

## iCloud: The Devil is in the Details

By Aaron Gottlieb



On June 6th of this year, at its Worldwide Developers Conference, Apple announced at last plans for its iCloud service. Music, digital books, applications, photos and documents will now be accessible in any Apple device after purchase at the iTunes store. Calendars, address books, and e-mail can be wirelessly synched, too. Even though iCloud allows instant updates of media and information across multiple platforms, it is not a streaming service (Steve Jobs, it must be remembered, is a fan of content ownership).

What does this mean for music? Now, with the iCloud, a consumer has to purchase a song only once to have it available on all Apple devices. There will be no charge for multiple downloads. Consumers have wanted this for a while. They feel that if a CD is bought at a record store, there should be no restriction on playback, be it in the car or the living room. In conjunction with the iCloud, the newest version of iTunes is allowing free downloads on mul-

iple devices. For example, if a consumer purchases a song on his iPhone, that song can be downloaded to his iPad, as well as his desktop and laptop computer. Remarkably, in a technological first, all of the devices will download the same song automatically—and at a 256Kbps Advanced Audio Coding standard (CD quality). The catalog available from the iTunes Store is quite plentiful at 18 million songs.

Most likely, consumers will have songs they ripped from CDs, purchased from another online source, made themselves, or downloaded illegally. So there are three ways of putting music that was not purchased from the iTunes Store onto all of the devices in the iCloud. This point is key, for otherwise there would be little incentive to migrate.

First, the consumer can sync all of his devices using WiFi or cables. For someone with a lot of CD's, this is undoubtedly a

### MISSION STATEMENT

*The Music Business Journal, published at Berklee College of Music, is a student publication that serves as a forum for intellectual discussion and research into the various aspects of the music business. The goal is to inform and educate aspiring music professionals, connect them with the industry, and raise the academic level and interest inside and outside the Berklee Community.*

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## EDITOR'S NOTE

Finally, the summer edition of the Music Business Journal is here, offering a set of industry reports that are both enlightening and engaging. The fundamental changes in the business that we've discussed all year are as apparent as ever in this issue: The Apple iCloud debut (Aaron Gottlieb), Music Finance/ Pandora's recent IPO (Elliot Weiss), the ever-growing effects of social media and the Internet (Nick Susi), and shifting international copyright views (Luiz Buff) are all indicators of a social and technological renaissance currently taking place in the business music.

In light of this progression, I'm reminded of the growth that has taken place inside our own team at the MBJ over the past year. This issue marks the close of a very colorful year for me as Editor in Chief, and I feel that the team has made a number of very significant accomplishments that are worth reflecting on.

While seven issues and roughly 80 articles have been published in print, the MBJ drastically improved its online presence at [www.thembj.org](http://www.thembj.org) this year thanks especially to the efforts of IT Manager, Itay Rahat. Furthermore, the Journal is garnering recognition outside Berklee walls through appearances at major music conferences like SXSW and Digital Music Forum— thanks in large part to our Content Editor, Nick Susi.

Last November, the Journal celebrated its 5th Year Anniversary, and through a team-wide effort lead by Minden Jones, we put on an event that featured live music, catered food, and an awards ceremony that recognized our most valued supporters. We've also made significant progress on an organizational note, with Luiz Buff as Distribution Manager, and Ben Scudder and Micah Deterville as PR Managers. And last but clearly not least, thanks to Lau Meng Wai, the layout of our print editions have never looked better.

It has been my sincerest pleasure working with the Music Business Journal team over the past year. I'm inspired by their drive and am eager to watch as they continue to spearhead the Journal's ever-constant push for progress. 

Thanks for everything,



Evan Kramer, Editor-in-Chief

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## BUSINESS ARTICLES

### iCloud Details (cont.)

tedious and time-consuming task. Secondly, the consumer could repurchase almost all of his albums at the iTunes Store, although this expensive option is unlikely to be pursued by music fans. Thirdly, and crucially, iCloud is offering use of something it calls iTunes Match.

iTunes Match is new software that will scan users' song files and match them up with those same titles in the iTunes Store. All titles in an individual's library, even if they are not matched, receive the same benefits as music purchased at iTunes. Apple claims that the whole process takes only a few minutes because there is no need for any uploads to their server. In particular, songs that match the iTunes catalog will be upgraded to both 256Kbps and free DRM status (free Digital Rights Management clearance) before being transferred to the various playback devices; songs that don't match the iTunes catalog (for instance, a personal recording) will still be downloaded like the ones that match. This is the service for which Apple will charge \$24.99 per year—and on which it could gross about \$1.25 billion for fifty million subscribers.

Apple faces its greatest competition from Google but would seem to have the upper hand. Google is offering a website-based locker service that is free as of now, and is still beta testing. Users upload their music files to Google's servers and have access to their music anywhere they can open a web browser from their computers or android devices.

Amazon, in conjunction with its MP3 Store, is another rival of the iCloud. Amazon offers what is essentially a locker service with storage plans of \$1 per year per gigabyte of music uploaded into the Amazon Cloud Drive. The service is website-based as well, and music would be available on a computer or device that runs android software anywhere with Internet access.

Yet Google and Amazon have not acquired the proper licenses to sell music while Apple has already done so. The four majors, Warner, EMI, Universal, and Sony, are on board with Apple. Says Craig Pape, Director of Music at Amazon: "We don't need a license to store music...the function is the same as an external hard drive." Pape may be technically right, but if Google and Amazon

wish to enter the market and become significant players in the mass distribution of music, a license is required—just as Apple had to require at its iTunes full launch in 2003.

Equally important for Apple's advantage over Amazon and Google is that it has addressed the thorny issue of safeguarding and redistributing previously acquired music, much of which is illegal. The record companies know that the iCloud can't save them from losing money due to piracy—but it can help. In effect, Apple has agreed to take a cut out of the sales from iTunes Match subscriptions and pay the rest to the record labels and publishers that hold the songwriting rights to illegally downloaded music.

While the terms of Apple's deal with labels and publishers have never been made official, both the Los Angeles Times and the New York Times have reported that Apple will keep 18% of the revenue earned from the matching service but will return 70% to the labels; the remaining 12% will be distributed for intellectual copyrights to publishers. The contrast with the existing iTunes deal is stark and may explain why the labels got on board with Apple. With iTunes, Apple was keeping 33%, the labels got approximately 58%, and monies distributed for intellectual copyrights to publishers were about 9%. Apple may well have agreed to sweeter terms for the labels to pioneer cloud services. Music, again, has become its Trojan horse.

It really is the same old story. Apple is not terribly concerned with earning a profit as a digital music distributor even though it has a chokehold on that market. It is more focused on earning a profit by selling a complete product. Amongst all of the portable music players made in the early 2000's, none was as complete as the iPod when used in tandem with the iTunes store. The essence of iTunes Match is similar. With the iCloud and the iPhone 5 being announced together on June 6th, Apple made sure that its flagship software and hardware were well integrated. Apple's profits, as usual, seem to lie with its hardware sales and music is a catalyst for that.



As CFO Peter Oppenheimer said recently, "regarding the App Store and the iTunes stores, we are running those a bit over break even and that hasn't changed." If Apple is perhaps sacrificing potential earnings in this deal, it can make up those losses elsewhere. To all parties involved, it is a "win-win". Apple gets to release a complete product that could make the company a lot of money. The labels and the rights holders are satisfied in that they will earn revenue from the service as well as partial revenue from the redistribution of stolen music. The iCloud platform well could be said to mark significant headway for the record companies in their struggle against piracy. Moreover, when and if the majors are given access to iCloud data, they could better target fans and save on marketing costs.

It is expected that more announcements will be made about the iCloud as it gets closer to its launch later this fall. As of now, Apple has not been able to reach licensing agreements with many of the independent record companies or major motion picture studios (in spite of a strong demand by consumers who would like to see their videos, as well as their music, available from the cloud). Also, due to foreign regulations, Apple has yet to work out iCloud's availability overseas. Still, Apple's promising news augurs better for the recorded music industry than any other event in recent memory. **MBJ**

## LAW SECTION

## The G8 and Copyright

By Luiz Augusto Buff



On May 27-28, the heads of state of the eight most industrialized nations got together in Deauville, France to discuss world issues at the G8 Summit. Two days earlier, in Paris, French President Nicolas Sarkozy sponsored a special gathering of G8 member countries to discuss broad questions related to the Internet and the digital universe, including copyright law. Key players from France, the United States, the United Kingdom, Russia, Germany, Japan, Italy, and Canada came together to exchange views over the Internet's impact on society and the economy. The topic was included as an agenda item in the full G8 Summit.

France, the host country that pioneered the "three-strikes" (and you are out of Internet) legislation, has a conservative position in copyright law. Hence, the following final declaration issued by the heads of state:

"With regard to the protection of intellectual property, in particular copyright, trademarks, trade secrets and patents, we recognize the need to have national laws and frameworks for improved enforcement. We are thus renewing our commitment to ensuring effective action against violations of intellectual property rights in the digital arena, including action that addresses present and future infringements. We recognize that the effective implementation of intellectual property rules requires suitable international cooperation of relevant stakeholders, including the private sector. We are committed to identifying ways of facilitating greater access and openness to knowledge, education

and culture, by encouraging continued innovation in legal on line trade in goods and content, that are respectful of intellectual property rights." (Section II, Paragraph 15 of G8 Declaration—Renewed Commitment for Freedom and Democracy).

followed swiftly by one of its signees, Russian president Dmitry Medvedev. Medvedev, who has made strong use of web resources and is widely followed on Twitter, speculated that the other heads of state had formed a conventional opinion due to a poor understanding of the Internet. Copyright laws were written "50 or almost 100 years ago" and Medvedev advocated reform instead of punishment, fostering fair use exemptions, allowing format shifting, and easing the licensing process in order to facilitate the development of new legitimate business practices and legal activities for the average music consumer. Cynics would say that the ravages of piracy hardly affect Russia's music industry, so a progressive stance on copyright is not a hard fit for that country.

Still, e-G8, which brought together international business leaders, media experts, and technologists, seemed to conclude that more copyright protection and Internet regulation, as supported by President Sarkozy in his opening remarks, were necessary.

However, a group of organizations concerned with human rights, liberties, and a more open civil society released a statement at the G8, pointing to a very different set of priorities, i.e. "expanding internet access for all, combating digital censorship and surveillance, limiting online intermediary liability, and upholding principles of net neutrality."

In particular, Lawrence Lessig, the Harvard professor and Creative Commons founder, maintained at a press conference that the builders of the Internet first thought about

societal, not business, needs. Missing too at the gathering, he said, were the business innovators of tomorrow.

In fact, tensions over the Sarkozy consensus were not hard to find. At the panel "Intellectual Property and the Culture Economy in the Digital Age", Electronic Frontier Foundation (EFF) co-Founder John Perry Barlow was added as the dissenting voice at the last minute. Panelists included Frederic Mitterand, the French culture minister, as well as representatives of traditional media companies such as 20th Century Fox, and Universal Music France.

Mitterand's argument was classic: "If you protect copyright you protect artistic creation; if you don't do that, you get a drying up of artistic creation, ending up with the disappearance of artistic creation." And so was Barlow's retort about "incentivizing creativity for people who create things, not [collect money] for large institutions who prey on them and have for years." The head of Universal Music France then drew attention on the money spent nurturing talent, but Perry Barlow contended that "it's not IP enforcement that gets you guys properly paid"; for him, compensation came from the development of a product of quality that people would really want to buy—in the same way that a movie's success showed a consumer's willingness to spend money on product that was perceived as having value.

Undoubtedly, it is important to secure a "civilized" Internet—a favorite phrase of President Sarkozy. Perhaps the right direction is not to try to impose regulations that are at odds with the forward thrust of technology. The Rethink Music conference, held in Boston a month earlier, contemplated alternative schemes to compensate copyright owners in the digital economy that should have been further discussed by those responsible for setting global policies. The creation of an International Music Registry — a global database of copyright owners that would ease tremendously the licensing process worldwide — was also presented at Rethink, but not discussed in the e-G8 Forum. Thankfully, this subject was once again brought to life at the World Copyright Summit in Belgium last month. It seems that this idea will likely be implemented because of the efforts of Jim Griffin, a well known digital strategy consultant in the US, and the UN's World Intellectual Property Organization. **MBJ**

## TECH SECTION

## Still Crazy After All These Years: Audio Engineer Marc Senasac

By Ben Scudder

*Marc Senasac is Senior Music Engineer at Sony Computer Entertainment. He has worked on Disney productions, engineered the critically acclaimed "Uncharted 2," and recorded the thrash metal band Exodus. He is currently working with the Playstation music team on "Infamous 2", a large collaborative project involving funk band Galactic, drummer Brian "Brain" Mantia, Jim Dooley, and music director Jonathan Mayer.*

**MBJ: What do engineers need to know to keep pace with technology?**

**Marc Senasac:** Some fundamentals never change, i.e. the speed of sound, how sound travels, or how electricity works. It also helps to keep an open mind. Movies and games are glamorous, but there are also podcasts, regular broadcasts, and news programs to mix for. Look at the production value of sports television. Every time I watch a sports game I am blown away by all the transitions and segues. Do not limit yourself by making your target market too small.

**MBJ: What other traits are necessary for an audio engineer today?**

**MS:** Music engineering, which is mostly what I do, is subject to trends, be they in games, CDs, or records. What sounds cool today, and what people want in their music production, is not what they wanted fifteen years ago. Being flexible and understanding this is very valuable.

**MBJ: I understand that the music for Playstation's "Infamous 2" is dissonant and heavily layered. Can you tell us more about it?**

**MS:** I'm a facilitator of the project. Jim Dooley, for instance, would compose something, ship it to us, we'd mix it, and then we'd send it out to "Brain" or Galactic. There's been a huge exchange of creativity. The music's role is mostly to provide a structure for collaboration to happen. Not all of it was in person--some of it was Galactic recording in their studio in New Orleans, and some of it was us recording with a couple guys here in San Francisco, and Jim is in Los Angeles. So there is some travel, some stuff recorded live, and some virtual stuff.



I think this is one of the examples of a new product that didn't really exist a while ago. They call it a game, but it's really an adaptive movie/entertainment experience that reacts to what you do. It's like a movie in so many ways, but you can control what you're watching. The scores in games like this, or Uncharted 2, or God of War 3, have a production value comparable to a film.

We do record differently because film is a static medium; there, they can get away with recording the whole orchestra only once or in passes. The end result, the end target, is hearing the music all at once. In our case, we record the orchestra in layers, and then the game engine mixes that in real time. If there's a high-tension moment in the game, like a firefight, we can tell the game engine to bring in the brass. It makes things very complex. For me, it's very exciting and more interesting. There's much more going on than a static medium, and we have to account for many events when we're recording. We have to ask, "Hey what will this sound like when it's played by itself? Will it sound cool?" In a 24 track tape or some kind of multi track piece, when you solo a track it may or may not sound interesting. In our case, we're trying to create something that is always interesting when taken apart.

**MBJ: In February, history was made when "Baba Yetu", a piece by Christopher Tin from the game 'Civilization IV', won a**

**Grammy for Best Instrumental Arrangement Accompanying Vocalists. What is the significance of the event?**

**MS:** A change had already been underway in the industry. The Academy broadened this category to allow gamers to better compete. Beyond that, I mostly think the Academy's decision will pave the way for a Grammy in Game Music. It doesn't exist yet, but it will.

**MBJ: Is there some new gear, hardware, software, or plug-ins that you recommend?**

**MS:** I got cured from excessive spending on new gadgets working at Sony. I'm responsible for the purchases for 20+ studios. So whenever we want to try out some new plug-in, a \$500 decision, for me it really becomes a \$10,000 decision because it has to go in every workstation. So in some ways, I've kind of pulled back on technology and I'm trying to steer my purchases more towards the fundamentals.

You can do a great job with the default plug-ins of ProTools. Currently, I don't have time to learn to ride a bike when I'm on the freeway going at 65 mph. Right now, just because I'm in this 'Infamous 2' crunch, I think I'm in that freeway mode. If you call me in three weeks, I'll be trying out some new stuff.

**MBJ: Advice for aspiring mixers/producers/engineers?**

**MS:** I find that the more I focus on specific roles, the more successful and sharp I become. I'm a music engineer working mostly for Sony, and my discipline is really narrow. I'm just great at recording things. There are other people here who are audio programmers, sound designers, sound supervisors, and music supervisors. I would love to be able to do what they do, and there's a tendency to want to pursue some of these activities but I don't. Hans Zimmer, for instance, has a collective of composers that are all good at a specific area. They all work together at what each of them does well, instead of trying their individual hand at everything. So my advice is to keep the target wide, but the personal discipline narrow.

## BUSINESS ARTICLES

## Band Marketing Study: Tigers That Talked

By Mike King



*Tigers that Talked*, a British band, was a co-winner, along with SONOIO, of Topspin's grant competition held in March at SXSW. Our longtime collaborator Mike King, Director of Marketing at BerkleMusic.com and author of *Music Marketing: Press, Promotion, Distribution, and Retail* (Berklee Press, 2009), helped adjudicate and was impressed by the group's marketing, its product and pricing strategies, and their approach to PR and overall communications. Other judges were industry heavyweights Rick Rubin, Marc Geiger, Richard Jones, Glenn Peoples, and Jennie Smythe. What follows is a recent interview by King with Owain Kelly, bassist of *Tigers that Talked*. A media-rich version can be found in King's blog, at <http://mikeking.berkleemusicblogs.com/2011/05/20/case-study-tigers-that-talked/>

### Band Background

**Mike King:** Can you talk a little bit about the background of the band, your ideas for the campaign, and what you were trying to accomplish?

**Owain Kelly:** I got together with Jamie, Chris, and Glenna after graduating from school. We all just kind of came together and we really liked what we were doing. We ended up signing to a local independent label. It was great at the time, but we recorded the album and the

label essentially turned around and said that they couldn't release it. Eventually, we got the rights to the album ourselves because we were very proud of it and still wanted to release it.

**MK:** Were they not releasing it for creative reasons, or were they not releasing it for financial reasons?

**OK:** I think it was financial reasons. They are still a management company but no longer a label. So we had this album that we finally got the rights to. We decided that instead of searching for another label, we could release it ourselves. We just wanted to get the album out there to be heard. You know, it was our debut album, and a lot of people worked very hard to pull it together.

### Process: Doing it Yourself with Help

**MK:** So when you say you put it out there yourself, was it just the four of you that were responsible for all the marketing and sales initiatives, or did you have some other folks that were helping out?

**OK:** We also have our manager, Ritchie. We had a radio pluggler for the campaign but we didn't have a press pluggler. We did all of our press ourselves.

**MK:** I want to get into what you did with press because I think it's fascinating, but I'm interested in knowing what else you guys were doing yourselves. Didn't you also create your website?

**OK:** Yeah, absolutely. Essentially, that came about because of another economic restraint. We had this kind of holding page website which we've had for years when we first started the band, made by the same guy who did the album artwork. It was a very simple page that would redirect you to the label's website and then to our MySpace; there were just two links on it. We decided that we needed something a bit more substantial and we just couldn't afford to go and get someone else to do it. Eventually we kind of talked about it and decided, "let's just go for this and try to do it ourselves." None of us had any form of web experience, no coding experience--only basic Photoshop knowledge. So we did a lot of online tutorials and chatted with friends who did a lot of web design. We just taught ourselves, and it took about a year's worth of work to get something that we were happy with. We kind of succeeded in the primary goal of making a website in about three months; it just took another nine months of honing skills to actually get a decent looking website that we were all happy with.

## BUSINESS ARTICLES

(FROM PAGE 6)

**MK: It's something that people talk about a lot, the fact that it is difficult to be writing and recording music, producing your own music, and then doing all the marketing yourself. Did you find that you were stretched thin by doing all the press and all the web design and updates?**

**OK:** I have to say, without kind of just wanting to pat them on the back, that it genuinely helps to have a service like Topspin involved to help with the direct communication with our fans. It is a lot of work, and it does take up a lot of time, but if you aren't prepared to do that for your fans, then why are you even bothering to play the music? The fans are there, they want to hear from you, and I think the fans respond differently when they know that you're making your own website and you're doing all your own press. The more you can do yourself, the better. It's really inspiring when you finish something you've done on your own. While it might have taken you slightly longer than it would have taken someone else to do it, I think it's motivating to have a real stake in every aspect of your band as a business. With direct fan interaction, we are getting the opportunity to tailor-make our entire future and to do it in response to the people that are making this happen for us. Of course, there is a really difficult side to all of this, but it's exciting!

#### Acquisition and PR Campaign

**MK: Can you talk a little bit about the techniques you used to make folks aware of you, and how you acquired permission-based contact with new fans? How did you do this on your own site and on third party sites?**

**OK:** One of the big things we used for the acquisition stage of the campaign was the email-for-media (e4m) widget through Topspin. Three weeks before the album came out we created an e4m widget and put it in a really prominent place on our site. The idea was that it was the first thing fans and potential fans saw when they visited the site, and we exchanged a free track for an email address. Kind of simple stuff really. We also used the e4m widgets in the wild, too. You know, anytime we approached anyone in the press, we tried to hit him or her with the widgets. If they were going to mention that an album was coming out, we'd ask them to embed the widget as well, and it worked! Using Topspin's retrieved data we saw that the e4m widget we were using had been viewed almost 14,000 times, and from those views, the e4m was clicked around 1,500 times, acquiring more than 900 new emails alone in the process. These are all

people that we can connect with for this current record as well as records down the line.

**MK: You also had a dedicated Electronic Press Kit and content page on your site that only press could access, right?**

**OK:** Yeah, we had that as well. That was another thing--the press page that we set up on our site. That again came up quite accidentally. We were just having a conversation and said, "You know what? We've got this page for the fans where they arrive on the site and they can instantly go to where we want them to go. Why don't we make one too for the press?" So we hid a URL inside our site, where we embedded the full album and a link for the press to download both the full album, the press release, and our bios--everything that goes into a normal press release by email, except that this was a live URL feed so that they weren't dealing with an email that just looked like the rest. The emails to our targeted press list were very short and to the point. We'd send them out and they essentially just had this link that said, "if you are interested in this band, here's a press link." If they clicked, it would take them to a fully dedicated page just for them, complete with a way to contact management and us, and help them explore the site downloads.

**MK: How did you focus your press outreach?**

**OK:** We did a couple of things. First, we looked at everyone we ever talked to back from the first EP that we released, and we targeted those folks with a really personalized email. It looked a lot less like a press email, and it was from our personal accounts. We'd email these folks and say, "Hey, we've got this album coming out. Here's the album for free with the press download." This approach was really successful actually, and we got some really good blogging about it. The second thing we did was that we created our own database from trolling through sites that we liked and pulling out email addresses of writers that we thought might like our music.

**MK: Can you talk a little bit about the results? I know you were touring at the time. Were you getting more record release press or tour press?**

**OK:** It was more record release press and we had a few tour presses, mainly for the lead show. We did an album launch show at one of the local venues and we had a few reviewers come down and do that. We also had quite a few interviews--one of the biggest local leads

did a full cover feature on us and we had another full-length interview. We've done some other things with press, like the PRS and the Amazing Radio acoustic sessions. If you approach your campaign in a personal way, the quality of the press hits can give you longevity.

#### Sales Strategy

**MK: So you've got some momentum with press and live events, you are building up your permission-based contacts, and you're engaging with your fans regularly. Can you talk a little bit about the ideas behind your graduated pricing campaign and your variable product offerings?**

**OK:** Late last year, we released our album, *The Merchant*, on a graduated pricing model. We did a four-week graduated pricing campaign where the price of the record ranged from £1.00 if you purchased early up to £4.00. So the first week you could get it for £1.00, the second week you could get it for £2.00, third week for £3.00, fourth week for £4.00. We really wanted to reward the fans that had waited months between the recording and the release of the record. We just wanted to make it incredibly cheap so that anyone who was already a fan and waiting for the album to come out could get the record for the lowest price possible. Along side of the digital release, we were selling a T-shirt as well as the physical CD. We sold the CD for £5.00 and the T-shirt for £12.00. We also created another bundle, at £15.00, which was the digital downloads, the CD, and the t-shirt together.

It was interesting to see that 58% of total revenue from the campaign came from the first week when we were offering a £1.00 digital download, and the average purchase on the site ended up being £4.48. So a lot of fans were buying some of our more expensive items. Overall, 18% of purchasers opted for the more expensive options we provided.

We followed *The Merchant* release with a 'pay-what-you-want' EP called *Battles*, featuring exclusive tracks, remixes and four pieces of graphic art we designed ourselves. We offered a variety of suggested donations, from £1.00 up to £25.00. We found that 70% of fans opted to pay more than the lowest suggested price of £1.00, while the highest option of £25.00 accounted for 48% of our total revenue.

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## INTERVIEWS

## Jim Vellutato VP, Sony/ATV Music Publishing

By Kerry Fee

*Jim Vellutato is Vice President of A&R for Sony/ATV Music Publishing in Los Angeles. He is one of the most recognized executives in the field. Vellutato was involved in placing and releasing songs for many hit artists, including Pink, Carrie Underwood, David Cook, Josh Groban, Fergie, Leona Lewis, JLS, the Black Eyed Peas, Fantasia, and Daughtry. Under Vellutato, and in part because of him, well over 75 million albums have been sold worldwide. His current roster of hit songwriters is made up of J.R. Rotem, John Shanks, Walter Afanasieff, Rune Westberg, Zac Maloy, Evan Bogart, Chantal Kreviazuk & Raine Maida, Midi Mafia, Louis Biancaniello and Billy Mann.*

### **MBJ: Where did you start?**

**Jim Vellutato:** I graduated from UCLA, and then worked in the tape room at Chappell Music. This was 1984 and I have been in the music business ever since.

### **MBJ: What is a typical day of a music publisher like?**

**JV:** Music is really a worldwide industry, and I see this day to day. In the morning I make calls to New York, Nashville and London and catch up on current news with Billboard and other media. My job is all about connecting people, so I spend a lot of time calling A&R personnel and managers to see what songs their acts are looking for. Then I speak with songwriters and find out their availability. After a few days of going back and forth (where, when, and how much it will cost), I look for a budget approval. I set up sessions, check that they run as scheduled, and that people are showing up on time. I spend most of my time putting what I feel is the best combination of artists, writers and producers together.

### **MBJ: How would you describe your job?**

**JV:** It's always been really tough because it's such an easy market for people to get into. Anyone can buy an instrument and write a song, and of course, believe they write better than anyone else. Very few of the songs, however, will be competitive enough to make it. That's where the A&R people come in: their job is to go through thousands of songs in different styles of music, weeding out the best product.

### **MBJ: How has the business changed?**

**JV:** For a publisher, I think the greatest change is in the field of Artist Development.

Before, record labels would get involved with artists early on; it would take them two to three years to develop and hopefully release an album. Now very few labels get into artist development, and the job has been taken over by managers, producers, and publishers. Even publishers can't develop artists the way they used to (luckily, in our company we have had more opportunity to do this). As for song placement, ten years ago there were many more artists signed to labels so we could bring our producers and songs to the artist. There aren't as many artists getting signed anymore, so there are fewer outlets for the songwriters to get their songs recorded and cut.

### **MBJ: Do you see any solution?**

**JV:** I think that the music business has actually gone back to the way it originally was. There would be an artist someplace working on songs that would get noticed, usually by a small radio station. I grew up with the Beach Boys, who found their target audience and grew organically. I feel like we are sort of coming back to that. Artists find their audience, record labels are discovering that, jumping on the bandwagon, and helping break those acts nationally and internationally. It's a lot easier to get noticed if you are proactive and can do it all yourself. If you take the initiative before attempting to go to a label, are aware of how money is generated, and begin your career on your own, the label is just one more partner rather than the all empowered gate keeper.

### **MBJ: Where are publishing companies headed today?**

**JV:** Well, not that long ago, there used to be a signing frenzy for new acts. If an act already had a record deal, the publishers would fight to get their publishing. However, now, with so few acts being released, it is much more difficult. There are artists that have record deals, but there is no assurance that their albums will come out. They may release a couple of singles, and depending on whether they get traction or not, a decision will be made about the record release. This makes it challenging for the publisher, for they essentially have to

choose a winning act. A lot of major publishers will hold back and wait to see what's going to happen concerning whether a new act breaks or not. There are a few artists that are so unique that publishers want to get involved before there's even a record deal. But there has to be a buzz and great music.

Besides, there are no guarantees anymore that your hit will have album sales. Although performance royalties from radio are our biggest source of income, mechanical royalties are still very important to us and they are falling. This impacts our signings. For instance, very few rock bands are getting signed to record or publishing deals because rock is not selling that well and radio stations aren't playing it. Instead, urban acts are getting a lot of singles played but do not sell enough albums. Now, when signing an urban artist or producer, you have to base your deal on how many potential singles, not albums, you are going to have. It has become a singles driven business in that regard. Overall, return is pretty high, due to all the revenues we make, but mechanical incomes are almost nonexistent for a lot of these artists.

Also, major labels are now looking to publishers much more than they used to because the right song has the ability to get that artist noticed. Again, it all comes back to the song. Now is a great time for songwriters. If they come up with something unique and different, every A&R person, publisher, and manager is on top of them.

### **MBJ: What do you look for in a song?**

**JV:** It has to have a unique concept--that's the main thing. By looking at titles, you can get a lot of information. Today, I was going through songs for Carrie Underwood, and I saw "I'm Good For Your Heart" and "I Love What You Do", which are typical titles. Then, I got a song called "A Town In Colorado," and that instantly got my attention, just because I wanted to hear the story behind it. It turns out that that song has a great story and would be a great for her.

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## INTERVIEWS

*(FROM PAGE 8)***MBJ: What are the A&R functions of a publisher?**

**JV:** A&R is still mostly taken over by the record labels. However, when an artist is looking to make a record, labels will often put on a songwriting camp where the artist will invite a bunch of writers who will write with that particular artist. What they found with these camps, however, was that they were getting good songs, but not hit songs. That's when my staff got involved. Rather than doing a camp with the artist, we do a camp for the artist. We find the best writers we can put together, and have them spend a week writing songs. Recently, we've done this for Leona Lewis, Justin Bieber, Big Time Rush, and Carrie Underwood. We have had many records with songs from these camps. The labels are still involved, and occasionally will suggest a songwriter for a particular session, but it is really our company that is putting everything together with the help of the label A&R executives and the managers. Our publishing company spearheads all of those efforts to be proactive.

**MBJ: Do you find yourself working in one genre more than others?**

**JV:** All types of music come across my desk. I tend to lean a bit more towards pop, urban and rock. Since we rely heavily on radio airplay, that's the style that gets the most attention. Los Angeles has turned into the center of the music business, at least the creative music business, and it has always been about pop and urban music (although this may be changing). Nashville has always been the center for country music, but I find that country and pop are closer than they have been in years.

Right now, we are leaning towards pop and urban music, and singer-songwriters rather than beats leading the charge. Pop-rock, rock and other styles that have less of a beat orientation are going to start making their comeback. Strong rhythm and tracks are still important, but not the most important factor as they have been in the past. And we work with all different types of writers. The current interest is urban dance, but that too is beginning to change and evolve from straight dance to interesting combinations.

**MBJ: What about publishing in LA vs. publishing in Nashville?**

**JV:** In Nashville, with the major publishers, you still have the opportunity to get a songwriting contract without having a record coming out. Deals are different there and help

develop songwriters but can be financially taxing on the company

In LA, there are small publishers that deal with developing writers, but it seems like the majors wait until a songwriter has some substantial record release out before they will consider signing them. This makes it a little harder on the publisher, because you have to get in early with these songwriters, stick with them and help them, and try to get them to that level where they will get the attention of the executives who approve the signings. If you do that, the loyalty of the writer to you is strong.

**MBJ: What does the future look like for publishing companies?**

**JV:** We, the publishers, continue to make a significant amount of money with songs. Our income is not dependent on record sales, and not entirely dependent on how well the artist is doing in the market. We still make money by getting songs licensed, placed in film, commercials, and TV, and releasing them abroad. So, those monies are definitely going up. Again, it goes back to the songwriter. If they are writing great songs that impact people, then those songs will eventually get placed somewhere. A lot of our artists and songwriters are known for getting records made here, but the international market has really been opening up and creating a lot of fabulous opportunities for them. We just had a songwriter have a hit song in Taiwan and she got placed in a Coke commercial. In the past, this wouldn't happen as much because the focus was on the US. Writers now realize that there is a worldwide market out there.

**MBJ: Where do music supervisors fit in to the publishing business?**

**JV:** We have a whole staff of people in our film and TV department who communicate with music supervisors. Their job is to create relationships with them. Most songs used by music supervisors are hit driven, but there is a huge market out there for less obvious music and sound-alikes. If a supervisor can't afford to pay for a Beatles or Lady Gaga song, they then look for a replacement. We ask our writers for certain popular styles so the companies who use the music can then pay what their budget allows for the best music possible. This in turn creates extra revenue for all, including the original songwriter.

**MBJ: What is the competition like among publishers?**

**JV:** All publishing companies are under the same pressure right now, which is to deliver



hit singles. The major publishers used to work with just their own writers, and if there was an artist they were trying to get hits for, it would be all EMI or Warner Chappel, Universal or Sony/ATV music. It is no longer like this, and the business now looks to combine the best writers for the project, signed to a major publisher or not, for a hit single.

**MBJ: How does Sony compete with niche catalog publishers that say they can target songs better with specialized marketing?**

**JV:** The major companies have an advantage because we have so many different styles of songs and can fill any project needed. Smaller publishers do have price advantages. They produce CD's within a given style and fill background music at very little cost that TV companies can afford. On the other hand, there is no way you can substitute a great song. When you use one, it can take a "B" film and turn it into an "A" film. I'm not sure the smaller publishers have the quality we have in our catalog and top music can take a scene to a whole different level.

**MBJ: What is the process of signing a songwriter?**

**JV:** We first get the music and evaluate it. We speak to their attorney and figure out the different angles of the deal--what they are asking for and what we are willing to offer. Negotiations last about a month before money, retention, number of songs to be turned in, and the future options/terms of the deal are decided upon. There was a time when if you had a

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## BUSINESS ARTICLES

# Rebellion of the Masses: Creativity and Music on the Internet

By Nick Susi

The Internet's growth has had a dramatic impact on the music industry. As it became more accessible, services like Napster were introduced, sparking piracy. Now, artists are forced to derive new value from their music in a struggle to encourage their fans to continue paying for their craft. As streaming platforms become the standard listening medium, artists are struggling to make ends meet on the sub .1% per play royalties given by these services. In an attempt to gain the attention of fans to increase sales, artists have turned to social media, making numerous posts to Facebook and Twitter on a daily—even hourly—basis. With the high volume of posts coming from virtually every musician on the web, such mediums have become a thunderous cloud of white noise.

### Skeptical Views on Internet Exposure

During the Future of Music Coalition's Policy Summit in October 2010, producer T. Bone Burnett advised that artists do not put their music on the Internet at all. He reasoned that an artist's involvement with social media makes them only one in a million. As he said, "if you're a musician today, and you want to record music, and you want to circulate that recorded music, don't put it on the Internet, because you're degrading the thing that you're doing to such a low point that its value goes to zero." Prince has also been vocal about his aversion to the Internet. Due to frustrations with piracy, he announced that he has no plans to release another album. For Prince, "the Internet's completely over; all of these computers and digital gadgets are no good."

Although such examples are extreme (it should be noted that both Prince and T. Bone Burnett are not your average music professionals), their argument that music should be removed from the Internet suggests that a serious issue is at hand. The Internet has fed into the industry's number game of measuring an artist's success—views on YouTube, plays on MySpace, friends on Facebook, followers on Twitter. From there, it becomes a struggle of how to convert these vast numbers without context into meaningful sales.

### The Internet's Creative Feed

The picture is clearer, however, when we consider the Internet's effect on culture and the overall perception of music. Here, the need for greater connectivity, as well as more interactivity with fans, is changing the creative landscape. For instance, classical composer and conductor Eric Whitacre utilized the Internet to create a virtual choir. He first had the idea to gather fifty people to each sing a part to one of his compositions, wherever they were in the world, and then post their video to YouTube. He pieced each individual video together into the full choral arrangement, thus creating the first virtual choir in April 2010. To follow up this project the next year, he set out to involve 900 people, and by April 2011, he released a new virtual choir of over 2,000 participants from fifty-eight countries. At the premiere, he shared testimonials of the fans that were involved. One wrote: "My sister and I used to sing in choirs together constantly; now [that] she is an airman in the air force traveling, [it's] so wonderful to sing together again!" "Aside from the beautiful music", said someone else, "it's great just to know I'm part of a worldwide community of people I never met before, but who are connected anyway."

Another example of a creative use of the Internet comes from visual artist Aaron Koblin. Koblin assembled an innovative music video for Johnny Cash. Cash's final album was called *Ain't No Grave*. The lyrics to the leading track were "Ain't no grave can hold my body down", and Koblin used these words as inspiration to build a collaborative memorial and virtual resurrection of Cash. He had fans draw each individual frame of the music video using a flash-based drawing website, and then asked them to upload their unique work to the server. The final result was a full-length music video comprised of frame contributions from thousands of individuals. As a fan that shared a stake in Cash's final work reflected, "it really allows this last recording of his to be a living, breathing memorial."

### Today's Cultural Imperatives

Indeed, technology is reshaping the meaning of creativity, bringing it more and more into the collective realm. This is seen to be the case as well outside the music industry. J.K. Rowling, author of the wildly successful Harry Potter series, announced the coming of *Pottermore*, to be launched in October 2011. The website will be a platform that provides fans with interactive e-Books. The chapters of each book will feature moments where the reader can become a direct part of the story and participate in mini-games to further the story along. Readers will also be able to connect with their friends and other users of the site as they progress through the storyline.

*Pottermore* will be released in a beta version on July 31 (Harry Potter's birthday) to one million fans. The beta users will be able to give feedback to Rowling and the developers of *Pottermore*, and in doing so help craft the final version of the website. *Pottermore* provides a truly interactive and collaborative experience between Rowling and her fans. At its core, they are exchanging views about Rowling's work. But the way in which the literature is digested, read, and communicated is much less private—and the urgency of this exchange, unlike the past, seems no longer as neutral to the artist's own frame of reference.

For musicians, the implication is that an artist's time should be spent as well trying to involve their fans directly in the creation of their craft, and not just trying to involve their fans by sharing their mundane life through social media. Passive listening to a body of artistic work may no longer be the end-all of a musical experience, and artists would do well to consider, at least in part, fan input and fan remixes. This seems to be a growing interest.

A good example is Bjork's upcoming album, *Biophilia*, which will have a conventional album release but will also appear as the first-ever "app album." It will include ten separate iPad apps, one for each song, all housed within one "mother" app. Each track app will allow listeners to interact with the song and its themes, and in some cases, alter the song completely. For one song, *Virus*, the app will feature a love story between a virus

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## BUSINESS ARTICLES

## Jim Vellutato (cont.)

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and a cell, where the virus loves the cell so much that it destroys it. If the listener chooses, they can use the interactive app to stop the virus from attacking the cell, which in effect, alters the content of the song and causes it to stop playing. To hear the full song, a listener must watch the cell take its inevitable course with the virus. Bjork views the apps as an integral part of the entire project, not a rival to the music.

The Internet, in short, could make for a colorful canvas of music. For an established creative artist to open up and take inspiration from his fan base will take time and require a somewhat new and socio-interactive mind-set. The gulf between an artist's public and private persona would in this case shrink, also shortening the gulf between a larger than life image and an ordinary existence. In particular, the penchant for glamour and excess in popular music could be checked by the Internet's need for familiarity. **MBJ**

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record deal, publishing deals would get outrageously expensive, and often times, detrimental to the songwriter. The more money they would get up front, the more they would have to produce, which isn't always the best option. The urgency of having to 'make it' is no longer there.

**MBJ: What are some emerging trends in the publishing and songwriting world?**

**JV:** In the music business what ends up happening is that when you have an artist that explodes in a certain style of music, such as Lady Gaga, a lot of labels try to replicate that success. From this, a lot of music starts to sound alike and people eventually get bored with it. Lady Gaga is at the top of her particular genre of music. I'm not sure if anyone will be able to surpass what she has done so far. Soon, people are probably going to start looking for another style of music that they can get excited about.

**MBJ: Do you have any advice for up-and-coming songwriters?**

**JV:** Many of the writers and artists we sign write songs, make demos, and then create a relationship with a publishing company executive to develop their songwriting skills and artist image. The music needs to be of a high quality, which is important to get the interest in the first place. The writer has to keep writing new music and show improvement and development under her own initiative.

It's not about the number of songs you write—it's about the quality. If you write twenty songs, that doesn't matter to me. I want those one or two that can launch you as a writer or producer. Put your best material forward, and be sure it is completely prepared and ready before you do so. What I suggest is to write twenty songs, have people you feel you trust and are comfortable with listen. Together, pick two or three, and prepare some really good demos. Spend \$500-700 per song on the demo, or, if you can, do it yourself. The demos have to be competitive. Mike Posner, for example, now with us, did all the recordings on his own; he was selling a lot of albums independently before a label or publisher got involved with him.

**MBJ: What about some advice for music business students?**

**JV:** The key is timing. There are a lot of opportunities that come up in this business, and if

you are persistent and stay in touch with your contacts, an opportunity will open up. That is the profile of the person that usually gets the job. Besides that, those with the most initiative are the ones that stand out. There is always room for the best. **MBJ**

## BUSINESS ARTICLES

## Big Money Music Finance

By Elliot Weiss



Once upon a time, music companies could afford to spend a great deal of money on artist production and development through the revenue generated by the sale of recorded music. Other companies were rewarded indirectly.

Much has changed. In 1998, global recorded music sales were worth \$38.6 billion. But by 2008, worldwide sales had fallen to \$18.4 billion; by 2010, they were down catastrophically to \$15.9 billion. During the collapse of music sales, digital music revenues (from downloads and mobile purchases) have done little to offset overall losses. Digital music, it is true, now constitutes one out of every three dollars spent on recorded product—and yet it is not enough. It is no wonder that in the wake of large-scale industry layoffs, investors fear to tread in a trade they feel is agonizing. Analysts like Forrester Research expect the turmoil to last at least until 2013.

### Pandora

The current rumor that the capital markets are in the midst of a new tech bubble has directed some renewed attention on music companies seeking to go public through an initial public offering (“IPO”). That focus, however, has come with questions and criticism. The reduction of recorded music revenue also affects ancillary music companies and poses a question about the trustworthiness of any valuation. A good case in point today is Pandora. Pandora is an Internet radio company that functions as an automated music recommendation service, streaming licensed music to its online viewers for free. Pandora executives claim that there is value beyond their current financial statements, and that investors need to consider the company’s long-term customer base and

market share to establish true value (see our next article for the detail of Pandora’s IPO).

The first concern with Pandora’s business model is that they pay licensing royalties every time a user streams music on Internet radio. Royalty expenses have accounted for 50% of the company’s revenue. Meanwhile, investors remain skeptical as to whether Pandora can negotiate a better deal on its royalty fees. Pandora’s arrears to the ailing record companies, to whom these licenses are paid, the financial malaise of the record companies, and the requirements of its new investors do not seem to provide the company with room for maneuvering.

A second issue relates to Pandora’s only revenue—its advertisements. Advertising rates tend to be cheaper on mobile devices (according to a study by research firm Insight Express, they also provide a better return on investment than traditional Internet ad dollars), and as customers shift to using Pandora’s services on their phones, the company could see a reduction in advertising money.

The third concern is competition. Companies such as Apple, Google, Amazon, and other tech giants are in a much better financial position to operate a similar business model and compete for Pandora’s market.

### History is no Help

It seems investors will remain skeptical too about Spotify. The European ad-based streaming service is now apparently seeking its own IPO. Market memory is not in short supply. Between 1995 and 2000, Internet company stock prices shot up, defying traditional financial analysis. Equity values increased despite any correlation to company growth.

A good example is Musicmaker.com, a provider of customized CD compilations. It went public on July 7, 1999, at \$14 a share, and the company saw a remarkable 71% price increase on their stock during the first day of trading. In spite of a net loss of \$4.65 million on revenue in 1998, investors were betting to the

bubble. By January of 2001, Musicmaker.com pulled the plug on their website and began liquidating assets.

Launch Media, another online music website, also went public in April of 1999. At the initial asking price of \$22, Launch Media was valued at \$75 million. Less than two years later Yahoo purchased the company for \$12 million—16 per cent of its initial market capitalization.

The failure of music companies in the capital markets is ultimately tied to poor profits. Entertainment and media companies spend a lot of money on promotion and marketing—a black hole. Valley Media, which went public in 1999, exemplified this. As the country’s leading music and video wholesaler at the time, their IPO raised \$56 million to be put towards company expansion. Despite generating nearly \$900 million in revenue that year, the company did not generate profit and filed for bankruptcy in 2001.

### No Relief in Sight

Capital markets are difficult to access at the best of times and are becoming more so for music companies today. Insiders understood that Pandora sought money from the IPO to pay for its losses rather than to pursue an immediate growth strategy. Yet investors gave it the benefit of the doubt. How long can this last? If the music industry and its strategists fail to come up with a sustainable business model that can entice customers to pay for product and make a profit, the likelihood of fresh infusions of cash from private savings will become even rarer. **MBJ**

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## BUSINESS ARTICLES

## Pandora's IPO

By Evan Kramer

Monetization of the music digital space has been slow and is yet to provide consolation for the dearth of revenue in the industry. The transition from physical to digital product, however, may finally begin to gain some traction. June 15th, 2011 marked the Initial Public Offering (IPO) of streaming radio service, Pandora (NYSE: P). Ahead of the IPO, the company found itself valued at \$4.2 billion. This was more than three times the current market value of the Warner Music Group. While the comparison stretched the imagination, it suggested much promise for Pandora and the industry.

Tim Westergren and his partner Will Glaser founded the company in 2000. Despite a rapidly expanding user base and growing brand recognition, Pandora was on the verge of bankruptcy since the beginning. In its first four years, it survived on Westergren's eleven credit cards, black jack winnings from Reno, and a \$1.5m angel investment. In 2004, at his 348th pitch to investors (sic), Westergren finally procured \$9 million from Larry Marcus, a venture capitalist at Walden Venture Capital. The investment was used to reimburse employees for two years of unpaid wages and then set the wheels in motion for a better future. "The pitch that [Tim] gave wasn't that interesting," Mr. Marcus said, "but what was [attractive] was Tim himself; we could tell he was an entrepreneur who wasn't going to fail."

In 2007, the company nearly went down on the news that the Federal Royalty Board had raised the fee that Internet broadcasters had to pay to record labels for the use of each song aired. "Overnight our business was broken," Westergren said. "We contemplated pulling the plug." With characteristic vigor, he hired a lobbyist in Washington to fight the new law. Lawmakers settled after two years at a lower rate that kept the company above water.

Pandora released an iPhone app in 2008, which brought in over 35,000 new users per day—driving it towards its first and only year of profitability by 2009. It collected about \$50 million in revenue, mostly from ads. Since that time, and with innovations like the voice-activated synch system currently being installed in Ford and Mer-

cedes automobiles, Pandora has grown. With the recent stock offering, the company will likely have enough resources, including capital, to take ownership of the Internet radio market.

On June 15th, 14.7 million shares of Pandora stock hit the New York Stock Exchange (NYSE) at \$16 per unit. They quickly rose by 51% to a peak of \$24.20, and then, by 10:41 AM, fell back to \$20.71. By 1 PM, the stock dropped to \$18.55 and by 4:30 PM, when the NYSE closed, it settled at \$17.45— an 8.88% increase from the opening bid. In the event, Pandora was valued at over \$2.8 billion. This was not nearly as high as the pre-sale estimate of \$4.2 billion, but still more than twenty times its sales revenue in 2010.



In the two weeks following the IPO, the stock has seen considerable fluctuation in its value. As of June 30th, \$24.20 remained the high point, but the low dipped to \$12.16—24% below the original asking price. These abrupt shifts have become periodical since the stock hit the market.

Rapid changes like these can be attributed to a number of factors.

First, Internet-based companies have been experiencing more movement on the NYSE in the first two quarters of 2011 than they have since the 'dot com' boom of the late nineties—most notably with Pandora, Russian search engine Yandex NV, and professional social networking site LinkedIn, which provided first day gains of more than 55% on May 19th of this year. This second 'dot com' boom has created lots of excitement. "There's pent-up demand for high-growth, [and new] business models," says Scott Billeadeau, who helps to oversee \$18 billion at Fifth Third Asset Management in Minneapolis.

Another potential cause of these fluctuations could be the general lack of understanding that investors—and the public in general—have of the digital music space. In a recent Billboard Magazine article, Glenn Peoples explained that numerous financial articles covering Pandora's IPO, including one from the Wall Street Journal, have made inaccurate assumptions about Pandora's service, its competition, and its income sources. One prevalent inaccuracy is that if and when Spotify does make its U.S. debut, Pandora, as well as other radio services like, Sirius XM, could lose market share. However, Pandora and Spotify are two completely different services that deliver on two very different platforms and needs. Furthermore, regardless of how Spotify's \$10 monthly price point affects Pandora's \$3.99 per month charge, subscription revenues only account for 15% of Pandora's total (the other 85% comes from ads). This would make Pandora's market position stronger and its stock prices less volatile.

The limited number of shares that were initially offered by the company may also explain the instability in Pandora's stocks. Similar to LinkedIn's IPO last May, Pandora offered up less than 10% of the total company to the public. Joe Kennedy, Pandora's CEO, maintained that "the size of the offering [reflected] the capital that the company wanted to raise and the reality that our largest shareholders [weren't] interested in selling". Analysts like Francis Gaskins, president of industry tracker IPODesktop.com, have noted that "surging demand for new Internet companies, combined with a dearth of available shares, may give the businesses higher valuations than they deserve"—and therefore lead to significant price corrections.

Despite the overall success of Pandora's IPO, the company is still far from stable. It must be remembered that after over a decade of existence, annual losses were the norm. In fact, collections on opening day amounted to \$234.9m and were not enough redress for the expected drain on Pandora's finances through 2012. On the plus side, Pandora's user base continues to grow every day. As of April 30th, the number of active accounts had risen to 94m from 82m in Janu-

## BUSINESS ARTICLES

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## Going Gaga For a 99-Cent Download

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By Vanessa-Vivian Martinez



*Born This Way* debuted at no.1 on the Billboard charts with more than 1.1 million copies sold in the first week—the best performance of an album since 50 Cent’s *The Massacre* back in March 2005. It is Gaga’s first no.1 album, and she is now in the company of only five women that have beaten the one-million units mark (Britney Spears still holds the record for *Oops, I Did It Again*, which was released in 2,000 and sold 1.3 million). Despite the fact that we’ve seen Gaga’s albums do well within their first week, such as *The Fame* peaking at no.2, Amazon contributed to Gaga’s success by selling the album for a mere 99 cents in its first week.

How could this be? Amazon lost money on each 99-cent sale because they had to pay Interscope/ Universal Music Group the statutory rate for each unit sold. Thus, for every unit sold, Amazon lost approximately \$7.40 on a 99-cent sale. Perhaps Amazon used the hype behind Gaga’s new release as a means to promote their cloud service and compete with their largest competitors Google and Apple. Google recently launched its own cloud music storage service called Music Beta, while Apple recently launched the “iCloud.” Amazon sold 443K units of the *Born This Way* record at a loss of \$3.3 million—a marketing investment justified by an inordinate increase in traffic that overwhelmed its servers and helped increase its market share as a digital merchant in music.

Whether or not this sale helped Interscope/Universal remains in question. 2.1 million units were shipped to big box stores

and other locations before the release of *Born This Way*. Those retail accounts must have taken some loss—which in turn hurt the major. This is because it is standard in the business for the majors to have an inventory liability with merchants, allowing them to return a percentage of the product in the event of a lack of sales. Had Universal planned the discount better, it could have avoided the shortfall, which had many brick-and-mortar sellers complaining (for them, like iTunes, the album was priced at \$11.99).

Some suggest that this marketing strategy will become a trend and that music is quickly becoming “the toy in the Happy Meal”. Altering pricing to break an artist into the industry is not new. It was done with singles in the late 1990s to break an artist or help push albums to the no.1 position. When *Billboard* became aware of such tactics, it suspended the singles chart.

Regardless, Gaga’s label and management claim that they were not aware or involved in Amazon’s promotion. Gaga told *Rolling Stone* that she applauded Amazon for giving everyone the opportunity to buy music. Because the discount only applied to digital downloads and the ratio of digital to physical sales was, at 700K to 400K, too close for comfort, to come out openly and endorse an arrangement that alienated many of her retail accounts would have been disingenuous. **MBJ**

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## Tigers That Talked (cont.)

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### Communication Strategy

**MK:** Can we talk a little more about how you are communicating with folks? There was obviously some demand for this record, even though there was a lag between the recording and the release. How did you maintain this interest through messaging and communication?

**OK:** We run our own website, so all the blog posts come from us and we try and write at least one blog a week. We don’t like to bombard fans with emails. We don’t ever want to be an irritation for them so we try to send out about one email to the list maybe once a month, where we’ll say what we’ve been up to, what we are going to do next, that kind of thing. Facebook has been a great channel for us as well. We’re on our Facebook page all the time and all the posts on the Facebook come directly from us. We’ve found it to be a great way to have a direct and immediate participatory relationship with our fans.

Our overall strategy is that we’re all music fans at the end of the day. We know what irritates us, what really inspires us, and what captures our imagination. It’s just a case of looking at that and putting yourself in your fan’s shoes. You know, I wouldn’t want to have an email everyday, not even from my favorite band—let alone every week. Once a month with what’s going on is a nice level of email communication. I also think it’s important for us to make sure our fans know that the Facebook and the Twitter posts all come directly from us. They are not talking to a representative or a PR agent; they are getting to hear what we’re actually saying and what we’re actually doing. It’s just brilliant that there are plenty of mediums now where you can reach your fans so directly. **MBJ**



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## Talk To Me (Through Social Media)

By Evan Kramer

Social media, in all its varieties, is making a big impact on consumer buying habits and becoming a legitimate promotional medium for businesses of every size. Yet traditional marketing sometimes sits uncomfortably with social media. In particular, the six elements of the classic marketing mix, advertising, personal selling, public relations, publicity, direct marketing, and sales promotion, have to be reconsidered in the light of this new paradigm shift. It requires marketers to keep their products and, more importantly, their brands relevant and ever present in the minds of consumers.

A traditional marketing mix allows marketers a high level of control over the content that is communicated, and more importantly, withheld from their consumers. For example, paid advertising can be crafted and molded down to the finest detail while placement and volume of the content can be regulated on seemingly infinite parameters such as income level, location, and gender, just to name a few. In addition, coverage in newspapers and television reports, while not completely under control, can be heavily influenced.

In contrast, the rise of social media presents serious challenges. An unhappy customer would in the past share a negative experience with, say, ten friends; now, a simple click of a mouse reaches millions. The problem for marketers today is that falling back on the old ways risks alienating consumers, because they no longer take their message literally. To create value in the mind of a potential buyer, the

focus has to shift towards the integrity of the product & service as it appears to a consumer. This is largely a function of the experiences and opinions of a peer group, which offers many more pointers than any ad campaign can.

In order for a marketer to effectively embrace social media as a primary medium—as many already have—marketers must transition from talking at the customer to talking with the customer. Through Facebook, MySpace, and online blogs, there is an immeasurable amount of communication that happens amongst consumers. Marketers must find creative ways of directing these conversations, involving themselves, and, most importantly, listening to what's being said. Using this information, adjustments can be made to more effectively serve buyers' needs.

Fortunately, social media has exposed many inconsistencies and defects in products and services that had previously been excused or written off by buyers as the occasional, seemingly unavoidable, case of "buyers' remorse". Now, the consumer-to-consumer communication occurring on social media sites is helping buyers choose the highest value and quality offering around. Products and services that pass through the filter of social media raise their brand to the very top. **MBJ**

## Pandora (cont.)

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ary and climbs at a rate of one new signee *per second*. This, above all, is what makes Pandora an exciting proposition for investors. **MBJ**

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