RETHINKING MUSIC: THE FUTURE OF MAKING MONEY AS A PERFORMING MUSICIAN

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The Cyprus-born Panos Panay is CEO and Founder of Sonicbids after launching the company with just $50,000 in startup capital in 2000. Since then, Sonicbids has grown to be the leading matchmaking site for emerging bands and people who book or license music, boasting a membership of over 300,000 bands and 25,000 promoters from some 100 different countries. Prior to Sonicbids, Panos was an international talent agent for many renowned artists. Named one of Fast Company magazine's "Fast 50" entrepreneurs, a "Mass High Tech All Star" and a "40 Under 40" by Boston Business Journal, Panos is considered one of the new music industry's true thought leaders. He is a frequent featured speaker and panelist at many prominent industry events and college campuses; and is the recipient of a Distinguished Alumnus Award from Berklee College of Music. In 2008, Panos was handpicked by Boston Mayor Thomas Menino to serve as a founding board member of Boston World Partnerships along with many other prominent Boston-based CEOs.

I. INTRODUCTION

If you take to heart what's been written in the press about the "music business" of the past 10 years, you may quickly conclude that there's not much hope left for 21st-century performers.

The record business is in free fall, with U.S. sales and licensing revenues plummeting by half in the past decade.[1] Rampant piracy and a disinterested and disaffected public have savaged reliable artist income from record sales. Young consumers are reportedly turning their backs on emerging artists, preferring to "steal" music rather than pay for it. (According to a recent study by the University of Hertfordshire, 61% of consumers aged 14 - 24 admit to illegally downloading music.[2]) Radiohead is giving away its albums, previously reliable high sellers like Bruce Springsteen and U2 have peaked commercially, and, for the first time since the SoundScan era began in 1991, the number one selling album on the Billboard Top 200 charts sold just 40,000 units (Amos Lee with "Mission Bell"; by contrast, in its heyday in 2000, 'N Sync sold over 2.4 million units with "No Strings Attached").

At first glance, things don't look much better on the live music side. The world's largest concert promoter, Live Nation, is bleeding money, reporting that its 2010 fourth quarter revenue declined by 2%; ticket sales were down by 10%; cash flow dropped 15%; and quarterly losses more than doubled to $86 million.[3] More than 40% of its ticket inventory remained unsold last summer.[4] And, if you take a quick look at the average age of touring concert performers — with the one exception being Lady Gaga — you'd be forgiven if you thought that the concert business' better days are behind it. This is the list of the highest-grossing 10 tours of the last 10 years: Rolling Stones, U2, AC/DC, Madonna, U2 (again), The Police, Celine Dion, Cher, Bruce Springsteen, Bon Jovi.[5] (No, the last ever concert tour did not take place in 1986.)

And radio? Don't ask. Although 2010 provided an unexpected bright spot with a slight revenue uptick, listenership is down, audiences are more and more fragmented, advertisers are, accordingly, harder to attract, and, if you ask most listeners, radio has stopped being their primary source of new music discovery and its pop culture relevance is quickly evaporating.

A closer look, however, reveals that the music business is not so much imploding as — like any other industry that has been around for more than a dozen years — it is *evolving*. Consumer tastes are changing, and record labels and radio are no longer the cultural arbitrators they once were. Music listeners are moving away from the mass-produced music consumption habits of the broadcast media to the more tailored and personalized experiences of the social media age. Just as importantly, artists are migrating away from the mass-market revenue model of the broadcast era to the *mass of niches* model of the new, Internet era. They are not antagonizing their customers (as the record industry did with its lawsuits), but they are collaborating and dialoguing with them in new and, sometimes, surprising ways.

As the founder of Sonicbids, the leading matchmaking site for bands and people who book or license music, with a membership of 300,000 bands and 25,000 music promoters, I have a front row seat to all these changes and shifts. I launched the site almost exactly 10 years ago out of my apartment with the express mission of empowering a new class of artists (we call it the *Artistic Middle Class*) by helping every band get a gig and by giving artists the tools they need to develop a sustainable audience.

Perhaps what's been most amazing has been the way that the music performer community has adjusted to all of these changes both by seizing opportunities that did not exist a few years ago as well as by adapting to the new landscape of the industry — and by adopting and co-opting revenue generating ideas from other industries and applying them to their trade.Far from dying, the music business is alive and ever resourceful in finding new ways of making money and evolving.

II. THE NEW LIVE MUSIC BUSINESS (LIVE PERFORMANCE REVENUE)

Yes, the traditional concert business is having a hard time adjusting to the new realities of less disposable consumer incomes, smaller (or non-existent) record label tour funding, lack of sustainable new megastars and the aging demographic of its best sellers. But "live music" is not just what's performed in stadiums and arenas — and it doesn't always entail a show that involves a consumer buying a ticket.

Last year on Sonicbids, nearly 80,000 gigs were booked between artists and promoters that would traditionally fall "under the radar." (Internal estimates put the total number of U.S. live gigs at close to 8 million). This is a vibrant and expanding list of people that are taking advantage of new tools such as Sonicbids to bring live music to their consumers — and often not as the "end product," but as a means to another experience. This includes bars, coffee houses, art galleries, cruise ships, wineries, amusement parks, breweries, restaurants, cinema lobbies, ski resorts, corporate retreats, museums, colleges, street fairs, and countless others. It's a nearly $10 billion market that's expanding at a rate of 11% a year.[6] You just won't read about it in any mainstream press.

According to the National Association of Campus Activities, U.S. colleges eager to entertain their student bodies with live music spend nearly $250 million each year. Most of this goes to artists that generally earn less than $3,000 per show (read: members of the middle class).[7] The UK Performing Rights Society (PRS) has recently published a study that shows that the live music festival sector is the most quickly growing sector of the music business. This is also evident by the fact that even in the worst recession in a generation, festivals such as Coachella, South By Southwest, and Bonnaroo have been routinely selling out. The oft-derided wedding band market has grown. Nearly 83% of Sonicbids' bands indicate that they make at least part of their annual income from playing private events such as weddings and increasingly do so by playing original music instead of "cover" songs.

The live music business is not dead. It's simply fragmenting, evolving, becoming more organic, less mass produced, and more homegrown.

III. CONSUMER BRANDS: THE NEW ARTS PATRONS (SPONSORSHIP AND MARKETING REVENUE)

As long as there's been art, there have been wealthy patrons that have sponsored artists. Many of the world's classic masters would have never seen their work produced had it not been for some rich family who funded their creativity. Van Gogh, Mozart, Da Vinci — all had wealthy backers.

In the modern music business, these patrons were once major record labels that plucked artists from obscurity and made them into mass-consumed mega stars. Labels funded artists' time in the studio (production), paid money to distribute their records in retail stores (distribution), paid money for promotion through outlets like radio and TV (promotion), and hired managers, agents, and publishers to help maximize each artist's income potential (professional connections). In return, they kept the lion's share of each artist's income and held the keys to the kingdom called "viable music career."

With the advent of the Internet and the **shift of consumer tastes from mass to niche**, labels have experienced a steady erosion of their incomes over the past eight years. Consequently they have ceased playing the traditional role of art patron for up and coming musical artists.

In their place — as both art patrons as well as popular taste curators — major (and niche) consumer brands have stepped in and figured out that **music can help them sell whatever product they produce** (coffee, electronics, carbonated beverages, clothing, video games, hand bags, financial services, insurance, etc.). In North America alone total sponsorship spending by consumer brands for such marketing programs was projected to exceed $1 billion in 2010, almost double what it was six years earlier.[8]

Even more promising for emerging artists, there's been a steady shift of this sponsorship money in recent years towards more "niche" artists who do not yet have an entrenched public image like, say, Taylor Swift or Lady Gaga. Why? Because more and more companies are realizing that the **coveted young consumers coming of age today demand authenticity from the brands they will endorse — a trait most associated with independent, non-major label artists. It doesn't hurt that these artists tend to be less expensive and carry less PR risks than artists with large public profiles. Given that social media is the venue that most young consumers are spending their time on, marketers are eager to engage these customers on this turf, and no one knows social media marketing better than emerging artists — their careers literally depend on it.**

In the past couple of years, large consumer brands ranging from Diesel, Converse, Gap, Ford, and Levis to more niche ones like Midas, Zippo, Jagermeister, and JanSport have all spent millions creating programs that use emerging music as the primary marketing means of their wares to social media. Just as importantly, artists are showing an increased eagerness to work with these brands to get their music out to the public — a sharp contrast to the cries of "sell out" that accompanied such acts in the '70s, '80s, and all through the '90s.

Could it be that these brands with all of their marketing muscle and deep pockets are becoming the new record labels? I think so.

IV. FAN AS COLLABORATOR (FAN-GENERATED AND MERCHANDISE REVENUE)

I was talking with a friend of mine from MTV recently, and we were chatting about how MTV no longer plays music videos. He turned and said something that never occurred to me: " No one who watches MTV today complains about music videos because no one under the age of 30 even remembers MTV playing music videos. People today turn to MTV to watch *Jersey Shore* and *Skins and 16 & Pregnant* and discover new music through these programs. MTV does not age with its audience, it adapts to its audience which is forever the young." I think the same way about "music piracy." The music industry is trying to age its morals with its original audience when our paradigm should shift to the new audience's preferred ways of engagement with music.

Much fuss has been made by the industry about the "new music fan." The 16-year-old who refuses to pay for music, who routinely downloads gigabytes of "illegal" music, the one who spends hours and hours on bit torrent sites — the music thief, the pirate, the one who if you can't educate through public service announcements, you go after with a legal sledge hammer and sue them out of existence.

But the music fan that most emerging artists see is not an antagonist. They're a collaborator. Over the past two years, more and more artists like Amanda Palmer, Kristin Hersch, and Kat Parsons are using fan-funding sites to finance their records, tours, and other marketing activities. Even in 2001, eighties rockers Marillion funded their album *Anoraknophobia* with 12,674 pre-orders from fans.[9] More recently, Jill Sobule raised some $80,000 from about 500 fans to record her album *California Years*.[10]

Sites like Pledge Music and Kickstarter and even on-demand merchandise sites like Zazzle and Café Press are helping artists raise money not in the form of donations, but by selling album credits, unique experiences, exclusive concert tickets, one-of-a-kind merchandise, and more. These are not acts of charity, but acts of collaboration, co-creation, and co-development.Very much the way that young, urban consumers are turning to Community Supported Agriculture programs that help support local farmers, young music fans are supporting their favorite artists not necessarily by buying records and downloading "legal" music, but by contributing to these artists in very different ways.

The new music consumer's relationship with music is not declining. It's changing. And smart artists are taking advantage of it and leading the way in finding ways to monetize it.

V. AND MUSIC LICENSING FOR ALL (LICENSING AND PERFORMING RIGHTS REVENUE)

Each year, MTV contributes to the market for emerging artists by integrating them into its programing. True, MTV pays little for this content, but having your song aired in a program like Jersey Shore that reaches over 8 million viewers a week can reap all kinds of benefits — not to mention lucrative performing rights revenues. ASCAP alone has distributed over $2.5 billion in performance rights revenue to its members over the last three years.[11] At Sonicbids, last year we identified over $4 million in unclaimed royalties that we distributed to some 10,000 of artist members through SoundExchange, the non-profit performance royalties collection agency.

More encouragingly, even large advertisers like Coca Cola, Dell, JC Penney, and Chevrolet are turning to new artists to find and license music for their commercials. (Sonicbids artist Temper Trap's song "Sweet Disposition" is the featured song in the Diet Coke commercials aired during the recent Academy Awards broadcast.)

And this does not stop at advertising. Recent licensees of up-and-coming artists without major label affiliations include video game publishers like Electronic Arts and Activision; toy companies like Fisher-Price and Mattel; specialized music broadcast companies like Cinema Sounds who broadcasts music in 15,000 US movie theater lobbies; airlines like Delta Airlines and Virgin who are looking for unique content for their seatback channels; and movie studios like Paramount and Universal.

Music consumption is not curtailed. It's shifting venues from the record store to your TV set — or your next elevator ride.

VI. THE NEW ENTREPRENEUERS (ADVERTISING AND SUBSCRIPTIONS REVENUE)

In the last two years, companies like Pandora, Spotify, Rdio, MOG, and countless others have raised over $200 million from investors with the promise of generating money primarily by offering music listening for free in exchange for advertising and subscription revenue.[12]

Early numbers are encouraging: According to *Digital Music News,* Spotify has over 650,000 paid subscribers, approximately four percent of its total listener base.[13] Pandora has over 80 million listeners and just filed for its initial public offering expecting to raise some $100 million.[14] and even companies like Shazam boast a user base of more than 100 million.[15]

These are early days of course, and it's still unclear how much of this revenue will find its way back to the actual performer and what form that revenue will take. (Regional legislation surrounding this matter is very much evolving and varying by continent and country.) One thing is inevitable: whatever industry attracts money and talent (sadly, that is no longer the record business), inevitably will succeed. And there's a lot of money and a lot of people betting that the model of online, ad supported radio will succeed. I would not bet against it.

Amidst all the noise, we tend to forget that the modern music business has only existed for less than 60 years, propelled in earnest first by Frank Sinatra, taken to the next level by Elvis Presley and then the Beatles, and culminating in the mega stadium tours of the '70s and '80s and the blockbuster record sellers of the '90s.

In most industries, it is rare that a new form of innovation and revenue generation will completely supplant the incumbents. In the transportation business, for example, ships, railroads, automobiles, and airlines all happily coexist. The same holds in the entertainment business with theater, radio, film, TV, and now the Internet all overlapping.In each of these examples, there have been clear losers (the horse and buggy for example, or the VCR and soon the DVD player), but the basic, underlying need for, respectively, movement and entertainment has ushered in new innovations by new breeds of entrepreneurs that led to the creation of new sub-industries and, very importantly, new ways of wealth creation.

The music business is at a similar moment and has a similar opportunity for reinvention.

ENDNOTES

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