.

In music there is a groundswell of low-fi, roots and fringe sounds that defy categorization but that strike a resonate chord with listeners who are tired of processed sound and who crave a more unmediated experience of music expression. Numerous niche communities are developing around these music styles.

READY OR NOT - THE AMAZING FUTURE
Predictions of a well-known futurist

By 2015 – TV, computer, and phone converge into a wall-size, interactive, 3D screen, delivering entertainment and information tailored to our wishes. When idle, it displays beach, forest, or other scenes so real, we think we are there.

By 2020 – Nano-size electronics inside “active contact lenses” receives TV, video games, Internet, and phone calls; and displays images directly onto the retina. Tune program with pocket keyboard initially; later with thought control. Watch TV; browse the web, or video-phone a friend; all with eyes open or closed.

By 2030 – Microscope-size nanobots communicate with the brain creating simulated realities indistinguishable from the real world. Download a program like “Star Trek Holodeck” and dive into the action. Any scene your mind imagines becomes real for you.Re-live when you first met your mate, or create a reunion with family members. Your imagination becomes reality. Change and end program with voice control.

By 2040 – Author Raymond Kurzweil believes human and machine intelligence will meld. We can “re-create the world” and enter environments as amazing as in “The Matrix” movie. Singularity is reached. Hmm..

Source: British futurologist Ian Pearson

New Beginnings in the New Music Economy

The only way to lead in the new world of music is to deconstruct the ruling dogmas of our industry (like, for instance, that records are the best vehicles to convey music and they should remain the chief support pillar of the industry), to generate heretical ideas to challenge that dogma, and then to build strategies around them.

There’s a new dynamic in the music business today, one that flies in the face of all received wisdom. It can be said the first phase of the music industry (c. 1935-70) was *music*-driven, new sounds came up from the streets and clubs, and entrepreneurs responded.

The second phase (c. 1970-1999) was *business*-driven, lawyers and accountants ascending to decision-making posts and corporate imperatives dictating “hits”.

The third phase (1999-now...) seems to be *market*-driven, consumers themselves are taking control of their music consumption.

There, of course, are elements of all three approaches at all times, but one has dominated each era.

Moving forward to individual audience empowerment brings music back into a more purely aesthetic relationship again, which is good for the art itself, and better for artists too. Artists may never recapture the kind of control of their relationship with their audience that they had in the past (except live, in concert), but a genuine aesthetic interplay with their audience is much better than being beholden to the least common denominator of the average of a mass audience's taste.

The current difficult climate serves as a form of reckoning. The tougher the times, the more clarity you gain about the difference between what really matters and what you only pretend to care about.

No one knows where all the cards will fall in this industry-wide shake up, but the good thing about radical change is that, during those times, the little person has a chance to make a big difference. It is the time when big ideas are brought to life, big names are made, and, yes, even big money is made.

STAYING AHEAD OF THE CURVE

• Wired Magazine (http://www.wired.com)
• Digital Music News (http://www.digitalmusicnews.com)
• Hypebot (http://www.hypebot.com)
• Media Futurist (http://mediafuturist.com)
• Trendcentral (http://www.trendcentral.com)
• Trendwatching (http://www.trendwatching.com)