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Culminating Experience
Outcome Paper
Due July 3, 2015

Crowdfunding and the Music-Making Paradigm: A Case on PledgeMusic

This document contains:
Abstract
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Teaching Note

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A Case on PledgeMusic

Abstract and Learning Objectives

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Title:	Crowdfunding and the Music-Making Paradigm: A Case on PledgeMusic
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Date:	TBD

Abstract

This case is designed for an undergraduate or master's level class in music business exploring business models, especially in the realm of blue ocean strategies in value proposition and revenues streams. It is ideal for considering ethical and transparent business practices within a notoriously unethical and veiled industry. It introduces students to business development tools such as SWOT analysis, while empowering them to understand institutional logic and its role in ethical and transparent business practices.

Crowdfunding is a new tool that is disrupting the process of funding in the music industry. PledgeMusic capitalizes on this, while breaking into the third frontier of the music industry in order to increase sales power and marketing reach. This case is designed to study how PledgeMusic is participating in the paradigm shift that is occuring in the music industry, and encourage students to think critically and creatively about how to stay ahead of the curve as a leader in this quickly-changing market.

Learning objectives

The learning objectives for your case, up to five at 250 characters each, should be provided separately below. Clear, concise objectives will aid users in selecting the most suitable case for their teaching requirements.

1. Analyze PledgeMusic's value proposition to both artists and fans
2. Identify and understand PledgeMusic's current user base
3. Understand PledgeMusic's current revenue streams
4. Synthesize a SWOT analysis by exploring the strengths, weaknesses, and market position of PledgeMusic
5. Make a recommendation for additional business activities that would lead to new revenue streams.
    a. Explain the recommendation and monetization strategy
    b. Explain *how* and *why* PledgeMusic should take follow the recommendation
    c. Identify any potential obstacles, as well as strategies for overcoming them

Crowdfunding and the Music-Making Paraidgm: A Case on PledgeMusic

Case Study

Megan Himel

Introduction

Spring is always a magical time in New York City. The tulips were blooming on Park Avenue, and the insanity of the city seamed to pause for a moment as it breathed in new life after a frigid winter. Though the city was in a rare moment of calm, Benji Rogers' mind was still racing with questions. His company, PledgeMusic, was in its sixth year and doing well. With offices in both NYC and London, their work reached to across the globe, their website operating in 5 languages (PledgeMusic, no date). Since PledgeMusic launched in 2009, they had successfully blazed a trail to the third frontier of the music industry, landing Rogers and the company on lists such as The Hospital Club 100 (The Guardian, 2013), Billboard's "Five Digital Startups to Watch" (Peoples, 2012) and the Grammy Music Technology Lab (PledgeMusic, 2013).

But what next? Obviously it was prudent to do one thing well before diversifying to other areas, but when the time came, how should PledgeMusic grow its activities in order to support the artist and disrupt the music industry? What activities were connected enough to their current activities to be a natural move, while being strong enough to be financially sustainable for both PledgeMusic and the artist? And how would Rogers know when the time was right?

The Music Industry Landscape

Signing a deal with a record label is the most traditional path for an artist to take. The age-old story of a musician: make a bit of music, get heard by someone at a record label, get signed, and grow your career under the stewardship of a company that knows what it's doing. Record labels traditionally employed artist and repertoire (A&R) representatives to scout for talent; when they found a diamond in the rough, they would polish them up and take them to market. Record labels invested in developing talent, funded artists through the creation and recording process, spearheaded marketing campaigns, and recouped their investments through the sale of an artists' records.

Because of this premise of investment and recoupment, record labels typically own all the recordings (masters) produced as part of a contract, whether or not they are ever presented to market. The label gets to choose *what* goes to market, as well as *when* and *where*. In addition, the label keeps most of the money earned from selling or using the master – artists earns 10-15% of the net revenue as royalty (20% if they have a lot of bargaining power) – and they only see that cash after all the expenses associated with their advance and recording / marketing costs are recouped out of their share. For decades, this model was considered reasonable because the record label assumed all of the financial risk and invested in developing the artist as a performer, not just creating masters.

And there *was* risk involved. Fans are fickle, and artists were often less successful than predicted. In fact, Cann (2007, 101) claims that "niney-five percent of artists don't recoup their advance, so the royalties on offer are just an illusion. The advance is an amount of money designed to get an artist into debt with the record label and then to keep the artist working for the label." Unrecouped artists never see cash from their record label after the initial advance.

Moving forward through time, recorded music earned less money. As a result, record labels tightened their purse strings in order to remain financially viable. Record labels began expecting higher levels of performance, experience, and preparation from an artist before signing them. Sometimes artists were required to have an album ready to go before signing a record deal.

While record sales were falling, and live sales were increasing. A shift was occurring: instead of tours being a promotional activity for recorded music, recording music was becoming promotional material for tours and other artist activities. In response to this, record labels began asking for a share of an artist's other revenue streams, arguing that those revenue streams wouldn't exist without the assistance of the recording to garner attention as a marketing tool. This new contract took on many forms, but became generally referred to as a 360° deal.

As a result, artists got significantly less out of a record deal – less training, assistance, development, and support. Despite being required to provide more on their own and labels assuming less risk, artists began to owe their labels a greater share of their overall income.

Running parallel to this growing issue was the fact that technology was developing. Recording equipment was becoming more affordable: artists could rent studio space on their own, or even create a makeshift studio in their home. Both these alternatives developed momentum as part of a DIY (Do It Yourself) movement, empowered by services such as CDbaby and The Orchard. Since artists were recording independently, these services allowed artists to distribute their music without the assistance of a record label. Artists were able to maintain ownership of their masters, only sacrificing whatever upfront fees or commissions commanded by their distribution service.

The DIY method is not for everyone though. Without upfront cash, as well as business operation and marketing experience, artists rarely managed to achieve the same reach as they would have through a record label. Labels have teams of people supporting marketing and promotion, and those teams are spread across the globe, allowing for much more reach than an artist typically has on his or her own.

In addition to promotion and global reach, independent funding is a tricky issue. Does an artist pay out of pocket, take out a loan, or ask someone else for help? Kickstarter (a crowdfunding platform) launched in 2009 as a solution to this struggle across several industries. Kickstarter was not geared toward musicians, but many took advantage of it. The service was open to anyone who wanted to create a campaign in which they offered rewards (to be delivered at a later date) in exchange for money immediately. This became a way to pre-sell products or solicit financial capital in exchange for other activities (a Skype session, dinner, private concert, etc.). The most popular selling price for an item on Kickstarter was $25, but the average spend per pledger per campaign was $70. There was no barrier to entry, making it an appealing choice for DIY musicians. Additionally, Kickstarter only took a 5% commission (compared to iTunes' 30% on any money raised through the iTunes store or a record labels 80-90%), plus any credit card and processing fees (ranging from 3-5%). Campaigns on Kickstarter have an overall success rate of 37.72%; music-specific campaigns enjoy a higher success rate of 52.01% (Kickstarter, no date).

The Crowdfunding Landscape

In its simplest form, crowdfunding is the act of taking an item directly to a large pool of consumers (the general market) by way of the internet, rather than trying to pass through traditional gatekeepers. In the general market, examples of gatekeepers are angel investors, venture capitalists, and large corporations that buy small projects for individual or smaller developers. In the music industry the most commonly noted gatekeeper is the record label; but agents, promoters, distributing entities, and even shopkeepers filter out whatever they do not deem as "good" or marketable. Seth Godin (Cyber PR, 2012) explains that the systems of modern day marketing function are geared toward "normal," which is really just the peak of a bell curve, not an expression of what everyone is. When product designers and marketers started gearing products (cars, food, music, etc.) toward the "normal" population, "weird" became something negative – a flaw. Diversity and creativity are stifled because everything has to be reshaped to fit into the mold of normal, and receive approval from the gatekeepers. The internet, Godin maintains, gives rise to the opportunity to break away from the standards of "normal:"

> The Internet does two things: First, it lets weird people find other weird people, which amplifies their weirdness… And the second thing it does is it lets marketers like us, anyone who makes something they wanna talk about, reach groups of people who aren't the normal ones. In fact, reaching the masses is too expensive now, but reaching just the people who are into experimental lesbian fiction – that's easy – 'cause you can *find* those people. (Cyber PR, 2012)

The internet, therefore, becomes the key tool for bypassing the standard of "normal," and the traditional gatekeepers accompanying those standards, in order to reach a targeted market of individuals who are interested in the specific product being offered.

Crowdfunding leverages the internet to empower those specific, "weird," individuals to help a project they believe in come to life. It bypasses all of the traditional gatekeeping entities, going directly to the consumer for funding. Because of this, crowdfunding projects in the music industry are often referred to as *direct-to-fan*.

It should be noted that a close relative to crowdfunding is *crowdsourcing*. Crowdsourcing shares the concept of going directly to the crowd, but asks for a return other than financial capital (such as ideas or services).

Examples of crowdfunding platforms include Kickstarter, Indiegogo, and GoFundMe for general projects, and Patreon, Sellaband, ArtistShare, and MyMajorCompany for music/arts specific projects.

Crowdfunding is traditionally broken down into four categories. Each operates on the principle of going directly to the crowd, but each offers something different in exchange for financial capital. The attitudes can be summarized as such:

1. *Donation*: "give money to this project as an act of generosity"
2. *Rewards*: "give me money now, and I'll give you a product later"
3. *Equity*: "give me money now, and you'll own a share of what I create"

4. *Lending*: "give me money now, and I'll pay you back at an agreed-upon interest rate and timeline"

Regardless of what is given in exchange for financial capital, all crowdfunding campaigns typically require a budget and target amount of money to be raised. There are two main payout systems:

1. *All-or-nothing*: The owner of the project sets a financial goal, and is unable to withdraw any money until the goal is met.
2. *Flex (flexible)*: Money can be withdrawn at any point in the campaign, and is kept by the project owner regardless of whether the goal is met.

Traditionally, crowdfunding platforms have skirted the issue of copyright in several ways in order to avoid paying royalties and mechanicals to collecting societies. Some companies do not host content on their own servers, while others build a release or waiver into their service contract. The most common method, however, is to strategically place the digital company as a "service provider" as defined in US law by the Digital Millennium Copyright Act in 1998. Service providers are defined as "an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material as sent or received," (U.S. Copyright Office, 1998). Examples of service providers include: Google drive, dropbox, wordpress, Whatsapp, and bandzoogle.

Most crowdfunding platforms, including PledgeMusic and Kickstarter, position themselves as service providers: each campaign is essentially the online store of whoever is raising funds, making that person responsible for any copyright or payment issues at play. It can be likened to being a property owner: if the landlord rents out a property to serve as a store, the renter and storeowner is responsible for all costs and licenses related to the business of that store, not the landlord. In order to maintain this status, however, these service providers must uphold strict standards and earn their revenue from their services (hosting, distribution, consulting, etc.), rather than through advertising money (the way YouTube does).

History of PledgeMusic and the Third Frontier

At the age of 34, Benji Rogers was living on an air mattress in his mother's spare room and doing the traditional musician's struggle: odd jobs and bartending in London. As he describes it, he awoke in the middle of the night with a realization that he couldn't shake. Rogers recognized that an artist is more interesting when they're making something than when they're selling it after the fact. Consider the appeal of VH1's "Behind the Music" programs, and the thrill people get from watching reality TV:

> Look at the success of reality TV, right? You don't know what's gonna happen, it's happening in real time, it's moving along. Well the making of an album is that way: it's got all those elements. It's uncertain, you don't know the outcome, it happens only once and in real time, and if you will, it's almost as if you create an event out of 'the making of.' (Rogers, 2015)

If the appeal of reality TV could be applied to the music creation process, it would be rewarding (and addictive) for fans. Beyond that, Rogers knew that a particular subset of his fans would do *anything* for him, including paying a premium for a deeper experience than the traditional album and t-shirt sale. This group of fans, referred to as *superfans*, make up 17% of music consumers and represent 61% of all music spending (Mulligan 2015).

> What if there was a way for an artist to let their fans pre-order an album, unlock access to a special video stream or audio stream or photo stream while it's being made, only for them? They finance the record, and then when it comes out you sell it to everybody else… and that same superfan will still buy it or stream it once it comes out. (Rogers, 2015)

And PledgeMusic was conceived.

PledgeMusic unlocks what Rogers refers to as *The Third Frontier*:

> If the first frontier was the selling of music, the second frontier was the selling of tickets, the third frontier is the making of those things that you will then sell. And the fact that 99% of releases don't share the most exciting part is… it keeps me awake at night. (Rogers, 2015)

Of course, it took months of questions, drama, and struggles to get the company up and running, and there was a lot of uncertainty. There were legal issues left and right, as there was no precedence for the business model Rogers was proposing. Rogers wanted to go directly to the fan far in advance of having a product to deliver. This would allow artists to bypass gatekeepers and bureaucracy (all of which traditionally take a cut of funds earned) and create their albums without debt. When explaining the concept of fans pledging a payment amount but not being charged until enough money was pledged to fund the project, the closest parallel he could make was in the hotel industry: you can book a hotel in advance, but you are charged when you check in. Rogers also came from a musician's background, not a business one. He had a huge network within the music industry, but finding the right team of business, legal, and tech was crucial, and developing a business model to pitch to investors was a new adventure for Rogers.

Eventually, Rogers put together a team, secured financial capital, and dove into development. PledgeMusic hired a developer in February 2009, and launched with Rogers' own project that July, two months after Kickstarter.

It was a phenomenal success. Within five days Rogers could walk into the studio and record, completely debt-free. The money raised already covered the studio and additional costs.

The business model still had questions though: would taking a 15% commission on all funds raised be enough to cover all their expenses? They were undercutting iTunes dramatically while providing more services at cost to themselves. At the same time, PledgeMusic's commission appeared significantly larger than Kickstarter's; what if that gap drove potential users away? Yes, PledgeMusic ate the credit card and 3rd party processing fees and provided hands-on assistance through campaign managers for each project, but would artists consider this valuable enough for the extra percentage commission?

The biggest question: could fans really be counted on to engage, or was Rogers' project just a fluke?

Over time, PledgeMusic's business model proved to be sustainable: 15% commission kept them in business, and fans engaged more than Rogers could have hoped. Instead of earning an average spend of $10 per fan per campaign (the cost of an album), the average spend per fan per campaign fell in the $54-$61 range, depending on the active campaigns, (Rogers, 2015); as of 2013, the average pledger spends $1004 on music a year (PledgeMusic and Nielsen, 2013). Compare this to the other consumers in the music industry, who spend average of $68 per year on music, across all mediums and artists (PledgeMusic and Nielsen, 2013), and it is clear that Rogers was right: the superfans wanted more than just an album, and were willing to pay for it.

Of those who use PledgeMusic, 82% of their spending is on physical products (PledgeMusic and Nielsen, 2013). The majority (51%) is spent on CDs, followed distantly by vinyl (10.1%) and T-shirts (9.43%). Other items for sale include credits on albums, Skype lessons, and handmade artifacts (PledgeMusic, 2015).

Over the past 6 years, PledgeMusic has grown rapidly. Though they originally launched one or two campaigns a month, now they launch between four and six campaigns a day. In the past few years (2011-2014) PledgeMusic has experienced an average 37% annual increase in artists who have launched projects, and the user base has grown at an average rate of 78%. (PledgeMusic, 2015) Despite this fast-paced growth, only 4% of all music consumers are early adaptors of direct-to-fan activities such as PledgeMusic and its peers (Mulligan, 2015), which means that there is still incredible room for growth.

PledgeMusic's Differentiating Factors

Artists using PledgeMusic enjoy a 90% success rate (Herstand, 2014). Much of this can be credited to PledgeMusic's strategy and involvement in the process.

<u>Hands-On, Artist-Centric Approach</u>

One of the biggest distinctions PledgeMusic has is its hands-on and personal assistance when it comes to running campaigns. Every artist has a campaign manager within the

PledgeMusic office; Rogers describes the team as "some of the most talented people you've ever come across," (Rogers, 2015). Campaign managers work closely with the artist to develop they types of products that will be listed for sale, as well as the behind-the-scenes content that will be made available through the AccessPass. Campaign managers counsel artists on best practices overall and within their genre, and walk with them through the entire process.

Although a campaign manager is highly involved in the process – everything ultimately falls into the hands of the artist. A campaign on PledgeMusic is a relational activity, so it is essential that anything sold or shared must ring true to who the artist is. This means that the artist has ultimate creative control, rather than an A&R or marketing representative from PledgeMusic. Campaign managers are helpers and consultants, not the final word.

PledgeMusic's policy is not to launch every project that comes to them, but only launch campaigns they know have the best chances of success. When an artist comes to PledgeMusic, they share their financial goals and timeline with their campaign manager. These are weighed against an artist's footprint on email, Facebook, Twitter, YouTube, and other social media platforms; the campaign manager then makes a recommendation. Artists are not blatantly turned away, but they'll be advised if their goals are not in alignment with their footprint. From there, PledgeMusic helps and artist to either (a) reevaluate his/her financial goals, or (b) run a promotion aimed at increasing the artist's reach (such as a NoiseTrade promotion). The goal is not to turn artists away, but rather to prepare them as well as possible for success.

Codifying the Fan Experience

PledgeMusic taps into the reality TV experience for fans while giving them a taste of what happens behind the scenes. Although PledgeMusic doesn't require a specific number of updates from artists, the standard number of pledgers-only updates is 17 (Rogers, 2015). There's an ecosystem at play in PledgeMusic: 40% of transactions come from within PledgeMusic's own user base (Rogers, 2015), implying that fans enjoy the experience enough to use PledgeMusic as a discovery platform or return for other artists' campaigns. By building this ecosystem and standardizing the way content is distributed to superfans, PledgeMusic takes some of the uncertainty out of marketing. Artists are still in control of *what* is shared, but they don't have to stress about the *how*.

Syndication Technology and Other Outreach

PledgeMusic strongly believes that email is essential as a tool for correspondence. Fans who hand over their email address *want* information, and direct emails avoid both the costly "boost" tool on Facebook and the transient nature of Twitter.

Not only does PledgeMusic have the ability to inform its entire community of users about new campaigns through their website and newsletter, they have found a way to spread the word through pledgers' own social networks, allowing awareness of an artist's campaign to grow exponentially:

> When a fan pre-orders an album, they unlock access to that special part of the site. But in doing so, they get to syndicate all of the artist's updates to their own personal networks without pushing a button. So basically: an artist does a video from the studio, I as the pledger can auto-share a 30-second clip of that video to

> my Facebook or Twitter wall without pushing a button. No other platform has that piece. (Rogers, 2015)

Increase Marketing Time & Reach

While the syndication technology uses social networks to increase the reach of a campaign, another factor is at play: marketing time. Traditional marketing campaigns in the record business begin 1-3 months prior to release, and are usually dependent on a finished product. Rarely does any major marketing take place during the creative process.

PledgeMusic turns the creative process into the Third Frontier and uses it as marketing time. A finished product is not required, because the engaging factor of the marketing comes from the uncertainty of what will happen next. Running a campaign on PledgeMusic can triple the marketing time. And since a wide variety of items are available to purchase at several price points, there is always an immediate call to action for the fan. Using this technique, artists make far more money than they would otherwise.

Data

"[PledgeMusic is] the only platform… that creates a community for superfans that the artist can withdraw from when they leave." (Rogers, 2015)

Perhaps more valuable than the hands-on assistance is the data an artist receives. Artists not only know exactly what was sold to whom and where, they also gain any of the relevant contact information for their pledgers. This isn't just a Facebook like or twitter handle – it's direct email addresses, contact information, and user information that the pledger has chosen to share.

Artists not only can view this information, but can also take it with them when they finish a campaign in order to use however they see fit outside PledgeMusic. Compared to other companies, this is a goldmine. iTunes, for example, keeps user data to themselves, as does Amazon. Spotify shares broad information, but passes demographic and psychographic data on to labels, not artists. None of these companies provide a way for artists to contact their fans directly; artists are forced to go though the platform in order to communicate to fans acquired there. This is a problem for artists, because if forces dependency on these platforms, and therefore loyalty based on cost of abandonment rather than the quality of the platform

Even Facebook keeps contact information to themselves – and charges artists in order to reach their audience by boosting posts. When artists use these points of purchase and dissemination, they are giving their valuable data away, while the companies are making huge profits off of selling the data at a premium.

PledgeMusic believes that the data an artist generates belongs to the artist, and protects it as such. Should an external entity (such as a label or brand) request information on an artist (which happens occasionally, usually in order to inform the decision of signing or working with an artist), PledgeMusic seeks the artist's approval before passing it along.

Charity

Finally, PledgeMusic positions itself as socially aware by incorporating a charity aspect. Artists have the option of donating a portion of their campaign earnings to a charity of their choice (PledgeMusic, no date). This allows an artist to be socially responsible and philanthropic, while inviting their fans join them in a cause they believe in.

Assignment: What's Next for PledgeMusic?

How can Rogers grow PledgeMusic in a way that aligns with his company's values and strengths? Use all the tools at your disposal as well as your understanding of both music and crowdfunding landscapes to make a recommendation for additional business activities. Lay out a plan for implementation and monetization, including potential obstacles and ways to avoid or overcome them. Be sure to consider and explain how your recommendation aligns with the institutional logic and current activities.

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Crowdfunding and the Music-Making Paradigm: A Case on PledgeMusic

Teaching Note

Megan Himel

Summary of the Case

This is a case designed for the early stages of a music business course, with a focus on direct-to-fan strategies as demonstrated by PledgeMusic. Students will explore the fan base PledgeMusic caters to, as well as PledgeMusic's business model and marketing strategies. Students will be expected to position this innovative startup in the music and crowdfunding landscapes, recommend next steps for the company's expanding business model, and strategize how to implement their recommendation.

Opening Thoughts Regarding PledgeMusic

PledgeMusic is commonly regarded as a crowdfunding platform for musicians. That, however, is a very narrow view. PledgeMusic is a sales and marketing strategy that promotes extended fan engagement by leveraging crowdfunding mentality and technology. In essence, the crowdfunding element is merely a means to an end: capitalizing on what Benji Rogers (Founder and President of PledgeMusic) calls the "third frontier."

Teaching Objectives and Target Audience

This case is appropriate for an undergraduate or master's level class in music business exploring business models, especially in the realm of blue ocean strategies in value proposition and revenue streams. Additionally, it is ideal for considering ethical and transparent business practices within a notoriously unethical and veiled industry.

Ideally, students will have an introductory knowledge of the music industry, including the different options artists have for funding and marketing their albums. This case is intended to give enough information about PledgeMusic's defining factors for students to position PledgeMusic within the landscape of options for artists.

Lesson Objectives, Topics, and Assessment

Overarching Question:

How does a company reconcile the needs of an artist with the desires of a fan in order to be fair, rewarding, and financially sustainable for all parties involved?

Students will:

1. Analyze PledgeMusic's value proposition to both artists and fans
2. Identify and understand PledgeMusic's current user base
3. Understand PledgeMusic's current revenue streams
4. Synthesize a SWOT analysis by exploring the strengths, weaknesses, and market position of PledgeMusic
5. Make a recommendation for additional business activities that would lead to new revenue streams.
    a. Explain the recommendation and monetization strategy
    b. Explain *how* and *why* PledgeMusic should take follow the recommendation
    c. Identify any potential obstacles, as well as strategies for overcoming them

Topics Addressed:

1. Institutional Logic
2. Business models
3. Two-sided platform
4. Value proposition
5. Competitive Advantage
6. Revenue streams
7. Crowdfunding
8. Blue Ocean
9. Music value chain

Assessment:

Although students will be asked to identify PledgeMusic's value proposition, revenue streams, and SWOT, these are tools students will use to discover and defend what steps PledgeMusic should take next and make the appropriate recommendation.

Students will be assessed by way of either a written report, or a deck and presentation (depending on teacher's preference). Report and/or presentation will:

1. Recommend a new revenue stream for PledgeMusic
2. Justify the appropriateness of this revenue stream based on PledgeMusic's preexisting activities and value system, as well as the outside market
3. Outline a strategy, including monetization, obstacles, tools, etc.

Lesson Plan

Lecture: Who Listens to Music? (8-10 minutes)

To understand the music market, we first need to examine the audience. Modern thought process examined by Nielsen (2013) divides music audiences into six key groups. The audience categories are listed here in order of spending on music, from greatest to least.

1. *Aficionado Fans*, also know as *superfans*, are the biggest music consumers. Their tastes span a genres and time periods, and they are constantly listening and discovering. According to Mark Mulligan (2015)'s presentation of MIDiA research at MIDEM, superfans make up 17% of all consumers, and represent 61% of all music spending. This is the market PledgeMusic focuses on.
2. *Digital Fans* "consider themselves to be the tune trend finders, listen to music through social networks and are very engaged, but they tend to be less aware of indie bands and the ins and outs of the music industry. Due to their extensive connectivity, these fans enjoy free access to internet radio and spend less than aficionado fans," (Nielsen 2013).
3. *Big Box Fans* "identify themselves as having an intense relationship with music, most notably the pop and country genres. Big-box fans connect with music that they hear in movies, on TV, in video games and in commercials. They tend to be discount shoppers whose music and other purchase decisions are heavily influenced by discounts or deals," (Nielsen 2013).
4. *Ambivalent Music Consumers* "are not particularly engaged with music, but they use free internet radio services like Pandora to get content. They are willing to pay for special or unique content. Ambivalent consumers like pop, contemporary Christian, and adult contemporary, hip-hop/R&B and classical. Ambivalent music

consumers have average incomes but spend less on entertainment than any other segment," (Nielsen 2013).

5. *Occasional Concert Consumers* "attend concerts for a favorite artist or band. They tend to listen to music during work hours, but listen significantly less at home," (Nielsen 2013).
6. *Background Music Consumers* "are the least engaged with music and they spend less money on entertainment in general," (Nielsen 2013).

The final three categories (Ambivalent Music Consumers, Occasional Concert Consumers, and Background Music Consumers) are identified by Nielsen (2013) to represent 60% of the total population, and account for 25% of music spending.

Video (15 minutes)

Watch "What Set Godin Can Teach The Music Industry – Part 1"

Available at: https://www.youtube.com/watch?v=JXmcxuckvsA

Frame the Case / Class Discussion (15 minutes)

Write the overarching question on the board.

> *How does a company reconcile the needs of an artist with the desires of a fan in order to be fair, rewarding, and financially sustainable for all parties involved?*

Open up for discussion. If students need prompting, use the following questions to guide their thought process:

- What do fans want?
- What do fans currently pay for?

- What might they be willing to pay for?
- How do we know?
- What does an artist have of value apart from their music?
- What ways does an artist have of monetizing these?
- Do artists monetize these things? Do they want to? Why or why not?

Students Read Case Independently (15-20 minutes)

Walk Through Case as a Class (25-35 minutes)

<u>Value Proposition (5 minutes)</u>

Create two columns on the board, labeled "artist" and "fan." Ask students to identify the activities PledgeMusic performs that are valuable to the different categories. See sample in **analysis** section.

<u>Who Uses PledgeMusic? (6 minutes)</u>

Review the information about different fan types, focusing on superfans. Guide students to discover that although only 4% of the total music consuming population engages in direct-to-fan experiences, that number is more powerful than we initially believe due to the fact that direct-to-fan experiences cater to the superfan (17% of the music consuming population). See **analysis** section for more details.

<u>Revenue Model (3 minutes)</u>

Currently, PledgeMusic's primary revenue stream is the 15% commission on all sales through the platform. This appears larger than it is, because PledgeMusic pays credit card and third party fees (3-5% of sales) out of their 15% commission. Most students will quickly notice the 15% commission, but many will need to be reminded that the commission lessens their revenue. This differs from Kickstarter, where the fees are tacked on top of the commission.

SWOT Analysis (15 minutes)

SWOT stands for strengths, weaknesses, opportunities, and threats. A SWOT analysis organizes this information in a 2x2 grid.

- *Strengths* are internal elements of your company that are positive.
- *Weaknesses* are internal elements of your company that are not doing well, or are preventing your company from performing as well as it could.
- *Opportunities* look outward at elements that could be leveraged to your benefit.
- *Threats* are outward elements that may impose on your company. You cannot control them, but you can develop plans to protect yourself.

Explain a SWOT analysis: purpose, value, and process for generating (see above).

Draw the chart on the board and perform a SWOT analysis with the class (sample in **analysis** section). If students struggle to fill in each category, the following guiding questions may be helpful:

- What do we already know works well?

- What ways did Rogers struggle when creating PledgeMusic?
- What ways is PledgeMusic vulnerable?
- What does PledgeMusic depend on while having little control over?
- What tools does PledgeMusic have at its disposal that could be utilized for greater effect?
- What do we know about PledgeMusic's target market?
- What do we know about the current market share for engagement strategies such as PledgeMusic?
- Who or what may draw business away from PledgeMusic?

Release Students to Generate Recommendations

Students will be assessed by way of either a written report, or a deck and presentation (depending on teacher's preference). Report and/or presentation will:

1. Recommend a new revenue stream for PledgeMusic;
2. Justify the appropriateness of this recommendation based on PledgeMusic's preexisting activities and institutional logic, as well as an understanding of PledgeMusic's place in the music industry and crowdfunding landscapes;
3. Outline a strategy, including monetization, obstacles, tools, etc.

This assignment may be completed individually or in small teams (2-4 students), and can be completed either at home or during the class session. If completed during class, it is recommended to allot 60-90 minutes for this task.

Analysis

<u>Solutions:</u>

1. Value Proposition:

Artist	Fan
• Data • Extended marketing/sales period (sell more products and experiences) • Syndication technology	• Insider access • Specialized items available and multiple price points • "cool" factor of being the first to find and share among peers

2. User Base

PledgeMusic caters to the superfans. According to Nielsen (2013), superfans, also know as aficionado fans, "are connoisseurs of music. They love music from a variety of genres and periods. They tend to like indie music, and they're always listening and discovering. This segment is willing to spend on all formats of music, including artist merchandise, concerts and online streaming services." Mark Mulligan's (2015) research indicates that superfans make up 17% of music consumers, and account for 61% of all music spending.

Mulligan's research also indicates that 4% of all music consumers are engaged in newer methods of fan experiences, such as PledgeMusic, Patreon, and MyMajorCompany. All of these early adopters are part of the superfan cohort. 4% seems small until compared against their cohort instead of the entire music consuming population. 4/17 = 23.5% of the superfan cohort has adopted PledgeMusic or similar engagement platforms.

E.M. Rogers' (2003) theory of diffusion divides people into five categories:

- *Innovators*: The first 2.5%, who come up with new ideas.
- *Early Adopters*: The second 13.5%. These people are quick to jump on to new ideas, and are comfortable with risk.
- *Early Majority*: The third 34%. These people join in as a new idea or technology begins to gather steam.
- *Late Majority*: The fourth 34%. The late majority wait until a new innovation has proven itself before taking part.
- *Laggards*: The last 16% to adopt new innovations. These are the people who still use cassette tapes.

Rogers postulates that there is a *chasm* in the middle of the early adopters range. If an innovation gains enough momentum to cross the chasm, then it is only a matter of time before it diffuses through a society. However, most innovations don't make it past the chasm. Looking at the entire music market, it is easy to assume that PledgeMusic is on unstable ground since only 4% of music consumers engage in innovative technologies such as PledgeMusic and its peers. If examined in the context of the superfan cohort (PledgeMusic's target market), the numbers tell a different story. 23.5% of the superfan cohort already engages this way, indicating that PledgeMusic and similar direct-to-fan experiences have leapt across the chasm and sit comfortably in the early majority. It is only a matter of time before direct-to-fan experiences become commonplace in the superfan community, and then work their way into other fan groups.

In further support of this, PledgeMusic has experienced an average of 78% growth in their user base annually across the past 3 years. This indicates that the user base will continue to grow at a healthy rate as long as there are still superfans to be reached.

3. Revenue Streams:
    a. 15% commission on all sales through platform
    b. Less credit card/third party fees (3-5%)
4. SWOT:

Strengths	**Weaknesses**
• Proof of concept: fans respond to the model • Strong relationship with artists • Codified system makes the process easy for artists • Excellent campaign managers • Syndication technology • Charity	• Run by a musician, not a businessman (lack of experience) • Dependent on artist-fan rapport • Manpower required for hands-on personal assistance • Personalization makes the data difficult and expensive to organize, codify, and analyze
Opportunities	**Threats**
• Community aspect • Only a small portion of the potential market is tapped (<4%), and they are responding brilliantly • New social media platforms • Data insights (either hire a data expert or use a consulting company) • Partnering with other companies (labels, brands, etc.)	• DIY artists • Marketing services / consultants with direct-to-fan strategies

5. Recommendations for business activities, including monetization, strategy, institutional logic, and obstacles:

Currently, PledgeMusic monetizes their activities by taking a 15% commission on all money earned through campaigns. Moving forward, they are exploring many options, including:

- **Ticketing**

  This is an initiative PledgeMusic is currently (as of 2015) pursuing. Their first project was ticketing for the Swamp Fox Biker Bash. In addition to selling tickets, apparel was available on the campaign page. Unfortunately, this event has been postponed for reasons related to the venue.

  Ticketing is a practical next step for PledgeMusic because they are able to presell tickets, merchandise, food & beverage vouchers, and even VIP experiences far in advance. The marketing value would be equally as valuable for an event as it is for an album release – event managers could share teasers of artists who will appear, interviews, and other behind the scenes knowledge as part of the AccessPass, and capitalize on PledgeMusic's syndication technology. This type of presale could easily operate with the same 15% commission as standard campaigns.

- **Partnerships with Streaming Services**

  PledgeMusic has a strong direct-to-fan strategy, so it is only logical that they integrate the system into streaming services. This is an excellent partnership because streaming services are able to cultivate both artist and fan loyalty without paying larger royalty shares (and perhaps even taking a commission off the sales). For artists and PledgeMusic, partnering with streaming services drives more awareness and sales, all while directing fans to a point of purchase which allows the artist access to all their data.

- **Brand partnerships**

  This activity can take two forms: (1) intelligence / referrals for brands, and (2) brands matching funding for artists.

  In the first model, PledgeMusic would play matchmaker for brands that are interested in working with a musical artist. PledgeMusic could weigh interest from artists, and then consult sales and engagement data to find the appropriate audience, demographic, and psychographic overlaps. It would require a larger data and intelligence team, and well as an amendment to their policy on how they use the data that goes through their system. This could be monetized through a flat service fee to the brand, or a commission based on the value of the exchange between artist and brand.

  In the second model, brands could support artist and garner attention by matching contributions to campaigns of their choosing. Brands can be directed toward artists by similar methods to the first model, but participate in their campaigns and AccessPass material instead of doing an outside partnership. Similar to the first model, monetization could occur as either a flat fee or a commission.

- **Intelligence for labels**

  PledgeMusic has begun this process on an informal level by requesting artists to share data at the specific request of record labels. PledgeMusic could give artists and "opt in" clause to share fan information for the purposes of label intelligence. This way, they would flip the model. Instead of a record label seeking out information on a specific act, labels could go to PledgeMusic as a first level of A&R talent scouting. PledgeMusic would be able to recommend acts to sign based on fan and sales metrics.

- **Pre-order service for labels**

  PledgeMusic has found a way to hack the marketing process and extend it by a factor of two or three. By functioning as a pre-order service for labels, PledgeMusic can provide that service for a separately negotiated fee. Labels can use this to de-risk the album making process: they sign an artist, give a small personal advance, and then run a PledgeMusic campaign to fund the making of the album. MyMajorCompany does something similar with their internal record label, but PledgeMusic can serve as an outsourced tool to any label that desires these services. Labels should be in support of this because it (1) extends their marketing period, (2) increases their overall sales, (3) increases their reach across social media with syndication technology and PledgeMusic's own user base, and (4) does not require them to redesign and promote their direct-to-fan systems in order to be efficient and enjoyable ecosystems.

- **Fulfillment services**

  Right now, artists are responsible for fulfilling all the sales made through their campaign. For either a percentage fee or a flat rate (per item or per set of items), PledgeMusic could expand into fulfillment of some of the items for sale. The basics could include digital downloads, CD and vinyl pressing, T-shirt and poster printing, etc. All production and shipping costs, as well as service fees, would be deducted from the artist's account prior to them withdrawing money, making accounting even easier for artists.

- **Social media consulting / management**

  PledgeMusic's campaign managers are very good at what they do. Why shouldn't an artist let them consult or run various social media accounts? When in conjunction with a PledgeMusic campaign it is the obvious choice, and can be priced as an additional percentage of campaign earnings (assuming a minimum fee). If an artist enjoys the service, they can continue to use PledgeMusic to consult or manage their social media for a monthly fee dependent on amount of activity artists would like performed.

- **Referrals**

  This is one of the most challenging possibilities, because it is difficult to regulate. PledgeMusic would have a network of service providers (mainly publishers, but also other services such as graphic designers, producers, etc.) with whom they could connect an artist in need. The ideal situation would have PledgeMusic receiving a commission from the amount of money changing hands or earned from the partnership. In reality, this is hard to police, and PledgeMusic would probably have to settle on a flat or speculation-based fee.

- **Subscription tier**

  With a subscription tier, fans would pay a monthly or annual rate for access to a set number of AccessPass content. It would also credit them with a budget of monthly spending specifically for PledgeMusic campaigns. This is ideal for PledgeMusic for two reasons:

First, a subscription tier generates a returning fan. They commit their money to activities on PledgeMusic regardless of whether or not they actually spend it / take advantage of what is offered to them. These fans will use PledgeMusic as a discovery platform, supporting and growing the ecosystem.

Second, a subscription tier requires pre-payment. Unlike a normal campaign where a pledger's card isn't charged until the artist is ready to withdraw, PledgeMusic holds the cash that a subscriber pays upfront until it is dedicated to and withdrawn by an artist. This creates a negative cash conversion cycle for PledgeMusic.

- **Radio Service**

  PledgeMusic has been building a recommendation algorithm that Benji Rogers (2015) describes as 70% more accurate than a human recommendation. Once this is mastered and tested, it can be rolled out in a radio service that users subscribe to. Since it would be competing against a plethora of streaming radio services, the recommendations must be excellent, and exclusive content would make it more valuable. If the radio service had direct-to-fan tools built in (links back to an artist's campaign, website, or local ticketing options), it has the potential to gain artist loyalty and fan attention while generating more sales and marketing value than we see on most streaming services today.

Elements to Consider:

Organization	Spend Per Fan	Share Artist Keeps	Success Rate	Barrier to Entry	Support Provided
Record Label	$10	10-20% of net revenue	5%	High	Significant
Kickstarter	$70	90-92% (less the cost of fullfillment	52.01%	Low	None
PledgeMusic	$54-$61	85% (less the cost of fulfillment)	90%	Moderate	Significant

References and Suggested Reading

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Feedback

At this point, the case has not been tested on student groups.