

## MANAGE YOUR DESTINY: taking charge of physical and digital music sales for a successful business model

The last two decades have certainly seen a revolution in the music industry, and most of it feels like the French Revolution must have felt to Marie Antoinette! The internet revolution and the advent of MP3 tracks, file sharing, big digital music store--all that technology! On top of that, access to production technology that enables most musicians to produce their own work--resulting in a ton of recording releases! Oh, and by the way, there's still the standard, the CD, that has to be produced and sold....to say nothing of any merchandise that you sell as well.

That all adds up to major challenges. On the digital divide, the change has come non-stop, and most of the time it is at the expense of the creative musician in terms of protecting their intellectual property rights and making a fair financial return. On the physical divide, it's been both the doom and gloom about the demise of the CD, decreasing sales industry-wide, but the painful challenge that it's still the default medium for the majority!

Which reminds us that sound recording still has to occur, and as David Lowery points out in his manifesto "Meet the New Boss, Worse than the old Boss" (which will be frequently referenced, and a like to the original and a PDF download follow at the end of this page), "Sound recordings are very labor intensive. If you want to make good ones you are relying on highly skilled labor." But who now fronts the money and takes the risk? Lowery points out, painfully, that it is the artist or the small label. The big labels limit their largess to the few big bands or solo musicians, and the digital music stores don't invest in artists!

### **The Digital Divide**

The core problem in the digital space is a single word: free! File sharing programs and sites, compounded by a growing entitlement expectation that all music should be free. In other words, ignoring the value of creativity, property rights, and the financial realities, internet technologists have created both a demand and expectation that much music should be free. Markets are based on transactions, and as Lowery quips, "any market involves a buyer and a seller." Brewers don't give away free beer; car makers don't give you free cars! Put another way, musicians create stuff that has intrinsic value, they should be recompensed, and being an independent musician also means you're "in business!"

The data is chilling: a 64% decline in recorded music revenues since the advent of file sharing; CD sales down while file sharing and digital music file sales continue to grow, most artist revenues continue to drop.

Lowery documents that the digital distribution model has been stable for at least six years, and it is comprised of:

- File sharing (MegaUpload, FirstLoad, Bittorent, etc.)
- Streaming services (Pandora, Spotify, Grooveshark, etc.)
- Digital Music Stores (iTunes, Amazon, Rhapsody, Google Play, etc.)

Unlicensed file sharing sites (don't overlook the fact that they're unlicensed!) make their money by any number of ways that result in profits to them and nothing paid to you. That's mainly advertising and upgrades for faster download. What's the artist share of this part of the digital music pie? Nothing!

Streaming sites either pay or are starting to attempt to pay artists, but the rates are typically under a penny a spin (track)--in other words abysmal (and that's when the sites will actually disclose what rates they pay). It may be something you need to do to extend your reach and brand, but it won't pay the bills. As Roseanne Cash pointed out in her recent testimony before Congress, for over 600,000 streams of her song on one of these sites, she was paid \$114! That's \$0.000019 per song!

What's left is what Lowery calls "The White Hats," the legitimate digital music stores like iTunes, Amazon, Zune, Rhapsody, and Google's Play. They typically take 30%, but when you add in the required aggregator fee if you're independent, then you're almost up to 40%. And, painfully for the musician, the digital music stores don't invest in creative production, take no risk: they host files and process payments.....and for this they get 40%!

Lowery's summary is a damned if you do/damned if you don't scenario. "Between the record labels and the digital retailers like iTunes, once again the artist gets squeezed. If you add to this the cannibalization of sales from streaming sources that pay too little and illegal file-sharing that pays nothing at all, you can see why artists have much less money now.....Apple takes 30 percent (plus the aggregator fee), takes no risk and provides the artist with almost nothing in return."

Nothing in return is worth expanding on. The digital music sellers don't help fund the creative process; they don't underwrite the recording/production process, they don't help pay for production of physical

product--they simply accept your files and store them among the millions of competing music files and leave it up to you to sell them on their behalf! They only help you differentiate yourself from all the other competing musicians for yet another fee!

According to Lowery, in 2010 there were 75,000 albums released, of which only 2,000 sold more than 5,000 copies. If you're not in the latter category (less than 1,000 sold more than 10,000 copies), then you're one of a million fighting for attention and visibility in their huge catalog. What are they doing for you. Answer: another nothing!

Net of all of this? We're in the digital internet age, and you've got to do it. But you also have to control your own intellectual property, and create your own destiny. You don't have to let people steal your music, and there are things you can do besides throwing your music up on the digital music stores and hoping for the best, and cashing those checks for a few dollars a month!

### **The Physical Divide**

In today's music scene, the CD often gets positioned as a dinosaur. The fact is, though, it's the reference standard. It may not be as portable as an MP3 file, but it has much higher quality, is harder to steal, does more to protect artist's rights, and comes with an information-filled package.

Let's start with the practical reality: the result of a high quality recording session followed by good production oversight and editing is a "glass master." That's a very high quality CD, and is the basis for physical CD production. The output of that recording process is not a relatively low quality set of MP3 files. Quality matters. You produced quality. Why only sell inferior digital versions?

On the subject of quality, CDs are encoded at 1,020 kilobits/sec, and most download stores sell files at 128 kbs to 320 kbs--as low as one tenth the quality of the original. Streaming sites are typically in the 128 kbs range. The difference in fidelity between what can be heard from a CD vs. the best MP3 player is night and day. Plug an MP3 player into a good amplifier and play it through good speakers--then do the same with a CD and compare the difference! So, believe it or not, there's still a place for CDs in the market and among your fans - think about those that bought CDs at your last gig!

Beyond that, physical CDs are not only a way to honor the creative effort by purchasing the artists recording, but they provide your customer with an ethical and legal basis to make copies for other uses--like loading onto their MP3 players. On top of that, they most often come with liner notes. This is an important differentiator, one increasingly being lost in the day of cheap "Digipak" CD packaging. Yes,

printing is the most expensive part of the physical production process, but the value provided to fans by your liner notes describing the production, and especially by the lyrics are invaluable. That's a major part of the glue that binds your fans to you, the creative musician.

Of course, the reality that comes with selling physical CDs (and other physical products) is fulfillment-- packaging and shipping the product to your customers. Well, welcome to the business side of music. The digital music trap is that you upload the files to a digital music seller and you're done! With physical sales, the effort continues; but the profits are higher. In the absence of a label, you elected to be an independent musician, and that means assuming the sales, marketing and fulfillment parts of the deal.

### **Manage your destiny**

The dilemma is multifold: being creative, producing good recordings, running a music business, fighting file sharing, touring, building a fan base, and making a living! The argument Indy Music Technologies would make is: ***Manage your Destiny***. (For those interested in history, the origin is the Latin phrase *Quisque artifex suae fortunae*, "everyone is the architect of his own fortune" [Appius Claudius Caecus (3rd century BC)].)

The impact of most of the digital changes of the past ten or fifteen years has come directly at the expense of musicians. As Lowery painfully decries: "**It is my choice** whether I choose to give away my songs or sell them. **It is my choice** how and where to distribute my songs. **It is my choice** to decide which websites get to exploit my songs. Like it or not, the right to control one's intellectual property (like songs) is a constitutional right."

We agree. In today's market, business success means taking charge of your intellectual property. It means controlling your distribution and sales model. It means managing your mix of digital and physical product sales, as well as the mix of channels such as digital music stores vs. downloads from your own site; physical CD sales from your site as well as at your gigs. It means balancing and managing all of these to optimize your sales and **your profit**. For sure you have to have all the channels with the most profit delivered to you, and you need to make sure you are optimizing the experience for your fans. They are the most important part of your destiny!