Riding the new digital waters as the currents change

- Before the accelerated cultural change that is occurring right now, the music industry went through its own sea change. In many ways we are experiencing one wave finally receding- the old model of the traditional music industry- while another one, the digital model, is crashing in.

- I believe that good things are on the horizon despite the economic, environmental, and global gloom and doom. In many ways the music industry shifts occurred at the right time, slightly before everything else began to shift.

- We misperceive how powerful our opportunities are in the imminent future because it is not easy to grasp exactly what is going on. What we see is not always what we get. As worn out values and models of business, economy and society are on the decline, its easy to feel defeated by the chaotic change, but it is a transformative shift that will be positive for the industry, the artists, and the ears of our audience.

The Dillemma of Digital

- The digital format is basically technically assessable to everyone, as long as you have a computer and an ISP ( internet service provider ). That accessibility is the bane of the industry, as the scale of illegal downloading is massive- an estimated 40 Billion files were file-shared in 2008. That 2009 number is likely much higher.

- The advantage of digital is that it has opened up some new choices for the labels to reach the artist’s audience- whether they are subscription based, streaming to select channels or audiences, using previews or clips of new material, or giving away unreleased or remixed tracks.

- For some fans the access to the music ( for subscription ) of a massive database of music ( such as Rhapsody ) is sufficient. It enables the listener to listen to what you want when you want it. On the flip side, there are those music fans who believe that with a purchase of a song or album they should be able to play it on the device of their choice.
Statistics

- 90% of digital music consumption is illegal. 80% of all traffic on ISP (internet service providers) is p2p (peer to peer) file sharing- most being illegal downloading.

- Pricewaterhouse forecasts that consumer spending on CDs and other physical formats to fall about 50% between 2008 through 2013- At the same time, digital sales are expected to nearly double. Single track purchases hit the Billion mark last year, at 1.07 Billion purchases in 2008, 1.36 Billion in 2007, 1.2 Billion in 2006. In 2008 there were 65.8 million digital albums sold, 50 million in 2005.

- As far as this year is concerned, Billboard recently reported a 20% drop in CD sales in the first quarter of 2009, with a 17% increase in digital music in the same period.

- It is estimated that Apple has 60 to 70% of the digital retail marketshare, although there are many competitors who are poised to take much of that marketshare over the next few years.

MARKETING in the Digital World

- Marketing is a component of the traditional music industry that has also been sent into a tailspin- it’s become much more difficult just because its not as easy to pin down. It plays and feeds into something that is constantly morphing, expanding, opening into new channels. It changes every day. Sometimes an obscure blog may drive the demand of an album or a track on a much more significant level that an artist’s own website.

- Once again, as one wave recedes and another crashes in, there are great opportunities. What the web offers at such a low cost has become a great boost for the small labels and artists.

- The level of innovation that the independent labels have demonstrated is simply not possible with the behemoth structures of the major labels. The independent labels were also the first to recognize- in the midst of the digital revolution- the thirst for physical products. They responded with CD and LP packages that were highly creative, and began reconsidering the LP format. As a result we’ve been
experiencing a spike in vinyl sales. Neilsen Soundscan predicts vinyl sales should hit about 2.8 million in 2009, from 1.9 in 2008.

Digital Music Trends

As the overall trend in the music industry is a shift from unit-sales profit to creating revenue in the array of platforms and channels, there are a few trends specifically within the digital domain:

- Right now there are more than 1400 music related mobile apps available through the iphone app store alone.

- New subscription-based and social networking models- RDIO and MOG. RDIO is from the founders of Skype and Kazaa ( one of the first P2P file-sharing services ). Although details are still coming into focus, it looks to be a subscription based service. Mog All Access is another subscription based service that is $5.00 a month, and in tandem with the four major music labels, and independent labels, represented by IODA and The Orchard.

- Publishing platforms, such as Bandcamp, which enable artists to do it all without a label, from getting the music digitally distributed, to setting up a band site, to basic viral marketing tools such as widgits.

- The downside to using such services without a label is that the artist will be distributed to only a handful of digital retailer as opposed to the wide distribution an artist would receive through an aggregator such as IODA, where tracks and albums would be available on hundreds of digital stores. The same disadvantages apply to very small labels and start-ups/ Basically, most of the large digital retailers are not really interested in dealing with smaller catalogues because it is simply too much trouble for too little gain. They are not going to spend the effort to convert files into their own format, especially metadata- when the sales potential does not seem significant.
This may change as the larger sites develop tools to format content and streamline content delivery. One example is iTunes producer, an application that is on the apple site in which labels and artists can encode music into the AAC format, which Apple uses as their default format for iTunes, iPod, and iPhone. Album, song, artwork information can be prepared as well with the app, then submitted to Apple for consideration.

New Ways How Digital is Helping Smaller Labels

Many smaller indie labels are moving away from going through smaller third-party digital storefronts and are doing it themselves, doing their own digital distribution. by creating their own websites and offering their music for sale directly to fans. This cuts out a slice of the profits that would otherwise not be going into the pockets of the artists and labels. For some artists, availability on the larger sites is not always meaningful on their relative scale. Itunes is not going to be featuring a certain level of artists, and it is highly unlikely that sales will build just through browsing. With your own site, you are able to prominently feature releases, and you are targeting your niche audience. The disadvantage is that you need to have the manpower to maintain and build the site, as well as deal with issues such as payment problems. Many artists and tiny labels simply don’t want the hassle of running the digital store’s infrastructure. It’s a case by case situation, but for some the independence is worth it, and others are willing to give up a portion of their profits to avoid the headaches.

The most common scenario, however, is going through an aggregator- who will get content up for sale on iTunes, BestBuy.com, Napster, and the other super-stores in the digital realm.

This brings us to:

AGGREGATORS

The large aggregators have, in effect, become gatekeepers to the big digital stores. Their relationship with the stores resembles more of what one would think of a traditional label’s dealings with a retail store. Likewise, the deals that artists make with the large aggregators resemble a deal that an artist would make with a traditional record company-

The artist pays an ingestion fee, then delivers their music to the aggregator, who then convert the material into content to provide to the stores. When the stores report sales of your music and send payment, the aggregator passed it on to the artist/label. Fee for this???

This is a standard model now for most of the aggregators, although rates and ingestion fees vary depending on the situation.
Where Physical Cannot Go

One of the primary advantages to the digital format as opposed to the physical is that inventory does not have to sit in a warehouse to store it. The music resides on a hard drive. There is no need to ship, there is no need for the costly printing and manufacturing of the cd and packages, and sales reps do not have to check stores for inventory. The one thing that has not changed is delivering money and sales data to the artists.

You should speak about how aggregators promote.

Artists can potentially reach millions of fans online in the digital distribution model; the same scenario would simply not be possible in the physical model without an enormous investment and subsequent risk.