Business models for music

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I. Introduction

The popular music industry is in the middle of a technology-driven revolution. It is clear that the old order has been swept away, but it is not yet clear what form the new order will take. The major labels are on life support and will not survive in anything like their previous form. CDs are dead as a distribution medium. Copyright is unenforceable and hence essentially irrelevant except at the margins of the new order. Barriers to entry have been reduced dramatically as the costs of producing top-quality recordings have declined by a couple of orders of magnitude. Portable music players such as the iPod permit consumers to listen to music all the time, if they want, and this enormously increases the potential demand for music.

The amount of new music generated by indie musicians will increase even as the demand for music also increases because of its portability for consumers. Copyright protection will become even less effective for recorded music and technological protections in the form of DRM will be abandoned altogether. The result will be continued downward pressure on prices for recorded music and soft demand for paid record sales. In this climate of increasing competition, musicians and their sponsors will shift their focus to live performances, ring tones, new ways for fans to interact with performers, movie scores, and advertising to try to fill the revenue gap for established musicians and to support new entrants.

As in the past, intermediaries must match consumers with the music they like, but this will happen in new ways. Increased supply and demand means increased search costs—how are musicians and their potential fans to find each other? Even in the good old days when CD sales were at their apogee, major labels released 35,000 new albums each year. If consumers were to search for music they like among the 10 songs or so on each album, each would have to spend on the order of 200 sleepless days per year sampling all the songs. As music MySpace pages and independent websites proliferate, the burden of finding new music only increases. Someone has to perform the matchmaking function formerly performed by the major labels and the radio-station chains they bribed in a much less rich universe of new music. Who will do it? Innovation and experimentation will increase as new kinds of intermediaries try to find the best way to connect musicians with their potential fans. A handful of these will become the dominant gatekeepers.

The increased competition and the demise of traditional gatekeepers means a sharp reduction in prices—approaching zero—for recorded music. This means a reduced revenue stream to support anyone in the industry unless demand were to increase so heroically as to outpace the downward pressure on prices. This is unlikely. What business model will support the post-revolutionary space?
All the evidence supports the proposition that most musicians will make music even without a business model. They say that they want to “get to the next level”—that they want to make a living from their music. But their behavior makes it clear that they will perform for pennies or for free to get their music in front of any crowd—live or virtual—even if the crowd is limited to their friends and to the friends of other bands appearing on the same bill with them. It may become easier for a few new musicians to break through and to achieve a significant following among consumers, but most will continue to labor in obscurity for as long as they are willing to make music in the time left from their day jobs and their family responsibilities. Many of them will make good music, but it will be listened to only within a modest circle of associated musicians and their families and friends.

It is unlikely, however, that potential intermediaries, necessary to perform the matchmaking function, will work for free. Even if a business model is unnecessary for the musicians themselves, it is necessary for the intermediaries. Unless such a business model can be framed, embraced, and sold to investors, the new order in the music industry will be one in which hundreds of thousands of artists making very good music go essentially unnoticed by those who would enjoy their music.

The demise of the major labels will not be the end of the “music business.” The major labels were never the true innovators. But they channeled capital to less famous musicians and have poured money into attempts to build a following for those they adopted. The big questions about the future of popular music is who will perform the capital aggregation and allocation and the gatekeeping, advertising and promotion functions historically performed by the major labels.

Metaphorically, this is a struggle between dinosaurs and beavers, with herds of amiable and talented sloths on the fringes, providing background music. The dinosaurs—the major record labels, their defensive myths, and their lobbyists and lawyers—are trying to crush an environmental phenomenon that threatens to make them extinct. The beavers—the indie musicians and the entrepreneurs who are experimenting with new forms of intermediation—are largely oblivious to the thrashing of the dinosaurs, and are heroically working to construct structures that work in the new marketplace. Because most beavers focus on the individual trees rather than the forest, most will fail; but some will succeed in proving the viability of a new business model.

1 The point is not that musicians do not deserve to make money; the point is that they will make music whether or not they make money.

2 See Evan Eisenberg, The Recording Angel 19 (2005) [hereinafter "Eisenberg"] (exploring impact on society of recorded music; labels are happy to climb aboard a bandwagon once it is underway but are rarely in the driver's seat)

3 Less metaphorically, they are preoccupied with tactics and neglect strategy.
This article is the fourth in a series by this author⁴ seeking to explore the impact of the technological revolution in the music industry. The first three built the case for three propositions: first, supply and demand functions coupled with technology changes put the lie to the major labels’ claim that digital distribution of music threatens to silence the world of music;⁵ second, that more energetic enforcement of copyright protections and expansion of copyright protection is counterproductive;⁶ and third, that technological protection in the form of DRM is undesirable.⁷ This article explores the question of what economic incentives will suffice to facilitate an effective market in the absence of intellectual-property protection or copy protection.

Following this introduction, the article first defines the problem, explaining why the old business models have eroded in the face of new technologies and of the changing role of the law—especially copyright law. Then, it builds on the author’s work in his Music Architectures article to explain who makes music, who consumes it, and why. These sections explain that, while money plays a role in the marketplace for music, it is secondary to “hedonic” factors for both musicians, who make music largely for self-expressive and self-affirmation reasons, and for consumers, who listen to music for reasons including idiosyncratic perceptions of its quality, a desire to be part of a particular crowd, and vicarious identification with or attraction to the performers. It follows these sections by exploring the essential role that intermediaries play in the marketplace. This section acknowledges that the new kinds of intermediation needed in the new technology-driven market place will not occur unless intermediaries can make money. Building on this foundation, it develops the elements of a business model—rather several available business models—that can sustain new forms of intermediation, resulting in a robust market for popular music that will provide more opportunities for a wider variety of musicians and result in greater consumer satisfaction that the models of the past. For viable business models to exist, entrepreneurs striving to stake out role as new kinds of intermediaries must be creative in figuring how to monetize access to the celebrity that they build in their clients through new technologies including not only social networking and videogames, but also technologies for classifying music to reduce consumer search costs.


⁵ Henry H. Perritt, Jr., COMM/ENT

⁶ CITE Seton Hall

⁷ CITE Mich. St.
Whatever insights this article offers are the product of the author’s involvement in the grassroots music, theatre, and film communities in Chicago, often known as the “indie” (in the case of music and film) or “storefront” (in the case of theatre) communities. The author writes and records songs under the name Modofac, resulting in the release so far of two albums. Beginning in the summer of 2008, the author wrote a musical, and produced it in 2009. The musical played to sold-out audiences during its initial run in a storefront Chicago theatre. Now, the author is working with a group of indie filmmakers to make a feature-length film based on the story embodied in the musical.

In the course of that effort, he collaborated with and formed friendships with a growing group of indie musicians, theatre people, and filmmakers, mostly in their twenties and thirties,

8 “Indie,” a short form of independent, signifies several different things to musicians. In its broadest sense, it simply refers to musicians who do not have a contract with a major record label. In its narrowest sense, it refers to a music genre associated with such musicians: “indie rock” is loosely associated with the punk sound; “indie pop” is associated with jangling guitars and superficial lyrics. This article uses the term in its broader sense.

9 See www.modofac.com; www.myspace.com/modofacprof.

10 The first album contains 14 songs; the second contains 12. The author wrote and arranged the songs in Sibelius, a full-featured composition software product. The recorded performances almost all involved acoustic instruments or electric guitars; only two of 26 use any significant amount of synthesized sound.

who write their own music (or plays or screenplays), perform it live publicly and dream of
making a living with their art. On the whole, they approach life in ways significantly different
from the author’s multiple generations of law students. Interested in their philosophies, their
experiences, and their formative influences, the author interviewed several of them in depth and
wrote a series of profiles for publication on the Web.12 The profile-writing effort expanded
naturally to include several enthusiastic consumers of popular music, in the same general age
group.

He joined the advisory board of the Chicago Music Commission, a non-profit group
devoted to improving Chicago’s climate for musicians and its visibility as a music city.
Simultaneously, as a vice-chair of the Chicago Council on Global Affairs’ Global Chicago
Project, he investigated the role of grassroots music creation and of independent theatre and film
work as determinants of success in the global competition among cities. In the course of these
activities, he organized and moderated several focus groups at which musicians and their
professional facilitators discussed the environment for music activities and the hallmarks and
pathways of success.

Meanwhile, the author extended an earlier scholarly interest in the relationship between
intellectual property protection and new digital technologies, especially small computers linked
together by the Internet,13 to write the trilogy of law review articles on the reshaping of the
industry for popular music, referred to earlier in the introduction. This article adds to that series,
building on some basic propositions new business models in the earlier articles.

II. The problem

Harvard economics professor Richard Caves summarizes the characteristics of the music
industry as follows:

1. The goals of the creative process strain against the economic resources available
for the task

12 See www.indiemusicchicago.com.

13 See Henry H. Perritt, Jr., Property and Innovation in the Global Information
Infrastructure, 1996 U. CHI. LEGAL F. 261 (1996); see also Henry H. Perritt Jr., Book Review
Lawrence Lessig, Code and Other Laws of Cyberspace, 32 CONN. L. REV. 1061 (2000); Henry
H. Perritt, Jr., Unbundling Value in Electronic Information Products: Intellectual Property
Protection for Machine Readable Interfaces, 20 RUTGERS COMPUTER & TECH. L.J. 415 (1994);
Henry H. Perritt, Jr., Tort Liability, the First Amendment, and Equal Access to Electronic
2. Musicians face an “anguished” contact with the gatekeepers who select among the many available artists and their creative output.

3. Ecological forces in the marketplace determine the organization of the gatekeepers.

4. Gatekeepers may function in a sequence so than an artist may be admitted by one, but denied entry by another—necessary—one.

5. “The many would-be creative workers who suffer rejection either [give up], toil in dedicated poverty or settle for humdrum work, which those who experience creative success reap adulation and wealth in what tend to be take-all contests”

6. Uncertainties reign in a market structure in which costs at each level are sunk, before the gatekeeper who controls the next function decides whether to risk investing.  

Cave’s “ecological forces” change over time, causing upheavals in the organization of the industry. Printed scores, broadcast radio, recording technologies, and audio amplification all changed the way music was made, distributed to fans and consumed. All of these technological innovations, like the more recent proliferation of small computers linked to the Internet, rendered obsolete existing forms of organization and provided opportunities for entrepreneurship in redefining how musicians would find and interact with their audiences.

The popular preoccupation with recorded music delivered to consumers in the form of CDs is a misleading way to think about popular music. Dominance of recorded music as the revenue engine of music business is a phenomenon of the twentieth century—mostly the latter part of the twentieth century. Recorded music pushed publishing and live concerts into the background only toward the end of the century. Radio was a big driver of discovery and celebrity.

Technology has produced a new “ecology” in which all access to recorded music is essentially free (broadcast radio had always been free). This has upended a business model based on billions of dollars annually in sales of recorded music. The resulting crisis in the music industry really is a crisis only for enterprises that depend on recorded music for their profits.

This part of the article analyzes the development and erosion of the model on which those enterprises depended and contrasts it with the new model that is replacing it. It concentrates most

of its attention on recorded music, but also describes briefly how live concerts and publishing enter the picture.

A. The old model

1. Recorded music

Some analyses of the music industry treat the patterns of supply and demand and the business models that existed in the late 1990s as though they had been the long-term pattern. They had not been. The CD album, the top-40 radio play, the dominance of the major labels were upstarts, just as digital distribution, P2P file sharing and DIY (“Do It Yourself”) musicians are today.

There surely is a technology-driven revolution going on, but it began 120 years ago. The invention of the phonograph and of easily reproducible records upended the role of music in people’s lives. Before these innovations, consuming music was necessarily a social activity: the performer had to be in the presence of the consumer for the exchange to take place. Efficiency dictated that the consumers usually clustered in groups for each performance.

As recorded music became widely available, consumption of music could be a solitary activity. This may have loosened social bonds, but it significantly reduced the transaction cost for consumers. One no longer had to schedule an evening at the symphony or persuade a little sister to play the piano; one simply put a record on the turntable. By the late 1920s, it also was possible to listen to music on the radio, and that music was free (once one owned a radio receiver). Still, there is no such thing as a free lunch, and the zero price that came from radio consumption accompanied a loss of control over which songs played. In either event, one had to be at home or at a music establishment to have access to a record player or a radio receiver.

The next step was for technology to make music portable. This happened in a mass way in the 1950s. In the 1950s, automobile ownership exploded, and the automobile radio, introduced by Motorola in 1932,18 made music portable for the first time, expanding the potential demand by increasing the number of available hours for consumers to listen to music. Portability increased further when portable transistor radios were introduced in late 1950s by Texas Instruments and Sony.

15 See Eisenstein, Recording Angel ___ (___).

16 See Bowling Alone.

17 Recording Angel at ___.

18 http://www.motorola.com/content.jsp?globalObjectId=8432-10811.
Two kinds of gatekeepers controlled access to this market: record labels and radio stations. Many of both existed, usually making decisions at the local or regional level. A musician always could give a live concert, of course. That had been true since before the days of Bach. But for distribution of his music to audiences larger than could be persuaded to come to a concert—or accommodated by the physical spaces available—a musician needed the mass market distribution potential of radio and records.

It was expensive to make records, and difficult to set up a radio station. The development and commercialization of tape recording in the late 1940s and early 1950s made audio recording more broadly available than before, but recording equipment was still expensive, and only a few possessed the skills necessary to edit tape. Moreover, manufacturing the vinyl disks from the master recording was a big deal, within the capability of only a handful of pressing plants. A musician had no prayer of making a record unless he hooked up with a recording studio. Elvis hung out for weeks before he made such a pest of himself that Sun Records’ Sam Phillips agreed to talk to him.19

Portability depended on radio play. Radio play could not occur unless a record existed and even then it was controlled by relatively independent DJs, whom the record labels courted assiduously.

Radio stations continued to proliferate in the period before television penetrated the home entertainment market, and local station management was entirely free to decide what music to play. Links between local promotors, local disc jockeys, and local recording studios fueled the breakthrough of Elvis Presley.20 The same kind of local and then regional entrepreneurship occurred with Buddy Holly21 and, twenty years later, with Punk.22 The discretion of local DJs to decide what was played on the radio declined with consolidation of radio-station ownership and the introduction of more “scientific” market research to decide what kind of music would attract radio audiences most desired by advertisers.23 Radio consolidation accelerated after changes in FCC rules in 1992 and even more after enactment of the 1996 Telecommunications Act. Clear Channel, which owned 43 radio stations in 1992, bought 70 more during the middle 1990s. As

19 CITE Elvis book.
20 See ____.
21 CITE Buddy Holly book
22 CITE Green Day book
23 CITE Bumping into Genius
distribution channels shift dramatically to downloadable formats delivered through the Internet, new kinds of search engine technologies challenge broadcast radio’s preeminence.

An aspiring star would first get a record deal with a local label and, if things went well, eventually graduate to a major label with a national market presence.24

Twenty years later, music became even more portable with the introduction of cassette tapes containing recorded music, devices that made it easy for consumers to record music off the radio or to transfer recordings from vinyl to cassettes, and the Sony Walkman and boom boxes, introduced in the late 1970s, to play the cassettes. The Walkman was introduced in 1979 as a cassette player with two headphone jacks. CD players took over in mid to late 1990s.

Technological changes revolutionized the structure of the industry in the last half of the 1990s although the effects were felt most dramatically only after the turn of the century. The wide availability of inexpensive portable music players, the introduction of digital formats and compression software and the necessary applications to use them pre-installed on almost every personal computer, and the ubiquity of the Internet destroyed the control exercised by traditional gatekeepers and made intellectual property in recorded music essentially unenforceable.

Now the industry structure is highly concentrated:

“[I]n 2006, the four largest major record companies were Universal, Sony BMG Music Entertainment (“Sony BMG”), EMI Recorded Music (“EMI”) and WMG, which accounted for approximately 73% of worldwide recorded music sales. There are many mid-sized and smaller players in the industry that accounted for the remaining 27%, including independent music companies. Universal was the market leader with a 26% global market share in 2006, followed by Sony BMG with a 21% share. WMG and EMI held a 14% and 13% share of global recorded music sales, respectively. While market shares change moderately year-to-year, none of these players have gained or lost more than 3 percentage points of share in the last 5 years through 2006 (taking into account combined shares of Sony and BMG for years prior to the formation of Sony BMG in 2004).”25

Even as mergers resulted in a handful of major labels, the economics, first of the economies of scale of CD manufacture and distribution, and then competition from digital files distributed on the Internet brought about the demise of many independent labels as significant entry points for indie musicians.

24 Sam’s sale of Elvis to RCA.

After 2000, alternative distribution channels crystallized and consumers began to prefer them instead of the traditional labels and retailers. Peer-to-peer file sharing developed as an underground channel for unlicensed access to recorded music. Apple introduced iTunes, which swept the market. The music established opposed both, although it could have created either itself.

Major record labels have fallen on hard times, as CD sales have declined, and consumers have shifted purchases away from albums toward singles. In 2008, download sales exceeded CD sales for the first time for a major label.26

EMI and Warner Music Group specialize in the music business, so their financial results are a better indicator of the fortunes of the major labels than Universal Music Group (UMG) and Sony. EMI does business under the labels Angel, Astralwerks, Blue Note, Capitol, Capitol Nashville, EMI, EMI Classics, EMI CMG, EMI Televisa Music, Mute, Narada, Parlophone and Virgin. EMI's 2007 revenue was £2.8 billion, compared with £2.1 billion in 2006. Its income was £174 million in 2007, compared with £276 million in 2006.27

Warner Music Group was spun off from Time Warner in 2004, and is the only stand-alone music content company with publicly traded common stock.28 Warner Music Group does business under the labels Asylum, Atlantic, Bad Boy, Cordless, East West, Elektra, Lava, Nonesuch, Reprise, Rhino, Roadrunner, Rykodisc, Sire, Warner Bros. and Word. Its reported financial results may therefore be the best barometer of what is going on with major label subsidiaries of the larger diversified corporate parents. Warner's 2007 income was 3.4 billion, down from 3.5 billion in 2006, and it had a net loss of 21 million in 2007, compared with a net profit of $60 million in 2006.29

Universal Music Group is 100% owned by Vivendi, a French limited liability company. It does business under the labels Island Def Jam Music Group, Interscope Geffen A&M Records, Lost Highway Records, MCA Nashville, Mercury Nashville, Mercury Records, Polydor and Universal Motown Republic Group, Decca, Deutsche Grammophon and Philips, Verve and

26 See Tim Arango, Digital Sales Surpass CDs at Atlantic, N.Y. Times, Nov. 25, 2008 (reporting as a milestone that Atlantic Records, with the highest overall market share in the music industry, earned more than half of its revenue from digital sales of songs and ringtones).


29 Annual Report at 41.
Impulse! Records.\textsuperscript{30} Vivendi's revenues for 2007 were €21.7 billion, up from €20 million in 2006. Its adjusted net income was €2.8 million compared with €2.6 million.\textsuperscript{31} Universal Music Group's revenues were off 1.3\%, however, comprising €4.87 million in 2007, compared with €4.95 billion in 2006. Its earnings were down even more sharply, at 16\%, 624 million in 2007, compared with 744 million in 2006.\textsuperscript{32} Recorded music revenues were off 7.2\%, while music publishing revenues were up 45\%.\textsuperscript{33}

Sony BMG was formed in 2004 as a 50-50 joint venture between Sony and Bertelsman. Sony bought out Bertelsman's stake in October, 2008.\textsuperscript{34} The merger of Sony's and Bertelsmann's music activities into Sony BMG has faced protracted challenges in Europe. Approved by the European Commission, it was rejected by the European Court of Justice Court of First Instance in 2006. That decision was then overturned by the European Court of Justice in mid 2008.\textsuperscript{35} Sony does business under the labels Arista Records, Columbia Records, Epic Records, J Records, Jive Records, RCA Records and Zomba Records.

Sony corporate revenues were 8.9 million Yen in 2008, compared with 8.3 million in 2007, while earnings were 466 million in 2008, compared with 102 million in 2007. Sony BMG was a joint venture, which Sony says "contributed significantly to net income" for 2008.\textsuperscript{36} Sony reported net income of 10 billion yen from its share of Sony BMG in 2007, an increase of 5 billion yen from the previous fiscal year, "primarily due to a reduction in restructuring costs compared to the previous fiscal year, lower marketing costs, a reduction in overhead costs from continued restructuring, a gain on the sale of an interest in a joint venture of SONY BMG, and the favorable impact of currency fluctuations."\textsuperscript{37}

\begin{itemize}
  \item \textsuperscript{30} Vivendi 2007 Annual Report at 26.
  \item \textsuperscript{31} 2007 Annual Report at 130, Universal Music Group (absorbed Polygram) (annual report at http://www.vivendi.com/vivendi/-accueil-en-).
  \item \textsuperscript{32} Vivendi 2007 Annual Report at 143.
  \item \textsuperscript{33} Vivendi 2007 Annual Report at 144.
  \item \textsuperscript{35} Bertelsmann v. Impala, Case C-413/06 P (ECJ Grand Chamber 10 July 2008) (quashing judgment and remanding to Court of First Instance).
  \item \textsuperscript{36} Sony Annual Report at 5. Sony Music (absorbed BMG) (annual report at http://www.sony.net/SonyInfo/IR/financial/ar/2008/index.html
  \item \textsuperscript{37} Sony 2008 Annual Report at 54.
\end{itemize}
All four, in their discussion about their business environment in the annual report sections, note that they face uncertainty because of the continuing decline of CD sales and the rise of digital downloads as a replacement. They also emphasize the need to protect their intellectual property rights in recorded music.

Here is how EMI describes its business:

"EMI Music identifies potentially successful recording artists, signs them under recording contracts, collaborates with them to produce recordings of their work, markets the finished recordings to consumers and media, and sells the releases into the retail trade in a variety of formats." 38

Historically, record labels performed eight major functions:

1. They recruited artists
2. They provided capital
3. They managed the recording process
4. They manufactured CDs
5. They advertised and promoted the CDs
6. They distributed them to stores
7. They performed revenue and royalty accounting functions
8. They enforced copyright

The demise of the CD renders the manufacturing and distributions functions obsolete. New technologies call into question the artist-recruitment, recording-management, and copyright-enforcement functions, leaving only the capital aggregation and allocation and the advertising and promotion function still to be performed by the labels. It remains to be seen whether they can and will perform these functions separately from the obsolete functions and whether they can do it better than newer firms specializing in those functions.

Although the major labels had the capital and the brand recognition to have dominated and shaped the technological revolution, they did not. Their failure to do so reveals much about the reasons why they are unlike to adapt successfully to the new marketplace.

Major labels are large firms. Like other large firms, they have substantial overhead and are bound by inertia. Their business processes and fixed costs were designed to succeed in the environment of the last quarter of the twentieth century. Their A&R representatives, all highly paid professionals, spend much of their time going to clubs seeking to discover good new musicians. Their recording studios are well staffed with producers, recording engineers and technicians. Their legal staffs review deviations from standard-form contracts, and supervise litigation against the growing army of listeners who infringe label copyrights—or are perceived by the labels as infringing, based on the labels’ interpretation of the law. Royalty accounting staffs keep track of the money coming in and divvy it up more or less according to contractual obligations.

Marketing and advertising professionals develop strategies for building loyalty to the label’s brand and for promoting long-time and new musicians on the label. They contract with advertising agencies for expensive mass-advertising campaigns. Other full time staff members work with radio-station chains to get the label’s music on nationwide playlists and some also work with major radio stations to get good positions on their playlists. Others mediate press and media publicity. Labels, as a subsidiaries or divisions of large conglomerates, must contribute to label and holding-company corporate overhead. They must generate sufficient gross margin to support human-relations, environmental, risk management, purchasing, auditing, and legal compliance staffs.

The job approaches of all of these people have been refined over decades to produce past successes. The collection of their skills and approaches comprises the skill set of the firm. Experienced professionals among their ranks do what has worked well for them earlier in their careers. As the firms matured, internal rules circumscribing individual employee discretion crystallized and then hardened. All firms extoll creativity and innovation but have a hard time making room for it in the context of committee meetings to coordinate among departments and hierarchical approvals to protect against imprudent investments.

Fundamental change is difficult for several reasons. Individual employees resist change—or any analysis of the business environment that suggests the need for basic change—because they fear their skills’ becoming obsolete. A few, nearing retirement age and seeing their alternative employment opportunities drying up, do not care about the long-term future of the enterprise; they just want to keep their jobs until they are eligible to retire. CFOs, CEOs and boards of directors are reluctant to launch new business ventures that are uncertain, capital intensive, and that threaten the cash flow of existing product lines or relationships. And

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39 See Caves at 315 (“a large enterprise must be bureaucratic and rule-based to coordinate its team members in pursuit of a common set of objectives”); id. (explaining why unpredictability of success of particular projects meshes poorly with characteristics of large organization).
innovation is costly in another sense: rules reduce transaction costs, internally and externally. If a firm does something they way it always has been done, it does not have to think or to negotiate. Doing something that has never been done before requires much more high-quality—and therefore expensive—attention.

All of these realities produce high fixed costs and difficulty in coping with dramatic changes in consumer preferences and behavior. If technology, including new ways of organizing economic activity in the industry, reduces possible cost structures significantly, a once-successful firm is likely to find that it not longer is an effective competitor. If consumers shift their attention to new marketing channels, a once-successful firm is likely to find that it is spending lots of money on things that do not matter anymore.

Major labels still budget $300-400,000 to record an album. They provide big advances when they sign a band, although the amount is declining from the high hundreds of thousands of dollars to tens of thousands of dollars. Their executives and signed bands travel in limosines and expect lavish parties at major performances and music festivals. They continue to spend on what is essentially payola, albeit much of it directed so as to be legal.

They have always been engaged in a hugely risky and unpredictable business--55,000 of the 76,000 albums released in 2006 sold fewer than 100 copies. In this model, large profits on the successful albums subsidized the many that failed in the marketplace.

As fortune turns against them, the labels are more and more focused on musicians who already are celebrities and less inclined to invest in new, but unproven, talent. For example the cover of of the November 13, 2008 Rolling Stone magazine featured AC/DC (1974). Major stories inside the issue focused on The Dead, James Hetfield, Metallica's front man, Fleet Foxes, Eminem and Taylor Swift. The Clash, Queen, Van Morrison (1968), Rise

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40 One music blog reports that major labels spend about $500,000 to support radio play and $250,000 to record a major album. Michael Einhorn, Where the Big Label Model Totters, Digital Music News (Sep. 28, 2004), http://www.digitalmusicnews.com/blog/categories/Labels.

41 See section ___ on gaps in legal regulation of payola.

42 Rolling Stone, Nov. 13, 2008 at p.21.

43 Id. at 40.

44 Id. at 42.

45 Id. at 49.

46 Id. at 36.
Against and the Who. There was one column on new music, and feature stories on three newer bands, TV on the Radio, Fleet Foxes, and Franz Ferdinand.

Two possible motivations exist for such a retrospective emphasis. One is that the magazine and its advertisers want to target the baby boomers, a large demographic cohort that has more disposable income than younger fans. More likely is that the popular establishment has shifted its focus to what is safe—bands and performers of whatever vintage that proved their audience appeal in the past. Giving much attention to new groups is simply too risky.

Warner Music Group notes:

"The sale of catalog material is typically more profitable than that of new releases, given lower development costs and more limited marketing costs. In the first three quarters of calendar 2007, according to SoundScan, 40% of all U.S. album unit sales were from recordings more than 18-months old, and 28% were from recordings more than three-years old."\(^{52}\)

They concentrate on trying to build market share rather than increasing the size of the market. But for those already celebrities, a push by a major label has smaller marginal return that the same effort would have for a new musician. And the celebrities need it less; they are already well known.

The labels are pushing all their artists for “360 deals”— contractual arrangements in which the label gets, not only a share of revenue from record sales, but also a share of revenue from live performances, merchandise sales, and endorsements.\(^{53}\) The labels have no expertise in concert promotion or marketing of merchandise, but they are seeking a share anyway.

One of the reasons the major labels confront irrelevancy is that they no longer function as effective gatekeepers. Reduced barriers to entry because of technology have led to a proliferation of musicians who make their music available to the general public, without the need

\(^{47}\) Id. at 26.
\(^{48}\) Id. at 30.
\(^{49}\) Id. at 32.
\(^{50}\) Id. at 42.
\(^{51}\) Id. at 34.

\(^{53}\) CITE
to get permission from a major label. Some 10,000 Chicago-based MySpace music pages exist, for example.\(^{54}\) The vast majority of these artists write their own music, retain their copyrights in it, and acquire support services on an unbundled basis contracting with recording studios, hiring session musicians to perform arrangements (if necessary), contracting separately with CD pressing plants and with radio promotion services. They sell their music through separate services, which have non-exclusive licenses to distribute it.

There is less investment in new musician entrants to the industry because the major labels, under financial distress, have less capital and because the new intermediaries are not accumulating capital through profitability.

2. Live performances

Musicians and their agents can put their music in the marketplace in two ways: they can record it and distribute the recording, or they can perform live. Live performances generate some $3-4 billion per year in revenue,\(^{55}\) compared with about $10 billion for recorded music.\(^ {56}\) Control of large-venue performances in arenas and stadiums has become more concentrated in the hands of a few enterprises such as Live Nation. The only significant innovation has been the proliferation of major music festivals such as Bonnaroo, Lollapalooza, South By Southwest, and the CMC festival in New York. Festivals offer some advantages for consumers who are too busy with work or family to go to smaller venues several times a week. They can wait and see a dozen or more bands by going to one festival.\(^{57}\) Although originally hyped as providing exposure for indie musicians, in fact these festivals concentrate most of their capital and promotional activity on well-established bands, take advantage of hungry local groups, and do everything they can to limit competition by the musicians themselves and by alternative intermediaries. Lollapalooza, for example, pays local groups as little as $200 to perform, while insisting on non-compete

\(^{54}\) CITE Chicago Music Study.


\(^{57}\) See The Crowd Pleasers, Spin, May, 2008 at p.72 (noting how changes in leisure time use favor festivals over fixed venues).
agreements that prohibit the groups from performing 60 days before and after the festival. Lollapalooza prohibits independent photography, recording or video capture.

Live performances, unlike recorded music, are not threatened by digital technology’s erosion of copyright protection, but they are threatened by other forces. Promoters have had a harder time filling stadiums, and have shifted to multi-band festivals, which are better suited to midlevel indie bands with a buzz. But some prominent promoters disdain indie music. “If today’s indie bands remain at their current level of popularity, who will headline the fests of the future? You give it five years and it’s going to be scary.”

Live performances have advantages over distribution of recorded music. They are really a different product from recorded music. "[N]one of their recordings captured what they sounded like in front of dancers. They were driving an free and exultant. They were showing off for the dancers, and the dancers, in return, showed off for them. It was a fervent, ritualistic relationship that made the music as close to visual as music can be." The author of this observation could have been talking about a 9 December 2008 concert by the young pop group Vampire Weekend performing in Boston's Orpheum theater. A couple of thousand mostly college-age fans were belting out the words to every song along with the band, cheering the onset of each song from the band's first album. The whole theater was rippling with shoulders and hands moving to the rhythm.

"Musicians find that concerts concentrate their minds wonderfully. And blood lust is only one of the needs that concerts satisfy; there is also the need for public ritual and for a public architecture of time."

3. Publishing

As a musician becomes more popular, it becomes more likely that other musicians will want to perform ("cover") the first musician’s songs or to adapt them. Such a demand opens up a new revenue stream. The law's bifurcation of copyright between sound recordings and musical

58 David Browne, Outside Chances, Spin, May 2008 at p67, 68.

59 Id.

60 Id. at p70 (quoting Perry Farrell, promoter of Lollapalooza). They also engage in anti-competitive behavior aimed at smaller local venues. See id. at p. 70 (70-mile radius prohibiting on performing in other venues from date of festival announcement until 90 days afterwards).

61 Eisenberg at 78.

62 Eisenberg at 83.
works\textsuperscript{63} results in a bifurcated market structure, with the players in the market for licenses for musical works different from the players in the market for recorded music. Copyright collectives and sheet music agents, dominated by Hal Leonard, control the former. While most congniscenci refer to “publishing” income, it is not primarily related to publishing sheet music, but instead to royalties from performance and derivative work licenses. There is no performance right attached to sound recordings, but there is for musical works.\textsuperscript{64}

According to the Warner Music Group 2007 Annual Report:

"The top four music publishers collectively account for over 65% of the market. Based on Music & Copyright’s most recent estimates in 2005, EMI Music Publishing and WMG(Warner/Chappell) were the market leaders in music publishing, holding 17% and 16% shares, respectively. They were followed by BMG at 13%, Universal at 12% and Sony/ATVMusic Publishing LLC (“Sony/ATV”) at 7%. Independent music publishers represent the balance of the market, as well as many individual songwriters who published their own works."\textsuperscript{65}

**B. Effects of technology’s latest revolution**

Technology has increased the productivity of most inputs, reduced barriers to entry, and shifted consumption patterns and changed the ways in which new musicians and consumers find each other. The result is both intensified competition, and a shift in the locus of the market, away from traditional channels to new spaces, many of them on the Internet.

The new technologies for making, distributing, and listening to music have four major effects. They increase the number of musicians who make music and can reach potential consumers. They increase the demand for music, by making it more portable. They reduce the costs of making and consuming it. They reduce the effectiveness of the “gates” managed by the traditional gatekeepers. The combination of these effects reduces revenue streams available for the traditional gatekeepers—but also for each musician.

The increased productivity resulting from sharply lower costs\textsuperscript{66} is available to major labels as well as to indie musicians and new intermediaries, but, as § 0 above explains, the major labels will have difficulty taking advantage of these reduced costs. Accordingly, the major labels

\textsuperscript{63} 17 U.S.C. § ____ 0.

\textsuperscript{64} 17 U.S.C. § ____ 0.


\textsuperscript{66} See Cave at 257.
will continue to have high costs and find themselves less and less competitive. Concentration will not necessarily decrease over the long run because economies of scale will continue to exist in promotion and advertising. But the beneficiaries of these economies will be different firms—just as Microsoft and Google replaced IBM, Wang, and DEC at the top of the Fortune 500.

How the major labels evolve and who emerges to replace them depends on the effects of the demise of the CD, on the potential of downloadable digital files to plug the resulting revenue gap, and on law’s diminished role in determining the architecture of the marketplace for music.

**1. Effects of the demise of the CD**

A market based primarily on distribution of music embedded on physical CDs which were not easily obtainable unless they were paid for resulted in limited price competition because economies of scale at the manufacturing, inventory-management, and retail levels led to concentration at both the label and retail levels. This supported high margins and the tying of highly desired songs with less desired songs in the album format. The tying enabled push marketing of music that might grow in popularity once consumers were exposed to it.

High margins generated a fund that supported marketing and promotion bureaucracies that largely determined demand patterns. They also provided a pool of investment capital that could be directed to the development of unknown musicians. Getting a major record label deal was the main—perceived as the only—way a band could break through to real commercial success and celebrity status. Getting signed to a major label meant tens or hundreds of thousands of dollars in advances, some of which was received in cash and much of which was enjoyed in-kind in the form of production and recording support, food, travel and lodging. Label A&R representatives enjoyed considerable discretion in allocating significant amounts of capital to musicians that they, in their relatively independent judgment, believed had something to offer to music consumers. They prowled music venues seeking to discover new bands to sign.

The demise of the CD and its replacement by online distribution has increased competition at all levels, reduced concentration, and reduced margins. The traditional pools of investment capital have evaporated, hundreds of A&R representatives have been laid off, and those that remain have had their discretion curtailed by tightened rules on where investment may be directed and tougher requirements for higher level corporate approval before a new band may be signed.

The demise of the CD diminishes the capacity of the traditional intermediaries to control the marketplace.

**2. Limited potential of downloadable digital files**

Music consumers prefer downloadable digital files to CDs, but the revenue potential of digital sales is insufficient to support the same business model that was built on CDs. Sales of
CDs have declined every year over the last five years, by 8% from 2004-2005, 12% from 2005-2006, 17% from 2006-2007, and 25% from 2007-2008. Sales for 2008 were down 55%, compared with 1998. Revenue from CD sales was down by a similar amount. Over the same five years unit sales of digital singles increased by 163% for 2004-2005, 60% for 2005-2006, 38% from 2006-2007, and 28% from 2007-2008, and revenue from sales of digital singles increased by the similar percentages. Unit sales of digital albums increased 195% from 2004-2005, 103% from 2005-2006, 54% from 2006-2007, and 34% from 2007-2008, with revenue from sales of digital albums up by similar amounts.

Moreover—and this is the important part—the total number of digital sales was 1 billion in 2008, exceeding 385 million total shipments of CDs. Digital album sales were much less—57 million.

This shows, not a decline in the willingness of consumers to buy music, but a shift in consumer preferences from physical to digital formats, and to singles as opposed to albums. The hemorrhaging of major-label revenue may threaten the interests of the labels, but it does not prove that the music world is being savaged by thieves. It shows that consumers are willing to buy music. But it also shows that they prefer more convenient formats, that they resist having the songs they want being tied to songs they do not want, and that they want the prices they are charged to reflect the much lower costs of production and distribution which new technologies make possible.

Despite the explosion in demand for downloadable digital formats, the revenue flows are much less than for CDs. Total revenues from digital sales were $1.6 billion in 2008, compared to $5.4 billion for CDs shipped in the same year. This reflects a generally lower price for digital formats (averaging just under $1 for digital singles) compared with CDs (averaging just over $14 for albums—almost all CD sales are album sales), and the consumer preference for singles.

Other realities limit the revenue potential of downloadable digital formats. They are available from multiple sites on the Internet, some licensed, some not, directly from musicians on their websites or on their MySpace and YouTube pages, as well as from music services such


68 Id.

69 Id.

70 Id.

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as iTunes. This results in a much more competitive market structure at the retail level which puts continuing pressure on prices. It also makes it likely that musicians, their fans, and their promoters will make some of their music available for downloading for free.

3. Potential of live performances

Technology has changed the market for live performances much less than it has changed the market for recorded music. The technologies for live performances have changed only modestly over the last twenty years. Relevant developments are limited to more powerful sound systems and more widely available video screens, which permit larger crowds to see closeups of performers, regardless of their actual distance from the stage.

Nothing much has changed about the costs of starting and operating a live-music venue, regardless of size. Indeed, more aggressive enforcement and tougher health, safety and environmental regulations likely increase costs, as do increasing competition for land use in high-density areas. The supply of musicians willing to perform in these venues has increased, however, because of technology’s effects, and this is certain to reduce the prices at which musicians are willing to perform. But musician compensation has always been a small part of the total costs of the operation of smaller and medium-size venues. While technology has increased the popular demand for recorded music, the determinants of attendance at live performances has not changed. Potential audience members still must decide how much of their leisure time to devote to attendance, and how much of their discretionary income to allocate to pay for tickets or cover charges. The price of admission to very large venues has increased sharply, and the price for admission to smaller venues has not decreased.

All of this suggests constant demand and increasing supply for performances at music venues, with reduced revenue opportunities for musicians performing at such venues. Even though the supply of musicians willing to perform is increasing, the number of possible performances is constrained by the number of venues. Any venue still can present only three—or at most five—bands on a Friday or Saturday night.

If anything, technology provides alternative ways for potential concert attendees to fuel their “altruism” motivation. Web pages maintained by musicians or intermediaries allow fans to see photographs and full-motion videos of musicians, to obtain information about their backgrounds, to read their blog, to join their social networks as MySpace or Facebook “friends,” to subscribe to their newsletters and to post comments about them. This may mitigate public-

71 See ___ (explaining how portability of recorded music increases demand).

72 CITE
performance attendance, at least for those artists with sex appeal\(^{73}\) or other coherent, attractive images.\(^{74}\) Access to music videos and videos of interviews via the Internet is a new way of indulging this motivation for consumption.

Nevertheless, virtual access is only a partial substitute for attending live performances, but it is. The web-based opportunities satisfy some of the hedonic needs of music consumers but do not provide all of the value that attendance at live performances provides. Consumers of popular music report a special kind of satisfaction associated with their attendance at live performances, differing somewhat depending on whether the performance occurs at a small venue, with a capacity of 100 or less or as part of a much larger audience as an outdoor music festival such as Bonnaroo, Pitchfork Music Festival or Lollapalooza. In the large venues, visual observation of the performers is limited because of distance and obscured sight lines for most members of a large crowd. Many attendees actually watch most of the performance on large video screens adjacent to the stage.

Why is this better than watching the same group at home on a video display? Solitary observation does not provide the same sense of connection with the musicians as physical participation with hundreds of others in real-time interaction with the performers through singing along, cheering and applauding their performance, or shouting out requests for particular songs. Listening to the music on a home audio system is qualitatively different from listening to it at high volume in the open air.

C. Law’s role

MySpace and YouTube, now owned by Google and News Corporation respectively, iTunes, and major labels and film studios depend on intellectual property rights. Licensing of IP rights is part of almost every major shareholder and loan agreement.

But pervasive enforcement of copyright in connection with most exchanges of recorded music at the consumer level is impracticable. It cannot be done without imposing significant new burdens on internet intermediaries, and this cannot be done without destroying the core features of the Internet. The decentralized and immediate accessibility of MySpace for directly distribution of music by musicians would be impossible if MySpace were obligated to pre-screen every upload for possible IP infringement.

\[^{73}\text{See § }\_\_\_.\]

\[^{74}\text{Altruism may stem not from physical attraction in the conventional sense, but from a desire to associate with virtuosi in some aspect of music. One may wish to be identified with an a performer with unusually good guitar technique or good stage presence, for example.}\]
The same is true of the web hosting sites on which musicians create their own web pages and make them available to the world.

Law’s role—particularly the role of copyright law—in the music industry has declined. It will continue to decline. Music copyright has suffered two body blows: because of the proliferation of digital copies, it has become less enforceable and, as the value of recorded music declines, it is less worthwhile to try to enforce it.

Copyright protection for recorded music at the consumer level has become essentially unenforceable. Digital recording technologies make it possible to produce perfect copies of recorded music cheaply and quickly. Compression algorithms embedded in software known as “codecs” produce relatively small files that can be distributed in a few seconds via the Internet.

The economic viability of licensed channels for recorded music is more a function of lower consumer transaction costs for iTunes—but not for many major-label sources—than of respect for intellectual property rights.

Historically, copyright was most effectively enforced through bottlenecks in the distribution chain, printing houses in the case of books, disc duplicators in the case of recorded music.\(^ {75}\) The obsolescence of physical media for distributing music has removed these bottlenecks, and the proliferation of peer-to-peer file sharing networks has eliminated the last vestiges of centralization. Even when bottlenecks still exist, section 230 of the Communications Decency Act immunizes those intermediaries that refrain from controlling content of what is distributed through their facilities.\(^ {76}\)

While the music labels have won some prominent lawsuits, such as MGM v. Grokster,\(^ {77}\) in which the Supreme Court held that the distributor of peer-to-peer file sharing software could be secondarily liable for copyright infringement by users of the software, and A&M Records, Inc. v. Napster, Inc.,\(^ {78}\) in which the United States Court of Appeals for the Ninth Circuit rejected fair-use defenses asserted on behalf of users of Napster,\(^ {79}\) the impracticability of chasing all the

\(^ {75}\) Ithiel de sola Pool, ___.

\(^ {76}\) ___ U.S.C. § ___.

\(^ {77}\) ___ U.S. ___.

\(^ {78}\) 239 F.3d 1004, 1015 (9th Cir. 2001).

infringers and facilitators of infringement with copyright infringement actions means that copyright enforcement is pushed to the margins of any business model. Copyright remains useful in controlling the activities of large-volume pirates, but it is essentially irrelevant when end-users engage in small-scale reproduction and distribution of recorded music to their friends. The statute probably should be amended to encompass such technically infringing activities within fair use, but few stakeholders are likely to risk the uncertainty of opening up the copyright act to amendment.

As prices for recorded music decline toward zero with costs, the costs of copyright enforcement exceed the benefits. The result is nearly one in which no one is willing to pay (much)\(^80\) for recorded music. Technology makes it impossible to enforce copyright, but it does not matter, because no one would pay for music from either the originator or a pirate. A pirate cannot construct a viable business model.

The sword of victory for consumers also may be the dagger of defeat for indie musicians. The same technologies that have made it possible for hundreds of thousands of musicians to reach their fans directly have also eroded their ability to protect their art through copyright law, and this has a deleterious effect on constructing viable business models, as explored more deeply in § ___.

Copyright has not become entirely irrelevant. As the preceding paragraphs point out, it will still be enforceable and useful against large-scale commercial pirates. The creative commons idea, an outgrowth of the open-course movement in computer software programming, is considered in § VII.A.2 below. It provides a standard way for musicians to license their music for non-commercial sharing and adaptation without surrendering the copyright. In Jacobsen v.

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in notifying intermediaries such as You Tube, must evaluate fair use. The allegedly infringing material was a home video with copyrighted music playing in the background, posted on YouTube.

In Lennon v. Premise Media Corp., 556 F.Supp.2d 310 (S.D.N.Y. 2008), the district court denied a preliminary injunction holding that the probability of success on the merits was insufficient given evaluation of fair use factors in connection with 15 seconds of a copyrighted song played on a movie focused on religion and science controversies addressed by the lyrics in the song segment played. See also Zomba Enterprises, Inc. v. Panorama Records, Inc., 491 F.3d 574 (6th Cir. 2007) (affirming summary judgment for plaintiff in copyright infringement action against purveyor of karaoke discs; conduct of defendant was not privileged by fair use, given that entire songs were copied and that conduct adversely affected market for licensed songs).

\(^80\) Of course people will always be willing to pay for some music. Radiohead made its new music available for free, and 50% of those downloading it paid something for it. Creation of celebrity status, even if that is done by giving music away for free, generates some demand for celebrity music at a non-zero price. My colleague, Ed Harris, challenged me on the assertion that consumers seek celebrity by asking me how I grew enthusiastic about Vampire Weekend. To be sure, it was because I heard about their music on an NPR radio show, sought it out, and loved the music. I did not care at the time whether they were stars. I just liked their music.
Katzer, \(^{81}\), the United States Court of Appeals for the Federal Circuit held that violating the terms of such licenses constitutes copyright infringement, for which statutory damages and injunctions are available. \(^{82}\)

Furthermore, the Internet reduces detection costs for enforcement of performance rights. \(^{83}\) It only takes a few seconds to perform a Google search or to search on YouTube or MySpace for the name of a band or of a song. If unlicensed performance is occurring, it is fairly easy to find the notice for the live performance or for recording for sale.

Even the end of copyright would not mean the end of property or market exchange. Cave explains how the American market for British novels worked in the 19\(^{th}\) century, before such works enjoyed copyright protection in the United States. \(^{84}\) The practice emerged of paying British authors for early proofs of their works to permit American publishers to get a headstart on their competitors who had to wait to pirate the published version of the work. \(^{85}\)

The lesson for rights holders in the new music marketplace is that they must identify something to which they can control access and charge for access. Access to recording tracks or to the privilege of recording live concert performances might be examples.

Technology threatens copyright more than it threatens other forms of protection for musician identities. Demand for music results in part from a desire to be associated with the artists. Fan clubs have been a staple of such association for decades. Now, Internet based social networks increase both breadth and depth of the fan club idea. As a musician builds a persona and an image in the marketplace, trademark protects the visual symbols associated with that image. Persona can be protected through trademark. While it is expensive and ultimately futile to track down and sue successfully everyone with an unauthorized copy of a recorded song, it is entirely feasible to track down and get injunctive relief or a money judgment against someone pretending to be Vampire Weekend or Modofac.

### III. Who makes music now, why and how?

\(^{81}\) 535 F.3d 1373 (Fed. Cir. 2008).

\(^{82}\) 535 F.3d at 1380.

\(^{83}\) See Cave at 302.

\(^{84}\) Caves at 311-313.

\(^{85}\) Caves at 312.
Musicians make music for multiple reasons: to make money, to create art, to further camaraderie with bandmates, to obtain affirmation from a peer- or other reference group, and to achieve fame and notoriety more generally.\textsuperscript{86} Few musicians say that they make music only to make money. They make music because it is fulfilling and only secondarily do most of them say their dream is to make a living at it. The relative weight of the motivations varies from musician to musician, and over a particular musician’s career. The author’s \textit{New Architectures for Music} article\textsuperscript{87} specified production and consumption functions for popular music. It explained how digital technologies and the Internet are shifting these functions. It did not, however, consider how non-economic factors enter into the supply equation.\textsuperscript{88} This article extends that analysis; by probing more deeply the \textit{qualitative} aspects of music creating, distribution, and consumption, and draws on \textit{quantitative} data to evaluate various business models. Both supply and demand functions include variables for “hedonic” values—those related to personal fulfillment or pleasure and not easily quantified.\textsuperscript{89} The following analysis explores the role of these hedonic values, compared with pecuniary values.

\textbf{A. Hedonic values}

\textsuperscript{86} Formal data on musicians is nearly non-existent. Because most musicians are independent contractors rather than employees, they do not show up in data collected by the U.S. Bureau of Labor Statistics, which relies on surveys of employers. Because most of them are freelancers, they do no show up on data collected by the U.S. Bureau of Census, which relies on surveys of “business establishments.” As a result, this section develops estimates of the identity of musicians and their motivations, economic and otherwise, from the theoretical economics literature and from bottom-up estimates described in the footnotes.


\textsuperscript{88} New Architectures, 29 Hastings Comm. & End. L.J. at 302-304 & nn. 167-173 (constructing supply function only in terms of revenue and costs).

\textsuperscript{89} The word \textit{hedonic} signifies quality in a general sense and pleasure in a narrower sense. See ___ (value of xx and yy for musicians); ___ (value of www and zzz for consumers).
Musicians often are asked a fundamental question “why are you doing this—why do you make music?” Non-economic motivations drive most musicians. Music expresses one’s personality. Captivating an audience validates one’s self and beliefs.

While one can compose a song or perform someone else’s song more or less mechanically, according to a formula, most musicians do it more expressively. To discover a melodic line or a chord progression that is both pleasing and different from someone else’s expresses something from inside that is difficult to articulate verbally. To take a theme and develop lyrics that bring it to life provides more scope for linking your soul to reality than having a conversation or writing an essay.

Billie Holiday, for example, insisted on recording her “Strange Fruit,” despite the refusal of Columbia Records to put it on an album. “Holiday clearly reveled in the song’s effect, and she sang it almost every night during the year and a half that she performed regularly at Café Society. It was always the last song of her set, and she performed it with her usual flair. All activity inside the nightclub came to a halt. Waiters and busboys stood in their tracks. The room grew silent and the lights went black except for a thin pale ray focused on Holiday’s face. She sang the wrenching lyrics accompanied only by a light piano. After she was finished, she walked out of the hushed room without a word.”

A song does not have to be about murder to evoke strong emotions in a performer. “A song like that is so vulnerable,” said Billie Armstrong (referring to a Green Day song). “Instead of throwing your insecurities into a closet somewhere and keeping your guard up all the time, it’s like celebrating [them].” “Jesus of Suburbia . . . is Armstrong’s most personal song and, to his

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90 In this respect musicians are similar to law professors. “Why do you write law review articles? You don’t make any money off of them,” asked one indie musician, when the author was asking him about his motivations for making music.

91 “The first act of music composition occurs when the composer acts musically in a way that draws a reaction within his or her self . . . . Why did I compose this piece? Why did that work? Does this piece fit with my image of myself as a composer? Does this represent me in the universal context? Will it communicate effectively to my audience?” Roger Alsop, Exploring the Self Through Algorithmic Composition, 9 Leonardo Music Journal 89, 89 (1999).

92 “Mere expression of one's true self may not lead to secure self-esteem unless one can be sure such authentic expressions will be socially validated by others.” Jamie Arndt and Jeff Schimel, Will the Real Self-Esteem Please Stand up? 14 Psychological Inquiry 27,30 (2003) (No. 1).


mind, the high point of his career as a songwriter. ‘I think it’s the one I’m proudest of. . . . I never get tired of playing it live. It always makes me emotional.’95

Self-esteem can result from technical proficiency as well as from candid expression:

“I heard the Beatles very early on. . . . I just had to know how they made those sounds. I was just wonderstruck. I began to figure out how they played all those songs on guitar, bass, drums, piano. I had this quest to figure out how they did all that.”96

Touching consumers with one’s music is an important motivation: “[Billie] Armstrong is a giver. He writes to reach others as well as to express himself. . . . ‘Good lyrics have always been important to me . . . . Once somebody gets it, it’s like Oh, that’s cool.’”97 Ian Narcissi puts it this way:

“I’d like to just have a name--some way of people around the world knowing who I am. As far as the monetary status, I’m doing quite well in my career right now. So that’s not as important to me, to be a musician that’s making a great buck—though I certainly wouldn’t turn it down if the opportunity came.

“But right now it’s very difficult to get my name out there. Very difficult. I have my stuff all over MySpace, I have it all over my own web page, I have it all over. I can’t even tell you how many places I have it and yet the response is very small.

“A lot of people like it when they hear it, but it doesn’t sell. Yeah, I love it. Can you send it to me for free? But I just love doing it and I will do it till the day I die.”

"We wanted to leave a mark, to mean something to someone else," says Jason Holly, explaining why he, Aaron Priest, Jonathan Iseman, and Ben Brown organized Allgren. "I want to be in a rental car in California and hear my music on the radio," says Ben. "I want to be able to look back and know that I was creative and to be proud of my music. Music is an identifier for me," says Aaron.

Jamie Gallagher says this:

“I have two dreams. First I want to take my performance career to the next level; I want to turn more people on to my creative self." Ultimately, I would like to tour the world to do that.

95 Spitz, Nobody Likes You at 2.

96 Spitz, Nobody Likes You at 82 (quoting Billie Armstrong of Green Day).

97 Spitz, Nobody Likes You at 65 (quoting Billie Armstrong of Green Day).
“Second, I want to continue to teach. I have a lot to say about where drumming is headed, how to find your own voice as a drummer—or playing any instrument or singing. I want to start a blog, to write a book, reflecting that philosophy and also offering tips on technique and critiques of alternative directions for music's development.”

"There's absolutely no possibility of defeat. I've been through band breakups; they're difficult, but you don't give up. I don't have to prove myself anymore. I know what I can do, and anyone can see what I can do. Whatever else happens, I am part of a community of musicians. It makes me feel good when my friends succeed and break through. Such a community is unusual and I value that. It's an opportunity to learn--and to learn, not just how to play the drums better, not just to collaborate on creating better music, but also to learn about others things such as film scoring and synching a sound track to a video track.”

But music is a hedonic good for both consumers and musicians. Consumers want music they enjoy listening to; they do not just buy the cheapest music. This reality sometimes poses a dilemma for musicians. The strength of hedonic factors may not be symmetrical. Musicians want to make music they enjoy creating, even if it earns them less revenue that music they would not want to be associated with. While consumers probably will not listen to music they do not enjoy, musicians do make music they do not enjoy creating either because their existing fans demand it, or because they believe they have to make that kind of music to build mass market appeal.

Personal expression involves expressing changes and personal growth, both technically and psychologically. Jeff Tweedy of Wilco is famous for his anger over the conflict between what his audiences wanted and the kind of music he wanted to make: “They [the fans] were . . . our enemies; they were the ones who were not going to allow change . . . . The only songs we felt like playing were the new songs, and the songs that were going to be harder for them to accept...”

Frank Zappa expressed his frustration at similar conflict: “I got tired of playing for people who clap for all the wrong reasons. . . . Those kids wouldn’t know music if it came up and bit ‘em on the ass. . . . Kids go to see their favorite acts, not to hear them. . . . The best responses we get from an audience are when we do our worst material.”

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The Beatles, at the height of their popularity, yearned to venture in more creative directions. “Like John, Paul needed something new. There was no challenge anymore to churning out fare-the-well lyrics—the ‘moon and June stuff,’ as Paul disdained it . . . . [W]e wanted to do something bluesy, a bit darker, more grown-up. Rather than just straight pop.”

“You can’t be singing 15-year old songs at 20 because you don’t think 15-year old thoughts at 20 . . . . We were expanding in all areas of our lives . . . we were suddenly hearing sounds that we weren’t able to hear before.”

“We’re fed up with making soft music for soft people, and we’re fed up with playing for them, too. But it’s given us a fresh start . . . .[now] we can create something that’s never been heard before: a new kind of record with new kinds of sounds.”

“Rock ’n roll is, you’ve gotta follow your own beliefs; it’s all about freedom,” says Chris Martin of Coldplay.

Tim Sandusky put it this way:

“There’s more to playing music than making money off of it. If I want to make money from music, I should write popular songs and recruit a really attractive young singer to sing them and an investor to finance marketing and promotion. That’s not what I want to do. I would be happy to spend money to make Oucho Sparks what it should be.”

For Oucho Sparks, the objectives are to write and play good music, to become well known and respected, and to make a living.

He pauses. “When you go to sleep at night, it’s nice to be able to say, ‘Wow! I did a lot of things I wanted to do, today.’ I say that almost every night.”

David Safran says, “I got started because I wanted to make music that I wanted to hear. At some point in high school I realized, ‘I can do this!’ I always wanted to make something that I enjoyed. What my friends did didn’t really matter. The highlight of my college experience was when one of my professors—he had become a kind of mentor—played my songs on the last day of class and then pulled me aside. ‘You are not great at all, but you could be,’ he said. I want to write good material, perform good material, and have an audience that embraces it.”


102 Spitz at 584.


That music is a hedonic good for the highest and lowest in the musical order does not mean, however, that money is unimportant; it is hugely important at both ends of the spectrum, as this part of the article explains. The hedonic quality of music, however, makes financial success and failure extremely hard to predict, because it is difficult to measure or predict hedonic value of a particular song or performance, beyond the rough instincts that any good songwriter, performer, producer, promoter or A&R rep gains with experience.

B. Making money

Despite the importance of hedonic factors in making music, money matters to artists. Money is a means of survival in a market economy. Everyone, including musicians, need food, shelter, clothing, transportation, and healthcare. Musicians also need money to pay for the input factors of making music: including instruments, studio recording time, and rehearsal space.

1. Why money matters

Depending on a musician’s preference function, the relative utility of money for different purposes varies. A rational individual, confronted with different income situations, chooses among consumption possibilities to maximize pleasure. In 1943, economist Abraham Maslow observed that consumer preferences are guided by a hierarchy. "In Maslow's hierarchy, human needs for survival are primary; the need for safety is secondary. Following in sequence are needs related to love and belonging, the need for esteem, and the need for self-actualization." Persons with limited income may spend it all on basic needs. As wealth increases, they are able to afford goods and services higher on Maslow’s pyramid: vacations, better housing, nicer cars, more elaborate entertainment. While money is essential for satisfying Maslow’s lower-order needs, it is not the only way to satisfy higher-order needs. Indeed it often is not possible to buy esteem.

In modern society, moreover, money has intrinsic value—beyond what it will buy. Generally, in American society, wealth is a proxy for success. In most fields, modest income relative to others in the field signals modest professional success. Conversely, making more money than others in the same field indicates greater success. It permits one to be a big shot in the eyes of friends and family.

106 Paul A. Samuelson, Utility, Preference and Probability, in 1 Collected Scientific Papers of Paul A. Samuelson 127, 127 (ed. Joseph E. Stiglitz 1966). “[W]e buy goods, services, and junk because these things give us pleasure, or utility. The more pleasure we seek, the more we will buy.” Bradley R. Schiller, The Economy 371 (1975).

107 Mary Elizabeth Milliken, Understanding Human Behavior 63 (6th ed. 1997)
Money from music is a validation of self-esteem for musicians because it indicates that others like the music well enough to pay for it; and it builds credibility with reference groups—making money is the difference between “making something of yourself” and “fooling around.”108 “Yes, it matters if I can make a living at music; otherwise I am not a professional,” says David Safran. Money from music, therefore has a special cachet, compared with money from other sources: it validates one’s music endeavors.

No one enjoys economic privation—not being able to afford a car, not being able to treat friends to a dinner or a drink, having to defer purchase of a new guitar or computer. Even without being truly wealthy, a musician enjoys what a comfortable income buys. To satisfy his needs and wants, musicians, like everyone else, can derive income from one or more of several sources. They may receive subsidies from parents, friends, the government or sponsors.109 They can earn income from day jobs. They can earn income from their music. All other things being equal, musicians would prefer to make money from music rather than in other ways. The greater the income available from their music, the less need they have for income from subsidies or day jobs. But the money they can make from music is certain to be less than what they can earn from day jobs. “Some percentage of everyone’s day must be devoted to surviving,” says Tim Sandusky. “Only a few lucky ones get to spend a large percentage of their days doing exactly what they want.”

The reality is that most musicians will never make a comfortable income from their music. For some, the lure of becoming rock stars keeps them in the game, but the facts show that they are less likely to become rock stars than to get hit by lightning. For most, the question is whether—and when—the opportunity cost of devoting substantial time to their music becomes too great, causing them to exit the music market. The interesting question is not whether musicians want to make money: the vast majority of them do. The question is whether they can make money from their music and how they will react if they cannot.

Despite the reality that prospects for earning a living from music are modest, few musicians are able to put the rock-star fantasy out of their heads. Some entertainers, including pop musicians, are known to make fortunes. Rock stars are rich. It is difficult for a rock musician to escape the status of being a rock star as the defining goal. But the reality is that a typical musician, serious enough about his music to have a MySpace music page has a .024 percent

108 Not only parents emphasize the different. Brian Kennedy, one of the young actors in the author’s musical was rebuked by his agent for accepting a role in the musical—“following your passion”—as opposed to building a career by accepting modeling jobs. The difference was money. Mr. Kennedy wants to be an actor, not a model.

109 “Subsidies,” as the term is used in this article refers to payments made by third parties—persons other than a musician or a consumer of that musician’s music outside a direct exchange for the music.
probability of becoming a superstar.\textsuperscript{110} By way of comparison, a person has a 0.027 percent probability of being struck by lightning,\textsuperscript{111} a .022 percent probability of being murdered,\textsuperscript{112} and a .02 percent probability of being killed in an automobile accident.\textsuperscript{113} In other words, a musician has as much chance of being killed in a lightning strike, a murder, or an automobile accident as becoming a rock star. Not only that rock stars do not remain stars for ever. Most peak in popularity and then largely disappear from public consciousness. As Tim Sandusky puts it, “Rock stardom is rare, but life-long rock stardom is crazy rare.” Roughly speaking the expected, undiscounted, value of superstardom for the average serious musician is $2400.\textsuperscript{114}

The small subset of musicians who qualify as celebrities earn enough from their music to satisfy all their wants. Everyone else cannot earn enough from music to put bread on the table. In effect, they have to use leisure time to make music. They may engage the fantasy that they make some money off music, but more careful scrutiny of the actual profits, once expenditures are considered, often reinforces the idea that they are basically using leisure time—although positive revenues may be badges of professionalism, regardless of the actual profitability. Those who are unemployed have nothing but leisure time. They still have to eat, however, so they must have some means of support, which can only come from subsidies or savings from past employment.

\textsuperscript{110} According to the RIAA, a total 240 performers have sold 10 million units (albums) or more. http://www.riaa.com/goldandplatinumdata.php?resultpage=2&table=tblTopArt&action=. Assume each musician earns $1 per $19 album. Each of these musicians thus earned $10 million over a lifetime. If the average career is 20 years, that would be $500, 000 per year. There are 10,000 myspace pages in Chicago, which has a population of 2.8 million or about 3 million. Extrapolating to 300 million people in the U.S., one arrives at the estimate of about 1 million musicians in the U.S.. Dividing 240 by 1,000,000 yields a probability of 0.000240 probability of making $500,000 per year.

\textsuperscript{111} Odds = 1 : 280,000 (3.57 x 10-6) of being struck by lightning www.lightningsafety.com/nlsi_pls/probability.html

\textsuperscript{112} Odds of being murdered: (22 x 10-3) 22/100,000 http://www.ncjrs.gov/html/ojdpjjbul2000_12_3/page5.html

\textsuperscript{113} probability of being involved in an airplane accident are only 1 in 11 million (9 x 10-8). However, the chances of dying in a car crash are actually 1 in 5000 (2 x 10 x 10-3)http://www.associatedcontent.com/article/146247/airplane_safety_overcome_your_fear.html

\textsuperscript{114} $10 million times .00024. The $10 million figure is lifetime earnings from an album. If one applied a discount factor, to allow for the fact that money received in the future is worth less than money received now, the figure would be even lower.
Others can ensure adequate leisure time through some combination of subsidies and day jobs that provide adequate income for basic needs (and whatever else they demand from Maslow’s hierarchy) without squeezing out time for music.

2. Day jobs and opportunity cost

For the vast majority of musicians, income from day jobs exceeds music income. These musicians must decide how much of their time they will devote to day jobs and how much they will devote to music. Richard Caves divides the universe of musical artists into two basic categories: starving and well-fed. He observes that the elastic supply of artists depresses their wages compared with what they could earn at what he calls “humdrum labor,” alternative occupations suited to their general levels of education, skills and experience. Artists seeking to break through to popular success, he observes, are willing to accept near-zero music-related wages as an investment in potential success. But, since they have to finance their basic needs for food, shelter, and clothing, they usually accept humdrum employment—“day jobs.” In selecting day jobs, they rationally prefer ones paying the highest wages and requiring the fewest hours, in order to leave time for their music activities, the purpose after all is not to build a career around the day job, but only to finance their creative music effort.

Passing up other career opportunities in favor of music, as Cave describes, imposes a cost. Whether a musician decides to do this involves an economic decision: one that depends on the relationship between music income and other income possibilities. This gap between music income and day-job income represents the opportunity cost of making music at the expense of other employment.

In any market there is a price below which some potential suppliers will not sell. This can be characterized as their “reservation price.” In the music supply context, the relevant reservation price is the price for a musician’s labor. Two such prices are relevant: the price obtainable in the

115 See Caves at chap. 3 (“Artists, Starving and Well-Fed”).

116 Because the adjective “humdrum” is pejorative—“lacking variety; dull; monotonous; boring” Webster’s New World Dictionary (2d coll. Ed. 1972)—this article uses the term most musicians use: “day job.”

117 See Caves at 78.

118 Id.

119 See id. at 79-80 (reporting empirical studies concluding that on the order of 75% of artists of all kinds have humdrum jobs, and that income from their art produced at most 46% of their total income and for many, was negative).

120 Id. at 78.
music market, and the price obtainable in the day-job market. A rational musician who derives no hedonic value from making music will devote labor to making music only if the price for his music activities exceeds the price for his labor in the day-job market. For most musicians, who do derive hedonic value from making music, the choice is more complex. They must balance the total value to them of making music and eking out a basic existence from the goods and services that a small income will buy against the value of enjoying the goods and services that a higher income will buy. The reservation price, and thus the economic incentive to make music, derives from opportunity cost—what the musician could earn in other employment that excludes music.

An example is useful. Imagine a typical indie musician. The analysis in § VII.A.1 suggests that he can make about $7500 per year from music. If the musician spends all his time making music, he earns about $3.50 per hour. Minimum wage effective in 2008 is $6.55 per hour. The opportunity cost of making music is the difference: $3.05 per hour. A perfectly rational, non-hedonic, musician will make music only if he can earn $6.55 or more per hour from music. A hedonic musician must derive satisfaction from music making equal to or greater than $3.05 per hour.

On the other hand, the $3.05 hourly opportunity cost may represent an investment in future income possibilities. The musician may expect that the relative price for his labor in the music market may change relative to the price for his labor in the day-job market over time. If he expects to become a rock star, that surely will be the case.

Evaluating the rationality of such an investment depends on the expected value of lifetime day-job earnings, compared with the expected value of lifetime music earnings. Section ___ estimated that the expected present value of becoming a rock star is $2400. The U.S. Bureau of Labor Statistics has collected data for many years on average earnings as a function of years out of school and years of school completed. The most commonly accepted summary of the data says that the wages of high school graduates:

- Grow 35% in the first ten years, for an average hourly wage of $7.69 during that ten-year period.
- Grow 25% in the next fifteen years, for an average hourly wage of $8.66 during that 15-year period, and

121 See Tyler Cowen and Alexander Tabarrok, An Economic Theory of Avant-Garde and Popular Art, or High and Low Culture 67 Southern Econ. J. 232, 233 (No. 2 2000). (modelling artist's utility function as additively separable function of consumption of goods other than art and art production--nonpecuniary satisfaction)

122 Based on fifty forty-hour weeks in a year.
Decline 16% in the next fifteen years, for an average hourly wage of $7.97 during that 15-year period.\textsuperscript{123}

So during the first ten years, a musician can expect to earn $15,380 annually from a day job, resulting in an opportunity cost of $5480 per year of concentrating on music.\textsuperscript{124} In the next fifteen years, the day-job annual compensation grows to $17,320, resulting in a gap of $7420. Then in the next fifteen years, the day-job annual compensation shrinks to $15,940, narrowing the gap of $6040. Starting wages and early growth rates are much higher for those with more education.\textsuperscript{125}

In other words, it is not likely to be rational for a musician with a high-school education to chose music as an income-producing career over a series of day-jobs. For those with more education—or opportunities for more education, the music choice is even less rational.

That explains why popular music is mainly a young person’s game.\textsuperscript{126} Most of the performers and most of the consumers are in their late teens, twenties and early thirties. This is the demographic group that has the most leisure time (except for retirees) and the least attractive day-job employment opportunities. They also have the greatest prospect for family-based subsidies.\textsuperscript{127}

Of course the real choices are not so stark, involving an all-or-nothing choice between a music career and a law career. The opportunity cost for the artists that Cave discusses represents at least two different influences. One influence represents the income obtainable for an alternative career that leaves little room for music at the professional level. Lawyers or young

\begin{itemize}
  \item Kevin M. Murphy & Finis Welch, Empirical Age-Earnings Profiles, 8 J. Lab. Econ. 202, 204 (1990) (summarizing results of usual quadratic formulation of data).
  \item Compared with the $9900 ($7500, plus $2400) available from music.
  \item Id. at 207.
  \item See Kee H. Chung and Raymond A. K. Cox, A Stochastic Model of Superstardom: An Application of the Yule Distribution, The Review of Economics and Statistics, 76 Rev. of Econ. & Statis. 771, 771 (No. 4 Nov., 1994) (characterizing earlier studies as showing that “only the young enter the occupation and earn low incomes playing to small crowds, and only the successful stay on”).
  \item See Tyler Cowen and Alexander Tabarrok, An Economic Theory of Avant-Garde and Popular Art, or High and Low Culture 67 Southern Econ. J. 232, 238 (No. 2 2000) (postulating a positive correlation between family wealth and choice of the arts as a profession). Parents with adequate means do not generally say to a 24-year-old son who is a member of a rock band, “We like that song; we’ll buy it from you.” They say, “until you are on your feet, we will continue your allowance,” or, “we will pay your apartment rent,” or “we will pay for your car and the insurance on it.” In other words, they subsidize the son’s music.
\end{itemize}
executives who give up their conventional careers to make music choose to pay this cost, as do young people who pursue music instead of going to law school or getting an MBA, or, in many cases, skipping university education altogether. This is the opportunity cost that their parents often worry about. Others make the opposing choice. The scores of the author’s present and former law students who once were musicians\textsuperscript{128} are examples. They decided that the opportunity cost of pursuing music throughout their lives was too high.

In reality the choices are more frequent and pragmatic. A musician has to choose on a week-to-week basis whether he works a few more hours at his day job to generate income or works a few hours less so he can devote more time to developing, recording, or performing a new song.\textsuperscript{129}

These choices, driven by opportunity costs, determine the career paths of musicians and their bands, considered in the next section.

C. Career paths

Career paths for musicians vary widely. Some scratch their way into stardom, with entrepreneurial energy that meshes with the popular culture of the moment. Others reach certain plateaus of popularity, ranging from regional celebrity to hobbyist. Some exit and stop making music seriously. All confront a fairly typical life cycle.

1. Life cycle of a band

Musicians—and this includes Elvis Presley, Buddy Holley, the Beatles, Bright Eyes, Fall Out Boy, and Vampire Weekend, as well as those yet undiscovered—go through a series of phases.

First, is the formative phase, when they crystallize their interest in music and start their first band. This usually occurs in junior high school or in high school.

Second, is the college phase. Some pass up college, usually to concentrate on music. Those who go to college either: give up music as a career ambition and embark on another track or reinforce their commitment to music by continuing to create and perform music while they are in college, often majoring in music

\textsuperscript{128} Actually, they always will be musicians, and try to fit music around their obligations. But, to keep things simple, it is easier to accept their characterization that they gave up music to become lawyers.

\textsuperscript{129} Accord Tyler Cowen and Alexander Tabarrok, An Economic Theory of Avant-Garde and Popular Art, or High and Low Culture 67 Southern Econ. J. 232, 235 (No. 2 2000) (artist increases art production until "the loss in utility from the income decline is just balanced by the increase in utility from working on more preferred art").
Third, and overlapping the first two, they begin “playing out”—performing music live. Initially they do this for each other—“let’s pretend we are on stage.” Then friends drop by to listen to them. Then they play some gigs in clubs close to home. After that, many extend their live performance efforts into an expanding market, other, larger clubs in their metropolitical area, and eventually for a subset, touring other towns and cities.

Then, once they have a repertoire of songs, tempered by performing them, they make their first record as soon as they can raise the money.

After that, the pathways diverge dramatically. Some—a tiny handful—realize their fantasies and become rock stars. A few—the entrepreneurs, more numerous than the rock star successes, but still a minority, aggressively and imaginatively promote themselves and their music and achieve a significant following but never quite break through. Most pursue music essentially as a hobby, although they label themselves “professional musicians,” and spend much of their time lamenting the need to hold day jobs to support themselves. All of them eventually exit the community of musicians, most by the time they are thirty, many of the entrepreneurs soon thereafter, and the handful of rock stars only when they die.

The phases intersect opportunity cost in important ways. The opportunity costs of devoting oneself to music increase over time through the twenties and thirties, as explored more deeply in § III.B.2. The gravitational pull of alternative career tracks thus increases through about age forty.

2. Two case studies of successful entrepreneurship: Vampire Weekend and Fall-Out Boy

This section compares the rise of Vampire Weekend, a New York based band, with the somewhat earlier rise of Fall Out Boy, a Chicago-based band. Both bands enjoyed meteoric ascendancy in the trade press and in the affections of music consumers. Both bands worked hard, not only on their music, but also on their image. Their success stories illustrate their life cycles and the roles of entrepreneurial energy and luck.

a) Vampire Weekend

In February, 2006, Vampire Weekend played its first show at a student-run battle of the bands competition. Out of the four bands competing, Vampire Weekend received a lowly

\[ \text{(130) This section was written by Joe Panza, Chicago-Kent College of Law, Class of 2010, research assistant to the author.} \]

\[ \text{(131) http://www.spin.com/articles/vampire-weekend-graduates?page=0%2C2} \]
third place. This loss was short-lived, however. Rolling Stone magazine selected the band’s song *Cape Cod Kwassa Kwassa* as one of the 100 best songs of 2007.\(^{132}\) The following January, the band was shot for the cover of Spin magazine.\(^{133}\) Such a quick rise to fame, it is not unprecedented, but Vampire Weekend achieved this level of hype before releasing its debut album.\(^{134}\)

Vampire Weekend’s poor performance at its first competition was predictable. The band booked the show before its members they had ever practiced together. Instead of rehearsing, the band spent this time discussing its name and approach. The name Vampire Weekend comes from the title of a movie the band’s singer, Ezra Koenig, had made years earlier.\(^{135}\) In the movie, Mr. Koenig played a character named Walcott who had to travel to Cape Cod in order to save the country from vampires. Some of the band’s first songs were based on Walcott and Cape Cod as well.\(^{136}\) The allusions to this upscale vacation spot are not merely incidental. Vampire Weekend’s entire image revolves around such upper class subjects.\(^{137}\)

The band’s four members, Ezra Koenig, Rostam Batmanglij, Chris Tomson, and Chris Baio, met while attending Columbia University.\(^{138}\) Their Ivy League education has been mentioned in nearly every review of their music: from a review of a CD-R they passed to the blog Stereogum in April 2007 to Rolling Stone’s review of their full length album in February of 2008.\(^{139}\) Ezra Koenig’s status as a fourth generation Ivy Leaguer has also been reiterated in


\(^{133}\) [http://www.spin.com/videos/vampire-weekend-cover](http://www.spin.com/videos/vampire-weekend-cover)


\(^{137}\) “They wear their Ivy League educations like a badge (or rather, a Ralph Lauren logo). VW will have their clothing preppy, their lyrics laced with literary (and architectural and nautical) references, and their music rinsed through that stuff most people only listen to as students – what’s it called again? Oh yeah, world music.” FluxCapacitor, The Only Living College Boys In New York, [http://mog.com/FluxCapacitor/blog/140918](http://mog.com/FluxCapacitor/blog/140918).


various magazines and blogs. The reason that the press has dwelled on Vampire Weekend’s privileged background is that the band uses it as a hook. Ezra Koenig publicized his family’s Ivy League history on his blog long before Spin printed it in its cover story about Vampire Weekend.

Vampire Weekend created this theme in a “band manifesto” before they played its first show. Many of the rules in the manifesto laid out the band’s sound: no trip-hop beats, no distorted guitars, influences ranging from the Smiths to the late South African Singer, Brenda Fassie. However, the manifesto also defined the band’s image, including a rule banning members from wearing t-shirts during their performances. Following the band’s upper-class theme, Ezra Koenig prefers to wear cable knit sweaters and boat shoes on stage. Spin described the manifesto as a sign that the band is “highly conscious of its mythmaking.” If its music is thought of as a product, this conscious decision to create an image was its branding.

Vampire Weekend’s consciously crafted image extends beyond what the band wears on stage. The band played its early shows at the houses of Columbia University literary societies. Band member Rostam Batmanglij stated, “I feel like those shows were the best because they were-- it was kind of our vision for our band.” These literary society shows fit Vampire Weekend’s image so well, they used a photo of a chandelier hanging above one of these performances for the cover of its album. The upper class imagery continues on to one of the band’s videos, in which Vampire Weekend plays the song Mansard Roof on the deck of their sailboat. Most of Vampire Weekend’s lyrics fit into the band’s preppy theme as well. The band’s debut album contains references to nautical history, the Oxford comma, Cape Cod, Benetton, Hyannisport, and different types of teas. The linking of their upbringing and

140 http://www.spin.com/articles/vampire-weekend-graduates?page=0%2C2
141 http://www.amplifiermagazine.com/amplified/vampire_weekend.php
142 http://www.philly.com/philly/entertainment/music/20080207_Before_CD_debuted_it_was_already_a_success.html
143 http://www.spin.com/articles/vampire-weekend-graduates?page=0%2C2
144 http://www.thefader.com/articles/2007/6/7/vampire-weekend-vants-to-rock-your-face
145 http://www.pitchforkmedia.com/article/feature/47957-guest-list-vampire-weekend
146 http://www.spin.com/articles/vampire-weekend-graduates?page=0%2C0
147 http://vampireweekend.com/video.php
148 http://vampireweekend.com/lyrics.php

Business models-63.doc
experiences and the subject matter of their songs brings an authenticity appealing to audiences.  

Some of the band’s lyrics, however, do not fit precisely into this stereotypical preppy mold. Lyrics regarding kefir, a keffiyah, Dharamsala, Darjeeling tea, Old San Juan, and seemingly the Falklands War carry connotations of cultural appropriation and colonialism. In a Spin interview, Koenig stated: "Every once in a while, we've seen some things where people try to bring colonialism or appropriation into [talking about our band] in a negative way -- but that debate has already happened. We're in a context that's coming after instances of people actually stealing from each other.”

The band has described its sound “Upper West Side Soweto,” an amalgamation of one of the richest sections of Manhattan and one of the poorest sections of Johannesburg. Vampire Weekend’s musical style is a form of cultural appropriation as well, although Ezra Koenig insists that it is irrelevant whether their afro-pop sound is authentic. Both music blogs and the mainstream press often compare Vampire Weekend’s music to Paul Simon’s Graceland album, because of its similar uses of clean guitars and an upbeat afro-pop sound. Vampire Weekend’s songs A-Punk and Boston, however, sound closer to ska punk than anything off of Graceland. Vampire Weekend’s sound also differs from Graceland’s because of its heavy use of strings and a synthetic Mellotron, as opposed to Paul Simon’s chants and slap bass. The Mellotron in particular, an instrument best known from the Beatle’s song Strawberry Fields, makes it feel like Vampire Weekend’s music would be more appropriately played in a Wes Anderson movie than at a concert in Zimbabwe. The band’s new sound has also been well received critically, with

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149 “Vampire Weekend is a world drawn with the details of an insider, but that doesn't mean the portrait isn't critical. The last line of "One"—"Oh, your collegiate grief has left you dowdy in sweatshirts/Absolute horror!"—is as bitterly mocking as Evelyn Waugh or Whit Stillman (who also took their snipes at the upper class from a close range). What makes VW not the Decemberists is simple: The Decemberists were not sea captains in the 1900s, whereas Vampire Weekend did go to an Ivy League college in the Northeast, and at least one of them was a literature student. Their style is restlessly cultivated, but it's rooted in their experience. And under all the wit and posture, they bury real sentiment.” Mike Powell, Please Ignore the Embroidered Dog Sweater, The Village Voice, Jan. 22, 2008, http://www.villagevoice.com/2008-01-22/music/please-ignore-the-embroidered-dog-sweater/.

150 http://www.spin.com/articles/vampire-weekend-graduates?page=0%2C4

151 http://www.washingtonpost.com/wp-dyn/content/article/2008/01/28/AR2008012802634.html

152 http://www.spin.com/articles/vampire-weekend-graduates?page=0%2C4

Pitchfork rating its album an 8.8 out of ten and Rolling Stone giving it 3.5 stars. The band resists over analysis of its music. “We're musicians, not nerd-experts on every genre of African music. We don't have to be musicologists to make the link to African music. Anyway, we focus on concise pop structures, drawing elements from other genres.”

Vampire Weekend’s music alone, however, does not explain why they were photographed for cover of Spin before releasing its debut album. The band’s music and the intriguing image they created are only parts of what led to their rise in popularity. Another factor was its approach to self-promotion. Like many bands, Vampire Weekend created a Myspace page and recorded a demo CD-R early in its career. Its approach to distributing the demo and mp3s differed from most other artists, however. Singer Ezra Koenig asserted that the band did not send its demo to record labels because “these people don’t want listen to some random thing they don’t have context for.” Instead, Vampire Weekend aggressively distributed its demo and mp3s to blogs.

The band was mentioned first in the African music blog Benn Loxo Du Taccu on August 18th, 2006, after Koenig sent the site an mp3 of Cape Cod Kwassa Kwassa. The site posted the song to share with its readers but did not review it or discuss Vampire Weekend at length. On January 10th, 2007, the blog Ear Farm did a full post on the band and made both Cape Cod Kwassa Kwassa and Oxford Comma available. The site’s review of the band was positive, calling Vampire Weekend the “group of African music making white boys in all of New York.” More importantly, Ear Farm has an Alexa traffic rank of 240,545, whereas earlier blogs that

155 video interview re origins of music, http://www.youtube.com/watch?v=I UdHjgJARgg

156 http://www.spin.com/articles/vampire-weekend-graduates?page=0%2C0
158 Andy Greenwald, The Graduates: From the Ivy League to the Big Leagues at the New Speed of Buzz, Spin, Mar. 2008 at 61, 64-65 (cover photo of band captioned “The Year’s Best New Band…Already!”)
159 Spin at 65.
161 http://earfarm.blogspot.com/search?q=vampire+weekend&updated-max=2007-11-29T10%3A55%3A00-05%3A00&max-results=20
mentioned the band were not popular enough to be ranked. Vampire Weekend’s popularity achieved critical mass after it was mentioned on April 13th, 2007, in the blog Stereogum, a popular blog that has become an indie music tastemaker. The band had sent its demo to the blog’s writer Amrit Singh, and it paid off with a review that described its songs as “indie-pop gems of a different cut.” This post also made the songs Cape Cod Kwassa Kwassa and Oxford Comma available to download. This was likely the largest audience the band had received thus far, considering Stereogum’s impressive Alexa traffic rank of 10,326. Chris Thomson, Vampire Weekend’s drummer, acknowledged that “there was kind of a tipping point in April of 2007. Suddenly at our shows there’d be more non-friends than friends.”

By June of 2007 Vampire Weekend was touring fulltime and at each stop on the tour the shows were packed by fans who heard the band’s songs on various blogs. By the time Vampire Weekend’s tour ended in July, they were signed to the record label XL. Even getting signed to XL was the result of a blogger. The blogger behind Good Weather for Airstrikes saw Vampire Weekend perform at Columbia, and he wrote a positive review of its music. Later, the blogger was approached by XL A&R rep Imran Ahmed, and the two discussed the band. Imran Ahmed called them the best new band he had heard all year and signed them to the label. The success of the band’s promotional approach was solidified. Blogs generated more than enough hype for the band, and as Spin noted “so-called ‘old media’ -- labels, MTV, The New York Times, even national magazines -- were quickly forced to respond to the buzz.”

By mid-2009, when the band took some time off to record its second album, it was one of the most popular bands in the United States.

**b) Fall Out Boy**

The pop-punk group Fall Out Boy followed an unorthodox path to popularity. Like Vampire Weekend, Fall Out Boy’s success is partially due to the band’s image. Vampire Weekend, however, publicly feigns not caring about its image, whereas Fall Out Boy flaunts the fact that its bad-boy image is a key part of its marketing strategy. To some extent, Fall Out Boy considers its image more important than its music, because of the scene that fans have


created around it. The most outspoken member of Fall Out Boy, bassist Pete Wentz, stated that the “most important thing is the brand, and the shift in pop culture we’re making.”

Fall Out Boy formed in 2001 in the Chicago suburb of Wilmette, Illinois. The members of the band knew each other from previously playing in various local straight-edge metalcore bands, including the relatively popular band Arma Angelus. Drummer Andy Hurley and Bassist Pete Wentz played together in the band Racetractor, a metalcore group known for its extreme political views and an album entitled *Burn the Idol of the White Messiah*. The members of Fall Out Boy grew disillusioned with the metalcore scene and decided that their nascent band would have a pop-punk sound instead. The band released a three song demo, the lyrics of which were a notable shift from Racetractor’s. Instead of overdramatic political statements, the lyrics on Fall Out Boy’s demo contained overdramatic references to lost love and teen angst. Examples of lyrics from the demo include “your smile reminds me of switchblades and infidelity. Last night I saw my world explode” and “I dried my eyes, now I crust them with sleep. I’ll crust them over. She begged me: don't hate me.”

Fall Out Boy released its first LP in May 2002. The release was on the Uprising label and was split with the band Project Rocket. Fall Out Boy released a second LP on the Uprising label in January of 2003, named *Evening Out with Your Girl*. A month later, the band performed at South by Southwest, which attracted further attention. By the end of April, Fall Out Boy became the first band to sell one million downloads on PureVolume.com, and larger labels started a bidding war to sign the band. Fall Out Boy signed on with the label Fueled by Ramen to release the album *Take this to Your Grave* in May, 2003. The band produced a video for the song “Grand Theft Autumn/Where is Your Boy,” which helped the band gain popularity when the video received minor airplay on MTVU. The album and video were funded in part by an advance the band received from Island Records that gave label a right of first

167 http://www.nypost.com/seven/06062007/entertainment/music/teenage_tasteland_music_maureen_callahan.htm?page=0
168 http://www.godesktop.com/music/fall_out_boy/biography.html
171 http://www.mtv.com/music/artist/fall_out_boy/artist.jhtml#bio
172 http://www.allbusiness.com/retail-trade/miscellaneous-retail-retail-stores-not/4559242-1.html
173 http://www.falloutboyforum.com/profile.htm
refusal on the next Fall Out Boy album.\textsuperscript{174} By the end of 2003 the band officially signed with Island Records.

Although Fall Out Boy was signed to Island Records, in May, 2004, the band released an acoustic EP on Fueled by Ramen entitled \textit{My Heart Will Always Be the B-Side to My Tongue}. The EP marked Fall Out Boy’s growing popularity, as it managed to rise to number 153 on the Billboard 200.\textsuperscript{175} The band also landed a spot on the Vans Warped Tour that August.\textsuperscript{176} Nonetheless, even with its successes Fall Out Boy remained largely unnoticed by the mainstream music press. In 2005, however, Fall Out Boy became a recognized pop phenomenon. The band released its major label debut, \textit{From Under the Cork Tree}, in May of 2005. The album was highly anticipated by fans, and it became the number one Tower online pre-sale title of all time.\textsuperscript{177} It immediately shot up to number nine on the Billboard 200. Rolling Stone gave the album a positive review, finally providing Fall Out Boy with mainstream press.\textsuperscript{178} The band’s popularity was reinforced by a repeated showing on MTV’s TRL and an MTV2 award at the 2005 MTV Video Music Awards.\textsuperscript{179}

Fall Out Boy’s popular success continued through 2006. The band won more awards, including Favorite International Group at the MuchMusic Video Awards, and Best Rock Group and Best Single at the Teen Choice Awards. Fall Out Boy was also nominated for a Grammy in 2006 for Best New Artist. The album \textit{From Under the Cork Tree} remained on the Billboard 200 until October 2006, a total of 72 weeks on the chart.\textsuperscript{180}

The band released its second major label album, \textit{Infinity on High}, in February 2007.\textsuperscript{181} The album opened at number one on the Billboard 200, but it dropped off the chart after 52

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\item \textsuperscript{176} \url{http://music.ign.com/articles/491/491121p1.html}
\item \textsuperscript{177} \url{http://www.bmi.com/musicworld/entry/4006}
\item \textsuperscript{178} \url{http://www.rollingstone.com/reviews/album/7276743/review/7277698?utm_source=Rhapsody&utm_medium=CDreview}
\item \textsuperscript{179} \url{http://www.falloutboyforum.com/profile.htm}
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weeks.\textsuperscript{182} It received three and a half stars in Rolling Stone, higher than the magazine awarded \textit{From Under the Cork Tree}.\textsuperscript{183} However, the review noted how decisive Fall Out Boy had become, particularly the band’s bassist, Pete Wentz.\textsuperscript{184} Two months later Rolling Stone put Fall Out Boy on its cover, with Pete Wentz in the center and shirtless.\textsuperscript{185}

As recognition of Fall Out Boy’s music grew, Pete Wentz became the driving force behind building the band’s image. Wentz saw Fall Out Boy’s popularity as an opportunity to impact pop culture by creating a brand that encompassed the band’s music, appearance, and merchandise.\textsuperscript{186} Wentz’s attempt at branding was inspired by hip-hop, particularly Jay-Z and old Def Jam. \textq{They created this entire counterculture,}” said Wentz. \textq{You buy the record, then this comes along with it. You fell so in love with this idea that you ate, slept and breathed it.}”\textsuperscript{187}

In 2004, Wentz founded Clandestine Industries in order to design and sell his own merchandise.\textsuperscript{188} Working from his parents’ basement, Wentz’s merchandise reinforced Fall Out Boy’s pop version of teen angst. The first product was a self-published forty-three page illustrated book based on his nightmares. Wentz sold 10,000 copies of the book at Fall Out Boy shows.\textsuperscript{189} Wentz believed the books popularity was due to fans wanting to understand the scene he was creating, and the book was \textq{another piece of the puzzle.}”\textsuperscript{190}

More inside information was revealed to fans through Wentz’s consistent entries on his personal blog and a series of videos created by Wentz and the band. The first videos were...

\textsuperscript{183} http://www.rollingstone.com/artists/falloutboy/albums/album/13243536/review/13246574/infinity_on_high
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\textsuperscript{188} http://www.forbes.com/forbes/2007/0702/104.html
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\textsuperscript{190} http://www.pollstar.com/news/viewhotstar.pl?Artist=FALBOY
released with the album *My Heart Will Always Be the B-Side to My Tongue* and consisted of benign footage of the band back stage and in the studio.\footnote{191} In 2005, Pete Wentz released another video through Clandestine named *Release the Bats*.\footnote{192} *Release the Bats* reveals Pete Wentz’s appetite for attracting attention. This video consisted mostly of lighter Jackass-style antics, such as drinking urine, shooting paintball guns, and blowing up fireworks.\footnote{193} Throughout his career with Fall Out Boy, he has had a failed suicide attempt, naked photos released on the internet, and a marriage to pop star Ashley Simpson.\footnote{194} Because of Wentz’s history of constant promotion and attention seeking, critics questioned whether these events were natural occurrences or planned publicity.\footnote{195}

In late 2004, Wentz began selling t-shirts through Clandestine’s website. The clothing he sold became immensely popular amongst his fans, bringing in $500,000 dollars in its first year.\footnote{196} Wentz purposefully marketed the clothing in small runs, allowing the demand for the clothes to outweigh supply.\footnote{197} The small batches of each design caused the clothing to carry an air of exclusivity. This exclusivity causes fans to feel closer to the band, like members of an insiders’ club. Also, on the advice of Jay-Z, Wentz only sold his clothing in select stores as opposed to embracing every retailer that approached him.\footnote{198} This move kept the brand from being diluted, allowing Wentz to market Clandestine as a designer label. In 2006, Wentz added to his brand’s buzz by showing a new line of clothing during New York’s Fashion Week.\footnote{199} In 2007, Clandestine became a strong enough brand to partner with DKNY, marking Wentz’s move into the world of mainstream fashion.\footnote{200}

\footnote{191 http://www.amazon.com/Heart-Will-Always-B-Side-Tongue/dp/B000228E0E}
\footnote{192 http://www.amazon.com/Clandestine-Industries-Presents-Release-Bats/dp/B0007Z0OJA/ref=pd_sim_m_img_2}
\footnote{193 http://www.youtube.com/watch?v=S-wXW3eBZtU}
\footnote{194 http://www.people.com/people/pete_wentz}
\footnote{195 http://www.falloutboyforum.com/profile.htm}
\footnote{196 http://www.forbes.com/forbes/2007/0702/104.html}
\footnote{197 http://www.chicagomag.com/Radar/Sales-Check/November-2007/Clandestine-Destination/}
\footnote{198 http://www.forbes.com/forbes/2007/0702/104.html}
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Wentz has put his entrepreneurial talents to work outside of Clandestine as well. In the fall of 2004 he started his own label named Decaydance Records. The first band he signed to the label was the group Gym Class Heroes.\(^{201}\) The group’s single, Cupid’s Chokehold, reached number four on Billboard’s Pop 100.\(^{202}\) Wentz has signed ten other groups to the label, including the highly successful, Panic at the Disco.\(^{203}\) The band consisted of recent high school graduates whose songs Wentz heard online. After signing Panic at the Disco, Wentz convinced the band to mirror parts of the image he had used for Fall Out Boy, including mild gender bending by wearing excessive makeup and kissing on stage.\(^{204}\) Panic at the Disco’s debut album peaked at number two on the Billboard 200, and the band received an award for Video of the Year at the 2006 MTV Video Music Awards.\(^{205}\) Panic at the Disco has become so successful, it became somewhat of a rival of Fall Out Boy since the two bands share most of their fans. Nevertheless, this puts Pete Wentz in the comfortable position of making money from both his own band and his band’s immediate competition.

c) Common patterns

Whether a band is seeking pop stardom like Fall Out Boy or indie recognition like Vampire Weekend, lessons can be learned from both bands. The first lesson is that a clear and interesting identification for the band is essential. Branding and promotion defines a band’s artistic concept – much like an artist’s statement hanging in a gallery. Pete Wentz branded Fall Out Boy by combining upper-middle income suburban origins with sexual ambiguous bad boy. Vampire Weekend combined upper-income Columbia University with African pop. Both of these combinations were enough to turn heads. The bad-boy, African pop, suburbia or Columbia University elements by themselves would not have been interesting. Whatever promotional strategy a band follows, it can increase the likelihood of being noticed by creating an intriguing image; celebrity status presupposes an identifiable persona. Similar to Vampire Weekend and Fall Out Boy, a band’s managed image should be an exaggerated version of its members’ genuine identities. If a band’s image is too contrived, consumers will not perceive it as authentic. This image should be part of the band’s brand, a conscious theme that also encompasses the band’s, music, lyrics, artwork, and merchandise. By retaining control over promotion and branding, a band can maintain artistic integrity.


\(^{203}\) http://www.decaydance.com/


\(^{205}\) http://www.billboard.com/bbcom/bio/index.jsp?pid=696097
The second lesson is that it takes focus for a band to become successful. Both bands were incredibly committed and put in the hours and hard work necessary to achieve their goals. Fall Out Boy toured extensively to create a fan base, impressively playing 270 shows in 2003 and 550 shows in a two year period.206,207 Vampire Weekend tour schedule was disciplined as well; the band pooled their money to buy a minivan and went on three tours around the country without a tour manager.208 The band also recorded ten songs themselves soon after they formed so they would have enough material to put on demos.79

Relatively cheap recording software combined with the Internet allows such a band to take a do-it-yourself approach to recording and distribution. Competitors have access to the new technology as well, however. As the cost of entry into recording music decreases, the amount of music being recorded increases. Accordingly, consumers need to search through this larger quantity of music, making it more difficult for any particular band to be noticed. A band can gain an advantage in this filtering process by giving people a reason to listen. As Ezra Koenig of Vampire Weekend stated, “[people at labels] don’t want to listen to some random thing they don’t have any context for.”209 Essential for success in the do-it-yourself approach is creating this context. The right context spawns celebrity status.

The quickest way for a band to build context around its music is by focusing its promotional efforts towards developing Internet-based music community. Spin describes this virtual community as “the newly developed middle – an incestuous network of fans, bloggers, and music-biz outsiders.”80 This strategy involves aggressively targeting popular music blogs, like Vampire Weekend targeted Stereogum.80 Another member of this “middle” is KEXP, an independent public radio station that cosponsored and promoted multiple Vampire Weekend shows.210 Although KEXP has a real station in Seattle, a large percentage of its listeners stream the station online to different cities throughout the world.211 KEXP is often the first station to play up-and-coming indie bands and has become known as an indie tastemaker.212 The station’s

206 http://www.redlinedistribution.com/interviews/FallOutBoy.shtml
207 http://www.bmi.com/musicworld/entry/4006
208 http://www.spin.com/articles/vampire-weekend-graduates?page=0%2C3
210 http://blog.kexp.org/blog/?p=2467
211 http://kexp.org/about/about.asp
212 http://www.oxfordamericanmag.com/content.cfm?ArticleID=255&Entry=Extras
website even includes advice for bands looking to get radio airplay: 
http://kexp.org/programming/airplay.asp.

Celebrity status is strengthened by touring relentlessly to build up a loyal grass-roots fan base. Anyone on stage in front of an audience enjoys celebrity status in the mains of the audience for at least an hour or two. A valuable lesson can be learned from Fall Out Boy in regards to this strategy: have patience. As Fall Out Boy manager Bob McLynn stated, “the best way to do it is to move slower, not skip steps and build from smaller clubs to bigger venues.” Following this advice, Fall Out Boy played venues small enough to sell out at each show, repeatedly playing at VFW halls, bowling alleys, and bars that were closed for all-ages shows. The band took a small step up in venue size with each tour, starting with 300-seaters, then on to 500-seaters, 1,000-seaters, 3,000-seaters, and finally arenas. Even though it could have filled larger venues, the band created buzz by continuously selling out the smaller shows. Since the band was touring regularly, it could use this buzz to fill a larger venue the next time it returned to a city, building up its popularity with each successive tour. This strategy is similar to the one Pete Wentz’s used with his Clandestine clothing line: keep supply lower than demand.

Pete Wentz observes: “why do I need to have some corporation that I don’t believe in get behind me just because they could line our pockets, when we could be that corporation and we could have the ideals that we want?”

3. Plateaus of popularity

Most musicians do not achieve the level of success reached by Vampire Weekend and Fall Out Boy. They are established celebrities—rock stars. Most of the others come to rest in one of three categories: those who have achieved a regional reputation; those who have not but are actively striving to achieve it; and those who make talk about aspirations to “reach the next level,” but who are basically content, judged by their actions, to play live performances once every couple of months before small audiences comprising mostly members of other bands they know and their friends. The first and second groups need a business model. The third group does not; it is comfortable being part of a small community of musicians and music lovers. Musicians in the third group, however, will always need sources of income not derived from their music.

a) Established celebrities


214 http://blogs.suntimes.com/derogatis/2008/05/fall_out_boy_speaks_out_pete_w.html

Vampire Weekend and Fall Out Boy are established celebrities. Musicians who are already celebrities can easily satisfy their goals—both economic and hedonic. “Making it” in popular music, referred to for convenience as achieving rock star status, depends on passing one or more of several thresholds. A musician can achieve this level of success because music reviewers regularly write about him in favorable terms. He can succeed because his recorded music sells more than a million units,\textsuperscript{216} or he can succeed because he performs live in stadium or arena-size venues that are filled with fans.

Record sales drive position on charts of music popularity. “Making the charts” is a common proxy for stardom.

Once a musician achieves celebrity status, his income usually explodes, although net profits may be eaten up by expenses advanced by record labels or promoters and further diminished by creating accounting. Celebrities also have increased opportunities to earn revenue from endorsing commercial products in advertisements and from merchandise sales to fans. Both advertisers and fans want to ride the coattails of celebrities.

As Gene Simmons, the bassist of Kiss, put it to Danny Goldberg:

“It’s the Elvis syndrome. When you become a rock star, you become bigger than your songs Wang Chung had number-one songs, Huey Leqwis and the News had lots of hits, but they weren’t rock stars. The fans didn’t care about the people. Rock stardom is chrisma with melody. The Beatles themselves were bigger than any of their songs. The Dylan photo with his Jewfro and black shades made him a rock star—bigger than his songs. The music matters—but the messenger is more important.”\textsuperscript{217}

Once a musician is a celebrity, his name draws consumers, and he has the flexibility to make new kinds of music, confident that fans will buy it. To be sure, if the fans really do not like the new music, the celebrity's popularity may decline. Nevertheless celebrity status gives a musician a platform from which to educate consumers to new directions in music. The Beatles did that with Yellow Submarine. Bob Dylan did it when he took up the electric guitar. Leonard Cohen shifted away from his traditional sparsely instrumented folk sound to synthesizers in his 1987 album, I'm Your Man.

\textsuperscript{216} As technology changes the manner in which recorded music is acquired by consumers, discussed elsewhere in this article, the levels of album or song sales necessary to “make the charts” and to qualify for stardom shifts. Now, the number of sales is less than it was in the 1990s.

\textsuperscript{217} Danny Goldberg, Bumping Into Geniuses 109 (2008).
Linken Park migrated from rap to more melodic hard rock. Most musicians evolve in their styles, but an established based of fans provides more freedom to let artistic taste dictate the direction of creative effort rather than guesses about what will resonate in the marketplace, which drives lesser known musicians motivated by economic reward.218

b) Striving entrepreneurs

A subset of indie musicians has not achieved celebrity status but is not content with the hobbyist category. They want to follow in the entrepreneural (if not the musical) footsteps of Vampire Weekend and Fall Out Boy. Tom Schraeder is an indie musician in Chicago, who commented in a February, 2008 focus group, [quote Schraeder]. He schmoozes local music critics and succeeds in getting write-ups in the major Chicago newspapers and the free “shopper” papers that concentrate on Chicago’s nightlife. He makes sure that a member of his street team works the crowds standing in line at venues, giving out demo CDs. He befriends bartenders and makes sure he waits in the lobby and the stairwell after performances to greet fans.

Darren Garvey is another indie musician in Chicago. He is the product of a formal university education in music and has phenomenal technique on a variety of instruments. He tours relentlessly as a member of four different bands. Known mostly for his innovating drum and percussion performances as a member of these bands headlined by others, he undertook in mid-2008 to attract outside investment to fund a new solo album and to support innovating marketing through the blogosphere, emphasizing a coherent and attractive image.

Allgren is a Chicago indie band comprising four fraternity brothers from Notre Dame. They also are achieving favorable press notice despite only about 18 months of performing together in Chicago. They are toying with various ideas to define themselves more uniquely in the marketplace, including billing themselves as the “world’s smartest rock band,” because they have six university degrees among them.

What these groups share is a commitment to self-promotion, energy, entrepreneurial creativity, and receptiveness to new marketing techniques, and an appreciation of the role of luck. They are willing to explore new channels of distribution, new ways to brand themselves and to build celebrity status. From efforts of groups such as these will emerge new forms of intermediation and new business models.

c) Hobbyists

A significant subset of the indie community makes music only for its friends. The musicians in this subset consider themselves to be professionals and express the desire to make

218 [See Bumping Into Genius story about those seeking radio songs.]
enough money from their music to support themselves. But they are not entrepreneurial. They work with their bandmates to create new songs, in protracted and ill-focused jam sessions. They talk about getting into the studio to record their next album as soon as they can amass the money. But mainly, they “play out”—perform live, rotating through a series of small venues, opening for better-known bands they know and once in a while being the featured act. The audiences at these performances, numbering 30-50, are friends of the band. “What brought you here?” is occasionally asked by, or of, one of the few who is a stranger to the others. “I know Darren, in the main act,” is the response, or “I know Eddie, in the opening act” or “I have never heard the others, but I am looking forward to hearing their sound.”

During the performance, it is obvious from each band’s behavior and the audience reaction that they are old friends. The music often is pretty good: the performers take it seriously, and the audience genuinely enjoys it. Some friends of the opening or middle acts drift out as subsequent bands take the stage, but some stay. There thus is discovery taking place. There are many permutations of opening, middle and featured bands. The friends of each discover new music and new bands in the form of the other two bands.

But the permutations are limited. Identifiable networks of bands repeatedly share the stage with each other. Few members of one network have ever heard of the members of another network. Given the opportunity, they lament the “fragmentation” of the indie music community, while doing little to reach across the divides. It is simply too comfortable to remain within one’s own community. Your established fans—really an extended network of friends and collaborators—celebrate your music. Why risk exposure to an audience that may not?

Even more significant, it’s not all that much trouble to play out within your own network. To get a gig within another network, on the other hand, would be a lot of trouble: phone calls, sales pitches to strangers, rejection, the expense of posters. Who has the time? Not much time is left after hours of beery jam sessions to discover new music, occasional serious rehearsals or recording sessions, the day job, and an active social life.

Playing regularly before your friends is immensely satisfying. Your music is good; the audience loves it and being on stage is exciting. If it ain’t broke, don’t fix it. And this phenomenon ain’t broke—except for the money part. The money part works okay for the venue owners. The bands attract their friends and the friends of the other bands on the bill and they spend money on drinks and food. A few hundred dollars comes in from cover charges, and sometimes there is some money left over for the band.

The band doesn’t really care. They can claim to be professional musicians because they are getting paid something. Their art comes before money, and performing in the venue proves their professional status and reinforces the quality of their music.
There is nothing wrong with this; the phenomenon does not impose any societal costs; indeed it confers societal benefits for the band members and their friends. But it is not a business model. It is a social phenomenon—what outsiders to the indie music industry sometimes characterize as a “hobby” until they are brought up short by those more knowledgeable about how professional musicians define themselves.

**d) Balancing the motivations**

“Some percentage of everyone’s day must be devoted to surviving,” says Tim Sandusky, as reported supra. “Only a few lucky ones get to spend a large percentage of their days doing exactly what they want. I am one of the lucky ones. Some people don’t know what they want. I do. If music is in your soul it will come out. If it’s not coming out, then it either was not in your soul in the first place, or something is terribly wrong with the structure of your life.”

For Oucho Sparks, Sandusky’s band, the objectives are to write and play good music, to become well known and respected, and to make a living. Different members would rank these objectives differently, and Sandusky is determined to maintain a mode of operating that helps each band member fulfill his or her own goals according to his or her own priorities. That means flexibility in scheduling practice sessions, minimizing “democratic” discussions of business policy and artistic direction, and reliance on Sandusky to be the manager and the linchpin who keeps each member involved through frequent one-to-one communication. It’s not a significant setback when bandmate Laura Grey is unavailable for a period because she is on tour with Second City or drummer Jamie Gallaher is on a three-month tour with Andreas Kapsalis Trio. Despite other involvements, each band member finds the Oucho Sparks philosophy credible and believes that the group can help each performer fulfill his or her goals for music. They always make time available for their Oucho Sparks obligations.

“For a modern musician to make a living, you have to be diverse: you perform live; you record; you give lessons; you produce; you work as a webmaster; you promote MySpace exposure; you do interviews; you may have a job in a completely different field,” Sandusky says. This defines the Oucho Sparks philosophy for its performers.

Bound Stems started when a few kids from the Chicago suburb of Naperville placed an ad in Craig’s List for a drummer. Having recruited Evan Sult, the former drummer for Harvey Danger, they practiced intensively, focusing on the complexities of the songwriting process rather than playing in clubs. When they thought they were ready, they played clubs all over Chicago, and then decided it was time to record an album, even though they didn't know how they'd pay for it. "We'll get a label to pay for it when we're done," Sult reports.

They spent half a year recording an album they called "Appreciation Night," then sent it out to all the independent record labels they admired. One, Flameshovel Records, also located in Chicago suggested they go back in the studio to record an EP to promote until they could tour in
the summer—a necessity given singer Bobby Gallivan's job as a high school history teacher. "The Logic of Building the Body Plan" came out in November of 2005, and the band started their first real touring. Response was fast and positive. For a band that had started from zero, a write-up in the New York Times was a coup. As they prepared to release "Appreciation Night," Bound Stems decided to take the plunge: they all quit their jobs so they could continue touring to support their labor of love.

Bound Stems didn't leap straight onto the radio. They worked hard, touring both coasts and all over the country. It was rewarding, but difficult on everyone. After months of making less money from shows than they spent on gas and expensive van repairs, the band had to pull over and reconsider their decisions. A period of reflection brought them to the conclusion: they could keep making music, but not like this. It was time to go back to the day jobs.

Younger band members are fretting about the need to get married and settle down before they get too old. A whisper breathes, “are you already too old and neither married nor settled down?” But six months' touring is not enough. “Music has to be at the center of a musician's life, not a hobby or a lottery ticket, casually bought at the 7-11. It has to be the center of life. Harvey Danger had won the fame lottery, but hadn't been willing to put music first, and that killed the band. Bound Stems had worked much harder, pushing full steam ahead—but they still hadn't reached the station,” says Sult.

Interviewed in August, 2007, Sult did not want Bound Stems to take cover—even when the financial side is difficult or even seems impossible. In the band, his is the voice that argues against letting lack of money define the band's goals and commitments. Of his own life, he says, “Theoretically I could make $50-60K a year easily as a full time graphic designer. But I don’t want to do that; I want to create music—new kinds of music. So I try to figure out ways to get by on the $16K a year I can make as a freelancer and go into debt with Bound Stems as we make and perform our music. People in the band love it, but it’s not obvious yet how we can clear the $150-200K per year it would take to support five of us, even at the meager level of $20K year for each of us."

While they work on their next record for Flameshovel, each member of the band has to balance his attention to music with the ongoing details of the rest of their lives. No matter what the commitment level of the band, each member of Bound Stems has other interests and relationships in their lives.219

e) Artist exit

Most musicians do not remain musicians for long. Most of them start playing music and writing songs when they are in junior high school, get more serious about it when they are in high school, and many continue into or beyond college. By the time they are thirty, however, most have dropped out and established themselves on another professional course. The ones who pursued music because they dreamed of fame and riches, evidence has accumulated by then that they are not going to become rock stars. Sometimes the evidence suggests that the music they are capable of creating is not competitive; sometimes the evidence is that they need more money than they have to make a serious run at stardom.

Others have evidence, usually in the form of a growing body of enthusiastic fans, and a handful of favorable reviews, that their music is good, and they have enough money from their music and their day jobs to eke out a modest living. Still, for the vast majority, music is essentially a leisure-time activity; it simply does not generate enough income to be otherwise. And as most young people progress through their twenties the competition for their leisure time intensifies. They engage in more serious dating and then get married, or establish stable domestic partnerships with children usually following shortly thereafter. Their spouses/partners and children demand major chunks of their time—or the musicians feel guilty about denying it to them. As they mature and get more education, their professional prospects outside music expand, ratcheting up the opportunity costs in financial terms of sticking with music on the professional level.

So by the time they are in their early thirties, music is something they once did seriously and it will remain part of their lives, but when someone asks, “What do you do?” they no longer answer, “I am a musician.” Instead, they say, “I am a lawyer,” or “I am a law student,” or “I’m getting my MBA,” or “I work for GE.”

Musicians find that sufficient leisure time for music is squeezed out when the opportunity cost of other leisure activities, especially spending time with family, combined with the opportunity cost of career development, present a higher price than they are willing to pay by continuing to make music.

So who makes music and why?

Young people between the ages of 16 and 30, by the hundreds of thousands, some motivated by unrealistic fantasies of becoming rock stars, almost all motivated by the power that music has to express themselves. By the age of thirty, most of them will have confronted the reality that they cannot make a living from their music and will either continue to make music essentially as a hobby, or largely give it up because of the more attractive demands of other careers and family obligations.

IV. Who consumes music and why?
The demand for any particular musical product depends on what kind of music consumers prefer, how they find it, and the format they prefer. The *Music Architectures* article specified a demand function for music that expressed demand for a specific song or all the songs of a particular band as a function of price, perceived quality of the music, transaction costs of obtaining the song (including search costs), "altruism" toward the supplier--the possibility that a consumer may identify with the performer and therefore want to purchase music from a source that maximizes revenue flow to the creator, popularity of the song with others in social groups to which the consumer feels a connection, inconvenience of listening to the song, perceived probability of obtaining a corrupted file, and perceived probability of legal liability.220

This part of the article elaborates on the structural elements of the demand function presented in the earlier article. It reports data on the demographics of popular music consumption. Then it synthesizes from social science research and from interviews to explain how music consumers determine what music they like, explains how they find it, and considers sources and format preferences.

### A. Demographics

According to statistics compiled by the Recording Industry Association of America, in 2007 11.5% of recorded music was consumed by 10-14 year olds, up from 9.1 percent in 1998. This is 171% of their presence in the population. 12.3% was consumed by 15-19 year olds, down from 15.8 % in 1998. This is 173% of their presence in the population. 20-24 year olds account for 11.3 % by, down slightly from 12.2% in 1998. This is 162% of their presence in the population. 25-29 year olds consumed 9.2 percent, down from 11.4% in 1998. 30-34 year olds consumed 11.3 %, about the same at 11.4% in 1998. This is 152 percent of the presence in the population for the 25-35 year old group. 11.9 percent. 35-39 year olds accounted for 12.6 % in 1998, 40-44 year olds consumed 7.9 percent by, down slightly from the 8.3 % in 1998. This is 143 percent of their presence in the population. Those over 45 consumed 24.8 percent, up significantly from the 18.1% in 1998. This is only 86% of their presence in the population.

Demand was split just about evenly between males and females, in 2007 as in 1998.221

The data back up the conventional wisdom that younger members of the population are the most important consumers of recorded music.

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220 See *Music Architectures* at 315.

B. Musical preference

Music is a hedonic good for consumers as well as for musicians. Consumers may choose among different ways of receiving music based on price, but almost no one says he picks songs based on price. Price surely matters, but its effect is dwarfed by the other determinants of demand, particularly as the price of recorded music falls to near zero under the pressure of the technological revolution.222

Eisenberg identifies five reasons people acquire recordings:

1. The need to make beauty and pleasure permanent
2. The need to comprehend beauty, through repetition
3. The need to distinguish oneself as a consumer, through conspicuous consumption
4. The need to belong, either to an past era, or to a newly blooming one
5. The need to impress others or oneself by being a collector223

Peer group popularity drives demand (Eisenberg’s factors 3-5). Consumers want to be listening to what everyone else is listening to. This results in what economists call “network effects”—the more people who buy a particular good or service, the more that want to buy it. Indicia of popularity include chart positioning, public appearances, advertisements, and radio play.

Consumers favor music from musicians that attract them viscerally (Eisenberg’s factors 4 & 5). Industry executives give advice224 such as "be as personal as possible in trying to spread your music,"225 "pay attention to the image that you want to present, make sure that what you put online or send to people to represent yourself is unique and shows as much of your character and creativity as possible."226 "[C]auses often have a bigger PR mechanism behind it [sic] that

222 Understanding this, sellers of songs do not price their songs differently to compete based on price.
223 Eisenberg at 14-16
225 Id. (quoting Ali Partovi, CEO, iLike),
226 Id. (quoting Devin Arnold, CEO, IODA).
exposes your music. But it has to be really authentic, and something you really believe in.\textsuperscript{227} Fall Out Boy and Vampire Weekend took this advice to heart.

1. "Quality" of the music

The demand for musical works is driven in part by the perceived quality of the music.\textsuperscript{228} Quality is in the ear of the listener. Some people prefer heavy metal, some folk songs, some punk, some traditional rock. Within such genres and hundreds of sub-genres, execution—quality of the performance—matters as well: a pleasant voice usually is preferable over a grating one; accurate and consistent execution of harmonies, melodies and rhythms is better than erratic execution; good mixing is better than mixing that has distracting anomalies.

New can be desirable; old can be desirable. For some sophisticated consumers or tastemakers, new approaches to music are indicia of low quality. This was the reaction to rock music until the mid-1960s.\textsuperscript{229} For others, new is desirable, and many consumers are excited by the next new thing in music. Novelty enhances the possibility of becoming a member of an affinity group in which membership enhances self-esteem. Novelty also increases the possibility of feeling like one "owns" the music and the performers: by being a fan of the latest group with a new sound one sets oneself and a group of similarly minded fans apart from everyone else.

The popular quest for novelty in music is not a new phenomenon. Alex Ross reports on the enthusiasm with which the citizens of Graz greeted Strauss's Salome, to the surprise of Mahler, who considered the piece "one of the greatest masterworks of our time," but had considered genius and popularity to be incompatible.\textsuperscript{230} More recently, metal followed classic rock. Punk was a reaction to commercialized rock. Folk enjoyed commercial success as a reaction to other, harder-edged styles.

Being perceived as novel is challenging. Some commentators believe that the gradual relaxation of compositional rules during the 20th century, rules inherited from the common period in music--Bach, Beethoven, and Mozart--has made it more difficult for musicians to make

\textsuperscript{227} Id. (quoting Terry McBridge, CEO, Nettwerk Music Group).

\textsuperscript{228} But see note 340, infra (luck matters more than quality).

\textsuperscript{229} Terence J. O'Grady, A Rock Retrospective, 66 Music Educators' J. 34 (No. 4 Dec. 1979).

\textsuperscript{230} Alex Ross, The Rest is Noise 9-10 (2007).
music that will be perceived as "new" and thus attract a following on those ground.231 Terence O’Grady concludes:

"the problem of stylistic exhaustion has become increasingly obvious to rock critics. Rampant eclecticism has created an atmosphere so musically free-wheeling and stylistically inbred that the possibility of genuine individuality in contemporary rock has become moot. The result of all this leakage between styles is a diminishing excitement, if not necessarily quality, in rock music"232

Nevertheless, “new” usually is defined in popular culture by comparison with what is in vogue at the time; it is not an objective criterion based on the totality of history. Fashion is cyclical. Wide ties succeed narrow ties, which succeeded wide ones. Long hair follows crew cuts, and after a couple of generations, crew cuts come back in fashion. The same thing is true with popular music. Rebellious music is popular when it succeeds mellow music with an upbeat message. Then, after a while, mellow music with an upbeat message seems new and different in comparison with the rebellious music then in fashion. So the despair about the capacity of musicians to attract a following by innovating is likely overblown.

Quality of music is a perception, not an objective characteristic. Here is how two male law students in their mid-twenties describe what they like and how they find it.

As a child, Matt Vaughn wanted to be a musician. While his ambition to be a musician himself faded, his guitar lessons and basement band experience imbued him with a respect for good musicians and a basis for confident opinions about how good they were.

What he liked was greatly influenced by older siblings of his friends. “My friends influenced what I liked, but I had influences on them as well; my values were consensually defined.” Attending concerts at the World Music Center (Now First Midwest Bank Arena) just ten minutes from his Flossmoor, Illinois, house, was a regular pastime for Matt and his friends. After he and his circle of friends were they were old enough to drive, they spent a lot of their time listening to music while driving around.

He favored new bands, such as the Dave Matthews band, which Matt discovered before it became popular. Matt tended to follow fashion regarding genres, and would gravitate to a new

231 O’Grady, 66 Music Educators’ J. at 36 (noting how earlier rock followed relative constraining rules or patterns of harmony, but later subgenres were more flexible). id. at 44 ("Surely the most remarkable char-acteristic of most American popular music since 1972 is its lack of any clearly dominant trends");

232 id. at 94
group when he got a tip from one of his friends, but once a band became highly popular, it usually would lose its luster for him.

Matt has never approached new music casually; when he embraces it, it’s like adopting a child or pledging a fraternity. He remembers riding home from a ski trip when he was in elementary school and insisting that the driver and all the other passengers in the car listen to a Beatles tape over and over again until he was sure he could identify which Beatle was singing each part. Later, Phish became his favorite. He became a huge Phish “phan,” and followed the group all over the country. He and other phans got together to listen to live shows and discuss concert experiences. Phish, and its jam rock, were huge obsessions for Matt. "My friends and I traded tapes of live shows, and traveled around to see shows- I must have been to 20+ shows. Their appearance and their stage performance was nothing special; it was their improvisational talent; their 300+ song repertoire; the mystery; and the experience."

Once he had adopted a band, he nurtured the relationship, spending hours to organize his album collection. Even now he pauses before he leaps into a commitment to a new group. He almost never buys a single, instead checking out the musicians and, if they seem worthy, buying one or more of their albums. He studies liners and album art and is disappointed when they do not include lyrics to all the songs. He wants a fulsome acknowledgement section. “It’s a bonus when the album art or other commentary reveals something about the musicians’ outlook on the world. I wanted to identify with the groups I made part of my collection.”

It’s hard for new musicians to break into Matt’s club. That’s not because he disdains pioneers or those who travel alone or in small bands of fans. Always he has prided himself of being a discoverer, and feels some sense of betrayal when one of his favorites made it to the big time.

While he prefers newly discovered groups, his favorites are, for the most part, bands who have “made it”—who have major label deals. The Chicago indie scene is only dimly audible to him. His all time favorite is Phish, but also on his list of favorites is Widespread Panic (Southern rock, and blues), Moe, and Kanye West. He likes Wilco (alt country, alt folk and experimental) and Smashing Pumpkins (layered, heavy guitar alternative), but not Linken Park, which he finds to be too heavy. Also on his favorites list are The Shins (Indie Rock), Sam Roberts Band (traditional rock), My Morning Jacket (reverb-heavy mix of jam, country, and psychedelic rock), The Raconteurs (heavy indie rock), The Red Hot Chili Peppers (rap intermixed with melodic vocals; improvisational). His favorite genre is firmly rooted in rock n’ roll, “brushing the edges 233 Phish was famous for following the free-form eclectic approach popularized by the Grateful Dead, emphasizing jazz-style improvisation more than the folk tradition. Its on-stage antics were famous, with the drummer often running a vacuum cleaner on stage. It was enormously popular on college campuses.
of hard rock," but recently he’s gotten into hip hop. He was unfamiliar with The Academy Is and Bound Stems, had heard of My Chemical Romance but not listened to their music. He likes Fall Out Boy, in part because Pete Wentz went to high school with his wife.

Music has always been closely tied to Matt’s memories. To this day he can still remember where he was when he listened to certain albums or songs for the first time. Before taking vacations, Matt typically bought a new album for the trip. Billy Breathe’s by Phish reminds Matt of walking through the airport in Sydney Australia; Pearl Jam’s Daughter reminds Matt of Thanksgiving at his aunt’s house in Evansville, IN; Stone Temple Pilot’s, Purple reminds Matt of a high school trip to New Mexico; Travis, The Man Who reminds Matt of his study abroad experience in London, specifically his daily jogs through Hyde Park; and Galactic, Late for the Future reminds Matt of a trip he took to L.A.

He doesn't care what the musicians look like, but he likes the art and commentary that comes on album liners. He never has bought a CD at a concert; he usually buys them before seeing a group in concert. He disdains bands in which the lead singer does not also play an instrument; somehow if you don't play an instrument it seems like you are not a real musician. He’s never been after the story; lyrics take a back seat. It’s the music. It has never been the personalities or the appearance of musicians that mattered; only their music and how they played it. He has high standards. More than once he has gone to a concert and the music did not measure up to the same musicians’ recording. That says to Matt that the studio recording was overproduced, possibly to cover up a talent deficit. He listens to albums straight through, from the first song to the last, because the musicians put them in a particular order and thus the sequence reveals part of the art.

Mike Mead no longer aspires to be a rock star, though he seems puzzled as to the moment when that dream was abandoned. He wants to be a good lawyer and he will be. But music is part of who he wants to be.

“I have a collection of CDs, including those from local bands. I particularly like Buddy Nuisance and Tractor Bay, the now-defunct group that befriended us in the early days.” He is entirely uninterested in information or pictures about the musicians; it’s the music he cares about, not the personalities of those making it. “I don’t experience the idol identification that some people do with the celebrities,” he says. The personality or appearance of musicians has never been important to him. He does not remember becoming particularly attached to any bands in a psychological sense. Giving his quizzical look in response to the question, “did you ever follow a band around the country?” he responds, “well, I never had the chance. I guess that would have been fun, but I never did it.”

Social science research provides some broader clues as to the determinants of consumer music preferences. The research results are consistent with what Vaughn and Mead say about their own tastes.
Well-known orchestras and well-known conductors and soloists increase attractiveness of a concert. Apart from the [content of] the program, the most important determinants of the attractiveness of a concert are price, quality of the orchestra performing, the strength of the orchestra, and the reputations of the conductor and the soloist. More highly educated and younger individuals prefer more modern music, whereas to our surprise they dislike variation more than less educated and older music lovers. Females prefer slightly more diverse programs.

The research suggests that four general responses to music exist: sensorial (it inspires motions such as swaying or tapping of toes), imaginal (it inspires images, memories or situations), emotional (it inspires joy, rage, sadness, or love inspired), and analytical (it arouses expectations about melodic progression, harmonic construction). Features that influence aesthetic appeal for particular consumers are tempo, rhythm, dynamics, and phrasing.

Sensorial and imaginal responses are the most important; the analytical response is far less important, although experimental subjects refer to "how the song developed, and "whether it seems right and made sense" in evaluating whether a song to created an absorbing experience. The strongest influence on intentions to purchase was the need to reexperience the song.

Other research explores the relationship between three dependent variables: pleasure, arousal, and surprise, and three basic musical properties: tempo, tonality, and texture (timbre and
orchestration). Higher tempos increased pleasure for classical music but not for pop. Tonality also affected pleasure, with major keys being more pleasurable for classical music than minor keys, with the major/minor dimension having little effect for pop. But pleasure decreased significantly for atonal as opposed to tonal music for both classical and pop categories. Arousal increased with tempo for pop music, but not for classical. Feelings of surprise were highest for less consonant music, and lowest for major modes of tonal music. Melody (and other musical features) has more impact on emotions than lyrics. Lyric content reinforces the emotional effect of “sad” and “angry” music; but the presence of lyrics diminishes the effect of “happy” and “calm” music.

Different people rate the same song similarly, in terms of a wide range of specific emotions evoked, such as tension, gaiety, triviality, exhalation, solemnity, softness, relaxation, depression, and fear. They rate other songs differently but similarly among themselves. Self-selected music induces stronger emotions. Familiarity is an important predictor of enjoyment and emotional arousal from music.

Nostalgia plays an important role. Like Matt Vaughn, many consumers want to listen to music because it reminds them of past events and earlier phases of their lives. The available empirical research explores the role of nostalgia in determining movie preferences. Nostalgia is an important determinant of preference for movies. It also correlated with content, with those

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242 id. at 390.

243 id. at 391.

244 id. at 391.


higher in nostalgia proneness preferring movies with more sentiment and less violence or more music and less warfare. Surprisingly older respondents did not show greater nostalgia proneness. Older respondents prefer older movies; younger ones prefer newer movies. This does not mean that younger viewers are more nostalgic; it means that the smaller number of years that their lives span includes only the subset of newer movies.

Once a consumer identifies music that he likes, he can choose among a number of alternatives—substitutes in the terminology of economics. Different recordings of the desired musician are available from multiple sources. Near substitutes, such as the same song performed by a cover band frequently are available for more popular songs.

2. Vicarious association with celebrity

As the Music Architectures article explains, a significant portion of demand is driven by consumer desire to associate with musicians. This associational affinity may exist because the musicians represent role models, and consuming their music satisfies a psychological need to be like them. It may exist because consuming—and paying for—their music supports activities that the consumer wants to support, as when bands promote popular causes such as the presidential candidacy of Barack Obama, amelioration of starvation, or fair trade. It may exist because becoming a fan satisfies latent—and sometimes patent—sexual desires.

This makes it likely that consumers will prefer musicians similar in age to themselves and prefer musicians whose image expresses goals and behavior with which a consumer identifies or aspires to. A preppie is likely to prefer music from preppies, and a rebel is likely to prefer music from rebels.

Regardless of the underlying determinants of the phenomenon, it is clear that celebrity sells. It would not be far off the mark to assert that traditional music intermediaries—labels and concert promoters—sell celebrity rather than music. But that begs the question: how does celebrity status get created—a question explored more fully in § VII.B, infra.

3. Music is modelling

250 Id at 251.

251 Id. 252-253.

252 CITE Music Architectures article.

253 "The impersonality of the electronic media is what makes the public crave 'personalities': 'distancing' is what makes closeness, however bogus, a crying need." Eisenberg at 84.
Tim Sandusky says, “Pop/rock is half modeling.” Attractive musicians are more in demand than unattractive ones. The desire for vicarious association is driven in significant part by two fantasies: that a consumer might go to bed with the celebrity to whom he or she is devoted, or that, by becoming like the celebrity, the consumer will increase his or her attractiveness to others. The two fantasies can be encapsulated by two phrases: “I want to go to bed with him,” or “I want to be him.” For male bands, the former idea operates for straight women and gay men, and the latter idea operates for straight men. For female bands and singers, the former operates for straight men and lesbians; the latter for straight women.

Empirical research on popular culture reinforces common experience that physical attractiveness of performers enhances demand for their art. All other things being equal, a pretty face makes success in the mass marketplace more likely. This is consistent with broader social-science research demonstrating that more attractive people do better in the workplace than less attractive people. It almost certainly operates more strongly in the entertainment fields where personality as well as creative output is the product being sold.

Beauty, of course, lies in the eyes of the beholder. Some gentlemen prefer blonds; others prefer brunettes. Some consumers prefer androgynous males like Ricky Martin, recent American Idol winners Kris Allen and David Cook, or the members of Vampire Weekend; some prefer manly handsomeness as in Brad Pitt or Paul Newman; others prefer rougher images like Kiss or Pete Wentz.

Such sex appeal of musicians long has been a mainstay of music promotion, from the Beatles and Elvis to Justin Timberlake. How else to explain the swooning of teenage girls

254 New York Times columnist Mike Hale put it this way in a 2009 story about Cary Grant: “The one women wanted and men wanted to be.” Mike Hale, Once Upon a Time, a Real Leading Man, N.Y. Times, July 31, 2009 at C1, C11 (quoting Pauline Kael).


257 See Local musicians balance talent with sex appeal, http://www.indy.com/posts/2235 (Nov. 28, 2007), (reporting on how local musicians utilize sex appeal to appeal to audiences; describing how one aspiring talent was asked for her photograph before being asked for a sample of her music by a New York promoter); John Groban
over the Beatles and Elvis, and the propensity of male performers to take off their shirts at live performances. It is a subset of a more general realization that “sex sells.”

Looking like a model is not important for all musicians. Some fans, like Mike Mead and Matt Vaughn, disclaim physical attractiveness as an element of what draws them to a new band. Others are drawn more by the behavior of a musician than by what he looks like—anti-social behavior is appealing to many. Also, nostalgia may operate to sustain a fan base for a band after it has aged.

Modeling is infiltrating country music, which traditionally favored older musicians because they were more credible in singing the usual themes of life’s hardships. The headline and the pictures make clear that the attractiveness of the female singers is a crucial part of the marketing campaign.

A conundrum exists, however, with respect to the proposition that music is modeling. Why should physical attractiveness of a male performer (and most rock groups are predominantly male) to the half—or more—of the fan base that is male? Even by the highest

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258 CITE book on sex in advertising.


estimates, no more than 10% of the fan base is gay. Some—largely speculative—analysis exists supporting the idea that same-sex physical attraction (“homoeroticism”) is far more pervasive in society, especially in professional sports, than homosexuality or even tolerance of homosexuality.261 Another, simpler explanation is that most people identify with celebrities with characteristics that they imagine themselves having—good looks, intelligence, wealth, and power.

4. Popularity of the music

Network externalities exert strong influence on consumers of popular music. Consumers want to share a common culture.262 So once a song or a performer becomes popular, an important bandwagon effects occurs.263 The more popular a performer becomes, the faster his popularity accelerates. A Columbia University music laboratory experiment264 demonstrated that consumers with little information to guide their choices of songs are strongly influenced by other consumers’ behavior. The result of a kind of “cascade effect” in favor of the songs chosen first.265

261 See King Kaufman, Football: America's favorite homoerotic sport, Salon, Jan. 8, 2003, http://www.salon.com/news/sports/col/kaufman/2003/01/08/homoerotic/ (pointing out contrast between behavior of fans and athletes on the field and their professed homophobia); Dana M. Britton, Homophobia and Homosociality: An Analysis of Boundary Maintenance, 31 The Sociological Quarterly 423, 425 (No. 3 Summer, 1990) (homophobia is especially strong in social groups in which male interaction predominates; it may be necessary to repress affections for the same sex and thus to preserve traditional gender roles in society).

262 Princeton Study at 35.

263 See See generally Michael Abramowicz, An Industrial Organization Approach to Copyright Law, 46 William & Mary L. Rev. 33, 87 nn. 153, 155 (2004) (noting that the demand for music experiences network externalities--"I invest in music to be in the cool crowd"--but each investment may "harm others by diluting their relative coolness quotient"). According to Metcalfe's law, the usefulness, or utility, of a network equals the square of the number of users. John T. Nakahata, Regulating INformation Platforms: The Challenge of Rewriting Communications Regulation from the Bottom Up, 1 J. Telecomm. & High Tech. L. 95, 135 (2002) (analyzing network effects in terms of tendency toward monopoly in communications networks).


265 Id.
This empirically verified proposition is consistent with Matt Vaughn’s preference for bands that have “made it,” and with van Ophen’s finding that more popular orchestras, conductors, and soloists are more desirable.

This bandwagon effect operates positively for some consumers: they want to be enjoying the music that everyone else is enjoying. It operates negatively for others: they disdain what is popular and embrace music precisely because it is not popular.

Popularity is both a mass phenomenon and a cult phenomenon; a consumer may embrace the latest hit because it makes him cool and marks him as part of the mainstream. Or he may embrace music because it identifies him as a member of a select group of friends—a secret and selective club.

C. Finding what you like

Matt Vaughn listens to music two or more hours per day, when he's commuting, when he's at the gym, when he's performing household chores on the weekends, whenever he's in the car. He listens while he is at work and when he's studying --usually to familiar songs; new ones break his concentration. When he’s in his car he primarily listens to the radio as the radio seems to tie him down less. The radio also keeps Matt current with what’s new in the music world and is his primary source when mining for new artists. He's never used MySpace or any of the other social networking sites. He relies mostly on the radio and tips from a handful of friends at work who are into music.

Mike Mead uses most of his scarce spare time to discover new music made by others. He is always listening to music except when he is studying. The week of the interview, he was listening to Radiohead, Dispatch, Red Hot Chili Peppers and Incubus. While he listens to music on the radio some two or so hours per day and admits that music played on the radio influences his discovery of new musicians, he also is disdainful of the corporate control of what appears on the radio. He goes to local indie venues as often as he can, not more than two or three times during the semester, but then four or five times during Chicago-Kent’s winter break. He uses word of mouth to discover new bands or the serendipity of who appears on the bill for someone he has gone to see. That’s the way he discovered Buddy Nuisance, the only current local indie band he mentioned by name. He spends little time browsing for new music on the Internet, although he uses MySpace and other websites to check out music from bands that he had heard of. If an unknown group wanted to attract his attention, it could give out flyers in a club or demo

266 See § IV.B.1, supra.

267 See note 234 supra, and accompanying text.
CDs. “If I got a demo with one song, I would listen to it, and if I liked it, I would search out more of that group’s music,” Mead says.

Others find music in other ways. They hear a song on the radio, see a group on television, or read an article in a print publication. They Google the group, check out MySpace pages and YouTube videos. Depending on whether they like the music, the looks of the performers, and the performers’ message, they buy an album or a song on iTunes.

D. Formats

Once a consumer has picked a band or a song based on the factors discussed supra, he almost always has a choice of formats and distribution channels.

Ease of access matters greatly, particularly when instant gratification is possible. One can hear a favorable recommendation about a song or a band and get a copy of an album and pictures and videos of the band as soon as one has access to a computer—including a Web-enabled cellphone. Ease of access is a combination of transaction cost of obtaining the song (including search costs), inconvenience of listening to the song, perceived probability of obtaining a corrupted file, and perceived probability of legal liability.

Distribution has shifted from physical formats to digital distribution through the Internet and, increasingly, through wireless downloads to portable players. Pandora reported two million downloads to iPhones in December, 2008, with 30-something males being the heaviest users, and average users spending 90 minutes daily listening to music via Pandora.268

Convenience extends beyond initial acquisition. A consumer choosing between downloading a file from iTunes versus downloading a file of the same songs from an unlicensed P2P service trades off the 99-cent price and the need for a credit-card-based account against the zero price but the higher probability of getting a corrupted file or malicious software from the free P2P site. Inherent features of DRM systems justify paying a higher price for DRM-free versions of the same song.269 For example, both Walmart and Yahoo abandoned their customers who brought DRM-protected music. In mid-2008, both firms announced that they were shutting down their DRM servers that their purchasers dependend on to authenticate DRM-protected music they had bought. Then, after a customer outcry, both firms backed up. The threat to consumers who buy DRM-protected music is obvious: you may buy it, but you will not be able


269 See Perritt, Maginot Line.
to play it after the seller renegs on its deal with you.270 The possibility of legal liability may drive some consumers to licensed sites and away from unlicensed P2P sources.271

V. Music market intermediaries

The market for popular music includes not only musicians (suppliers) and fans (consumers); it also includes intermediaries that match the musicians and potential fans. The amount of new music generated each year is too great for even the most dedicated consumer to sample and find what he likes. Since the late 1940s a variety of intermediary institutions have filtered the available music to reduce consumer search costs. In the period now ending, the most prominent intermediaries were record labels, concert promoters, and radio stations, and print reviewers, with CD retailers playing a supporting role. As the preceding parts of this article explain, the technology revolutions now undercut their ability to continue to perform some or all of these intermediation functions. New kinds of intermediaries are emerging in the new marketplace, including music bloggers, iTunes, Pandora, and last.fm. Vampire Weekend relied on newer types of intermediation to achieve celebrity status in a relatively short period of time.272

The new technologies for making, distributing, and listening to music have three major effects: They reduce the costs of making music and distributing it, thereby increasing the number of musicians. They increase the demand for music, by making it more portable. They reduce the costs of consuming it. The combination of these three effects reduces revenue streams available for each musician and intermediary.

The greatest uncertainty with respect to the shape of the new market of music is who will perform the necessary intermediation, how they will perform it, and what business model will induce them to perform it.

This part begins by explaining why intermediaries will continue to be necessary--why a marketplace in which suppliers of music and consumers simply find each other directly is not feasible. Then it enumerates the specific intermediation functions that are needed. Parts VII.A.1 to VII.A.2 identify the revenue streams potentially available for intermediaries.

A. Need for intermediaries


271 See Perritt, Music Architectures.

272 See § III.C.2.a) supra.
A market with tens of millions of consumers making individual decisions about what to consume and hundreds of thousands of producers able to deliver their products to consumers requires filters—some form of intermediation—to match consumer tastes with musician capabilities. Without intermediaries, searching for new music is too costly for consumers. In 2006, the major labels alone released 30,000 new albums in CD form. With an average of ten songs per CD, that amounts to 300,000 new songs. If a consumer listens to thirty seconds of a new song to decide if he likes it and wants to listen to the whole song, that’s 150,000 minutes or 2500 hours or 104 sleepless days per year of trial-and-error searching for new music. No one is going to do that. Reduced barriers to entry for musicians and increased portability of music for consumers means that the market is more crowded. Reduced costs mean that it is more competitive. The problem with the more competitive marketplace is that the noise-to-signal ratio is high.

Indeed most consumers do not seek new music by trial-and-error searching; they understand the low signal-to-noise ratio. Instead they listen to their old favorites, and focus attention on new releases from the bands they already like. Occasionally they hear a song on the radio—including Internet radio—that they check out. Those—usually the younger ones—that frequent smaller music venues get exposed to unfamiliar bands that share an evening’s stage with the band they went to see. Otherwise the discovery process is dependent on word-of-mouth, networks for which exist for almost everyone known by his friends to enjoy music. Such informal processes for matching consumers to new music are not hospitable for bands trying to break through to celebrity process.

More systematic matching processes with much wider scope are necessary. In the past this intermediation has been accomplished by a chain of gatekeepers who funnel the available supply down into a manageable set of choices for consumers. For most of the last two decades record labels and radio stations solved most of the intermediation problems. They facilitated matching new musicians and potential fans by performing a gatekeeping function. Experienced professional with the capacity to understand and predict consumer tastes would give a chance in the marketplace to a small subset of new musicians and their music, based on their assessment on what might resonate with consumers. They rejected everything else, and that was it; the channels were closed. Labels "discovered" musicians and targeted them for investment. Then they got their music into relevant channels--mostly radio play and physical supply chains. They mounted large-budget advertising campaigns to get consumers to listen to and to buy the new music products. Major label A&R representatives selected only a small subset of musicians to receive label capital investment. Radio stations selected a subset of the major label output to expose to consumers. Only certain albums were stocked in record stores—although the choice was large by the time the CD became obsolete as a physical distribution medium.

Room existed in this environment, of course, for entrepreneurship and innovation. The blockbusters of the latter half of the twentieth century were the achievements of a new class of
entrepreneurs who performed the gatekeeping function while opening the gates to accommodate new kinds of music. They acted on the (shoestring) scale of Sam Phillips and his Sun Studios who thought Elvis Preseley had something to offer. George Martin at EMI was part of one of the biggest music enterprises in the world, but he broke with tradition and crossed bureaucratic lines at EMI with the Beatles. Norman Petty was struggling with his marginally profitable small label when he bet his future on Buddy Holly. Likewise Murry Wilson saw something the Beach Boys. The stories of these three discoverers are quite different, but they were all innovators and they all exerted entrepreneurial energy. Sam Phillips was a new label owner on the make who was trying to discover a new sound. EMI was a behemoth and Martin just happened to work for them while acting on unconventional tastes. Wilson was the father of the original Beach Boys who had a handful of low-level industry connections.

While the institutions and methods of intermediation are changing, the functions still have to be performed; otherwise the numbers make search costs for consumers and targeting by producers unmanageable. The shape of this market will be determined by the characteristics of new kinds of filters (intermediaries). The search methods will shift increasingly to the Internet as the Internet continues to increase its penetration into everyday life as the routine means of being tethered to the world at large. But the image of a casual popular music fan spending hours upon hours surfing MySpace in search of new music is a mirage. The useful question is the character and identity of the new Internet-based methods that will succeed in integrating music discovery with other day-to-day activities, much as broadcast radio is integrated today.

Who is today’s Sam Phillips? What is he doing? Is he running an indie label? Is he doing something innovating with social networking on the Internet? How does he reach out to find new musicians? What kind of influence does he have with consumers and why? The central economic question is what business models exist for him.

B. New intermediaries

Who and what will mediate the process through which a handful of musicians break through the barrier separating the bottom tier from the top tier? It likely won’t be major-label A&R reps dropping in on live venues or surfing the Web. It may be mass-marketed television programs such as American Idol and its imitators, which erect their own audition and screening processes. It may be, as with Harvey Danger—a few years ago, and Fallout Boy more

273 Stardom struck Harvey Danger in 1998, fueled by their song “Flagpole Sitta.” Played at the end of a local Seattle DJ’s program, then picked up by the sister station in Portland, OR, then by KROQ in LA, the song swept suddenly over the country’s radio waves. All at once they found themselves fielding phone calls from Universal, A&M, DGC and other major labels. Harvey Danger’s second record, King James Version, encountered a different kind of luck. A
recently, a combination of viral word of mouth, fed by college and conventional radio, and by the specialized press outlets such as Rolling Stone and Spin.

It is not enough to say that musicians will break through as they always have by touring widely and getting good reviews unless we also can describe who will be attending the tour-performances and reading the reviews that have the power to catapult a musician or group of musicians into the top tier. The major labels and A&R reps used to do this, but they will not exist in the future.

1. New distribution channels

Almost everyone has a MySpace music page, which permits a limited number of tracks to be made available for fans to listen to, and linking to other sites where CDs or downloads can be purchased. Most also have their own web pages where CDs and downloads can be purchased directly or through third-party sites linked to the musician page. Both MySpace and musician web pages offer nearly unlimited flexibility for the musicians to provide data about themselves and their music, to make still photographs and videos available and to link fans through online networks.

Snocap provides a service through which musicians can sell downloads, and CDBaby makes it easy for them to sell CDs, also providing automatic uploads to other sites specializing in download sales. These represent relatively thin levels of intermediation; they are little more than distribution channels, not matchmakers. They do little to reduce search costs.

2. New matching services

A variety of new technologies and business structures for matching musicians to potential fans also are in the marketplace. Amazon’s “others who bought this book also bought . . .,” iTunes’ “you might also enjoy this,” Pandora’s individualized “radio channels” are reasonably familiar. A group of ’08 graduates from Northwestern University started The Next Big Sound,274
a website which lets unsigned artists submit their music and then allows consumers to select up to ten bands for their personal "labels." Because each consumer is limited to 10 bands, the result is an indicator of how popular new music with consumers.

Pandora permits indie musicians to make their music visible, in association with other music that the Pandora staff or computerized music analysis believes have similar characteristics. Pandora permit consumers to set up their own listening channels organized behind a sounds-like filter also facilitate matching. Business

Pandora is available free to users and is supported by advertising. All that a user must do is register to use the website/program. It has also become available for mobile devices such as Blackberries and iPhones in addition to the traditional computer interface. There is an advertisement-free version available to users who opt to pay a minimal subscription fee and is a remnant of Pandora’s initial and failed attempt to offer the service exclusively as a paid subscription service. Pandora also receives royalties from Amazon or iTunes if a user purchases a song she hears using one of the links on Pandora.com.

Pandora’s music license limits the number of songs that a user may skip through, essentially preventing users from targeting specific song or sampling unlimited songs. As such, there remains room to improve the system. Perhaps users would be more willing to pay the subscription fee or Pandora could generate larger advertisement support if this limitation were removed. Rather than offer a link to purchase songs, Pandora may allow users to tag songs they enjoy which Pandora had suggested and then be able to listen to them at any time. In such a case, users would pay for Pandora’s ability as an intermediary that can introduce the user to new music rather than pay only for the songs themselves in which the Pandora system is a means to an end.

Many other lesser-known sites provide similar services. They further reduce search costs because they allow consumers to be exposed to new music passively; they do not have to exert any effort to browse or search. Substantial room exists for improvement in classifying new music so that its linkages to existing music are more robust, and in improving the interface, so that a listener easily can backtrack through an archive of what was played on his channel over the past hours or days. A consumer should not have to act affirmatively to know or record the name of a new song he is exposed to while he is occupied with another activity such as driving.

Gatekeeping, however it is performed in the future, is just half of the matching process; it merely limits the supply of new music that consumers have to consider. Equally important—probably more important as new channels open up and the gatekeepers become more diverse and more numerous—is intermediation that helps consumers focus their discovery efforts on a subset of the supply where search energy is most likely to be productive for them. The problem is not that consumers cannot find new music if they look for it; the problem is that musicians and their intermediaries have to be able to make them want it.
The reconfiguration of this market function is even more amorphous than the
reconfiguration of the gatekeeping function, although the experimentation is more visible to
consumers. iTunes and Amazon tempt music purchasers and browsers with “more like this” and
you might also enjoy” and “people who bought this also bought . . .” prompts on their web pages.
Pandora was organized around the idea that consumers could search for new music by starting
with the names of artists or songs they already like. MySpace, CDBaby and Snocap all
encourage those putting new music into their systems to include tags that relate the new music to
songs likely already to be familiar to consumers.

Much experimentation is underway to find out what kinds of intermediation are most
attractive to consumers. Two researchers at NYU’s business school evaluated the relative effect
of consumer ratings on Internet sites, blog chatter, size of social networks, the evaluation of
mainstream music reviews, and major-label association on popular music sales.275 Blog chatter
and increases in the number of MySpace Friends was correlated more strongly with early CD
sales than any other measured variable.276 Blog chatter was more strongly predictive, probably
because of the greater commitment a blog poster must have than a MySpace friend.277 The effect
of average consumer ratings was weak but positive and statistically significant.278 Mainstream
reviews, however, tended to influence sales negatively, possibly because critical acclaim is
decoupled from popular appeal.279 A release by a major label had 6-12 times the sales of a
release by an independent label.280

These findings suggest the potential power of a decentralized set of Internet-based
intermediaries, including music consumers themselves and volunteers who set up blogs. They
undercut the conventional wisdom about the essentiality of validation of establishment critics.
They reinforce the perceived power of traditional intermediaries to shape consumer tastes,

275 See Vansant Dhar & Elain Chang, Does Chatter Matter? The Impact of User-Generated Content on
Music Sales, NYU Leonard N. Stern School of Business (May 2000 [hereinafter "Chatter Matters"] [Series/Report
no.: CeDER-07-06 [check on NYU archives and find URL for SSRN working paper]. Blog chatter was measured by
counting the number of postings mentioning a song on popular music blogs. Chatter at 14. Ratings were measured
by collecting quantitative postings of quality and desirability from Amazon and other sites that rate music. Chatter at
12.

276 Chatter at 16, 19.

277 Chatter at 19-20.

278 Chatter at 19.

279 Chatter at 21.

280 Chatter at 21.
although they do nothing to weaken the evidence indicating that the major labels, as a archetypal traditional intermediary are disappearing for economic reasoning.

3. New intermediation technologies

Technology can match consumer tastes and musician product, thereby reducing the costs of intermediation and increasing the range of plausible business models. Any such technology must confront major challenges, however. Consumers are inarticulate about what they like, except by naming bands they already like. Musicians are inarticulate about what they offer, even by naming “sounds like” bands as on Snocap or MySpace entries. The heart of this problem is the absence of any consensual taxonomy of music characteristics—even among academics and commercial researchers. It is unlikely that a comprehensive and rigorous taxonomy can be developed because of the holistic and visceral determinants of music enjoyment.

It is too early to predict the extent to which automated analysis can play a major role in music intermediation, but some promising approaches can be identified, one based on statistical classification of music, the other based on open-source software.

a) Statistical classification

(1) Factor analysis

Factor analysis is a statistical technique developed in the field of psychology that identifies those features of members of a class that distinguish them from other members of the same class and from members of other classes. For example, the tone of C three octaves below middle C may be present in a subset of songs and absent in others. Factor analysis becomes useful in identifying that subset and isolating the low C as a discriminator. It also permits identification of other discriminators. For example, the tone E, a major third higher than the low C, might have independent power in distinguishing songs containing it. If, however, songs containing the tone C always also have the tone E, the presence of the E has no independent distinguishing power. In such a case, C and E are said to be perfectly correlated. Factor analysis evaluates the correlation among all the identifiable attributes of members of a class to evaluate the independent distinguishing power of each. The same approach can evaluate the discriminatory power of the chord progression I-IV-vii-iii-II-V-I, or of particular rhythms.

Once a set of attributes are identified that distinguish pieces of music comprising one subclass from those comprising another subclass, a new piece of music can be classified as belonging to a particular subclass, which might be thought of as a genre.

(2) Identification

A sufficiently large number of distinguishing attributes can define a song uniquely, but that is not the point. The utility for music discovery is to identify a song sharing attributes with
other songs—the attributes that collectively define a class or genre, and preferably a narrow subclass or subgenre that represents the set of music that an individual consumer is likely to enjoy.

At a relatively high level of abstraction, this goes on already without the aid of information technology: a song is readily classified as “country,” “metal,” “rap,” “folk,” “classical,” or “classic rock.” Most consumers describe their tastes in music with reference to such categories. But few consumers would claim to enjoy all metal music equally or all country music equally; they have their preferences within the larger categories based on artist and features of the music that distinguish it but nevertheless leave it securely within the genre.

Some of these characteristics that cause a consumer to prefer one song over another can readily be described by most consumers: crashing distorted guitar accompaniment, for example. Ordinary consumers, however, would be inarticulate with respect to other features of the music, specification of chord progressions, resolved or unresolved phrase endings, diatonic or chromatic melodic tendencies. Someone with greater musical knowledge could readily identify such features and classify songs accordingly. Indeed that is what intermediation services such as Pandora rely on—a large staff of skilled musicians to classify incoming music so it can be recommended to subscribers based on their description of their tastes and their selection of other music.

All the current Internet matching services—iTunes’ Genius, Amazon’s “you also might like this,” Pandora, last.fm—use some classification system to match demonstrated or specified consumer tastes with music the consumer does not yet have.

Many of their methods are labor intensive and, since the quality of the labor required is high, expensive. If computer techniques could be developed that performed all the classification costs would be reduced significantly.

There would be several steps in such an automatic classification scheme. The first step would involve the extraction of certain parts of the music into independent streams, so each part could be analyzed separately. Thus the tempo, the harmony, the melody, and the rhythm would be isolated. In essence computer-executable algorithms would perform an automated transcription—processing the complex audio signal representing recorded music and transforming it into the same variables that make up a score for the music.

Then, other algorithms would be applied to the separate streams to determine the values of the variables. For example tempo-analysis algorithms would determine that the song is performed at 120 beats per minute. One rhythm algorithm might determine that the piece is in ¾ time, while another determines that most measures have a syncopated rhythm of a particular pattern. Harmony algorithms would determine that—as would be likely with a country song—that the song is in a major key with a 1-4-5-1 chord progression. A melody algorithm might
determine that the melody has a narrow range, emphasizing diatonic notes with frequent use of passing tones.

Such features for a large sample of songs could then be subjected to factor analysis to determine which of the variables and values has the most distinguishing power. But as noted earlier in this section, analysis that ends by specifying a method that can describe a song uniquely is not very useful for popular-music intermediation. Everyone can already do that without the aid of computers. It only takes a few seconds to know that Vampire Weekend’s “Cape Cod Kwassa Kwassa” is defined by its repeating patterns of two-guitar-note intervals in the pattern D-G-A-D, punctuated by a chorus with the triad chords Emin-A-D-Emin-A, and to know that it differs dramatically from the lush pipe organ fullness of Arcade Fire’s “Intervention,” even though the latter song uses equally simple chord progressions.

In a useful classification system, Cape Cod Kwassa Kwassa or Intervention needs to be associated with other songs that might please the same consumers because they share characteristics important to those consumers. Those characteristics might be ones the consumers are aware of and could verbalize, but they might not. There might be some characteristic its audio footprint that would link Cape Cod Kwassa Kwassa with the audio footprint of other songs without anyone having noticed it before. That would make the computerized analysis very useful for consumer search, at least if the consumer agrees that there was some subjective similarity that made both pleasing.

This is how all analogical reasoning works: pre-identified features of different members of the same set are compared. Those members with many common features are similar; those with few common features are dissimilar. This analytical approach is what law students learn how to do in law school. Law professors call it “learning how to think like a lawyer.” In law school, the desired skill is not only the ability to compare based on pre-defined features, usually selecting elements of legal doctrine, but also based on their own original characterizations of the facts of the disputes giving rise to the judicial precedents, enabling them to “distinguish” other otherwise apparently similar cases.

The same automated classification techniques could be useful for recommending music based on the music collections of others who like the same song. In the most basic implementation of this approach no musical attributes of songs in the collection need be identified; the name or a unique arbitrary identifying number is all that is necessary. The only real analysis simply counts song titles to determine that 89% of the people who bought Vampire Weekend’s Walcott also bought Decemberist’s A Soldiering Life, while only 2% bought Bob Dylan’s Blowing in the Wind. An intermediary using such techniques would be likely to recommend A Soldiering Life but not Blowing in the Wind.
But application of the more sophisticated feature analysis could begin to explain why Oxford Comma and A Soldiering Life are similar and why Blowing in the Wind is less similar, although it shares one major characteristic.

The automated classification of music would be even richer if vocal lyrics could be extracted automatically and then subjected to natural language processing. Already many commercial products are quite good as searching for an identifying textual documents sharing certain phrases and expressions: that’s the basis on which Google’s search engine works. Some of the is obtainable from analyzing a separate text file of the lyrics associated with a particular song and then linking the result of the text analysis—perhaps only an inverted file, to the record containing the results of the music-attribute analysis.

Such classification technologies are not fanciful Two patents describe such methods for matching music tastes to music. The first, #7,003,515 granted on February 21, 2006, is owned by Pandora. The overarching claim in this patent is:

“A method for predicting a preference of a user for a media selection, the method comprising analyzing a catalog of media selections according to a plurality of characteristics; rating at least one media selection by the use, matching said rating with said plurality of characteristics to predict the preference of the user for at least one of the media selections of the catalog; and recommending at least one predicted media selection to the user”

The patent describes a means to have a computer use vector pair analysis to predict a user’s preferences to an item before the user has actually been exposed to that item. Other systems such as Amazon.com and FM.last.com appear to predict user preferences, but actually only draw parallels between multiple users. Under these systems, predictions are not based upon what that user will enjoy, but are based on what other independent users enjoy. Consequently, the system is unable to expand the pool of recommendable items without a user initiating it. The Pandora method allows new items to enter the pool de novo and still accurately satisfy a user’s preference. This expands this user’s tastes beyond that of other users and allows the system as a whole to grow unrestricted.

While the system is not limited by user suggestions, it is still finite. This pool of items is generated by experts who are concerned with increasing the total volume and diversity of the pool while not catering to any specific tastes. Pandora employs experts to expand the pool further, diversifying the realm of “known” music. They reach out to both popular and obscure music in an effort to maximize the size and diversity of the database.

281 The analysis of the Pandora patent was drafted by Brian Adams, research assistant to the author.
Experts analyze each song within the pool by hundreds of characteristics (“genes”). They assign a numerical value to each song between 1 and 5 for each gene depending on the intensity of the quality. Such qualities include, for example, the level of distortion on the guitar or the gender of the lead vocalist. As such, some of the qualities allow for a continuous variable (levels) while other qualities are discrete (gender). To compensate for this difference and to address the fact that the values between 1 and 5 are not necessary linear, the experts also add a weighting vector to each gene. An expert may feel that certain qualities are more defining than others or that small increases within certain qualities drastically alter the preference for the song. Consequently, the “value” of that quality is magnified or diminished by the weighting vector.

The method utilizes basic distance-squared geometry to match songs. The distance between two songs is the square root of the sum of the square of all of the distances between all of the gene values, each multiplied by its respective weighting vector. For two songs X and Y their distance is

$$d = \sqrt{\sum_{w} w (t_{x} - t_{y})^2}$$

where $n$ is the number of genes, $w$ is the respective weighting vector, and $t$ is the value of a gene. In doing this, the system will be able to identify songs that are overall similar based upon how far or close their overall distance is. However, similar to the weighting vector, experts also assign “focus traits” to songs to intensify the effects of certain traits. These focus traits may be individual traits or groups of traits which can outright define a taste in music on their own. Therefore, the system matches songs using these genes, rather than all of the genes as a whole and would limit $n$ to several genes.

With the expert analysis done, the pool formed, and the system ready, an end user may initiate the matching. With a single song entered, the system moves from song to proximate song and presents the next “close” match to the user. If the user entered the original song and had no other interaction with the system, it would likely produce poor results because, once song matching begins to deviate from a user’s preference, it can quickly pursue the wrong similarities ending up with results drastically different than the original song. To prevent this, users may approve or disapprove of suggested songs. The system can then understand which similar traits were significant to the user and those which were merely fortuitous using statistical patterns. This creates better matches in the future. These preferences also allow the system to alter the weighting vector and focus traits itself based on patterns of preference by the user further improving the predictions by the system.

The second, U.S. Patent #7,532,943, is owned by Microsoft. It combines automated sonic analysis through digital signal processing with classification of musical properties by human
experts. The result is a set of “neighborhood[s] of songs . . . within which each song has similar sonic properties.”

The process is best summarized by the following claim:

“A method for classifying audio data according to its spectral properties, comprising: classifying by human experts each entry of a representative set of sounds according to their spectral perceptual qualities; assigning each entry in the representative set at least one value based on digital signal processing; reducing the results to a set of numbers called the characteristic vector of each sound; storing the characteristic vector in a classification chain; receiving a digital audio information; dividing the digital audio information into frames; determining a sonic characterization vector as a function of the energy, entropy and rate of change of frequencies in at least one frame; and presenting the characteristic vector to the classification chain, which returns an estimate of the spectral properties; and classifying the digital audio information by a human when the confidence in the at least one classification is low and adding a representation of the spectral perceptual qualities to the classification chain.”

The process includes multiple steps. First a digital-signal-processing subsystem analyzes the sonic properties of a collection of songs in terms of features such as spectral balance, spectral weight, and spectral density. It also computes the rate of change of the frequencies, and identifies “peaks” to isolate important musical features. Then, human experts classify a representative set of sounds according to their perceived musical qualities. “For example, if songs with heavy activity in the frequency spectrum at 3 kHz, as determined by the DSP processing, are also characterized as ‘jazzy’ by humans, a rule can be created to this effect. The rule would be, for example: songs with heavy activity at 3 kHz are jazzy. Thus, when enough data yields a rule, machine learning classification module 350 outputs a rule to rule set 360. While this example alone may be an oversimplification, since music patterns are considerably more complex, it can be appreciated that certain DSP analyses correlate well to human analyses.”

These “groovers” function at two levels. The most expert classify a group of training songs. A second set of less expert groovers, trained by the first group, classify a larger cross-section of music iteratively until a certain level of accuracy and consistency is achieved. The results are represented by a “sonic vector” for each sound. After this training process is completed, nearest neighbor and other matching algorithms can be used to locate songs that are similar to a designated song or that match a user-generated profile.

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282 U.S. Patent # 7,532,943 Abstract.
283 Id. at Claim #25.
284 Id., Detailed Description of Preferred Embodiments at 18.
“[T]he fundamental properties of media entities, such as songs, are grouped into three main areas: rhythm, zing and mood. Rhythm may include tempo, time signature, rhythm description, rhythm type and rhythmic activity. In the case of mood, the sub-categories may include emotional intensity, mood and mood description. In the case of zing, the sub-categories may include consonance, density, melodic movement and weight. Once a trainee learns the nature of and how to recognize distinctions for these terms, a trainee becomes a groover and may classify new songs or song segments.

“In . . . the classification of new songs or song segments, a groover enters values for attributes for the song or song segment including song-level attributes and voice-level attributes. Some of these attributes are similar to the fundamental properties described above. Song-level attributes may include tempo, weight, harmony, intensity, density, consonance, chordal movement, mood, range, flow, dynamics, rhythm description, rhythm type, rhythmic activity, rhythm flexibility, rhythm time signature and description. Voice-level attributes include prominence, melodic movement, intensity, ornamentation, cleanliness, rhythm activity and whether the song has a solo. Values may be entered via discrete adjective descriptors, via continuous or discrete range(s) of numbers, via more subjective terms like, low, medium and high, jagged or smooth, and the like, as long as the classification values used are consistent from segment to segment or from song to song.”

b) Open source technologies

Under the Creative Commons non-commercial attribution license, a licensee is "free to share (to copy, distribute, and transmit) [and] to remix (to adapt) the work," so long as the licensee attributes the work to the author and does not use it for commercial purposes. In March, 2008 Nine Inch Nails released "Ghosts I-IV," comprising 36 new instrumental tracks under a Creative Commons license. The terms of the license allow copying, displaying, distribution and performance, conditioned on attribution and making any derivative works available under the same license terms.

David Byrne, former frontman for Talking Heads, has made parts of his 2004 album "Grown Backwards" available under a Creative Commons license. In 2004, Wired Magazine

285 Id. at 19.
286 http://creativecommons.org/licenses/by-nc/3.0/.
287 http://creativecommons.org/weblog/entry/8095.
288 http://creativecommons.org/licenses/by-nc-sa/3.0/us/ (terms of license).
released a CD under a Creative Commons license, containing music from Beastie Boys, David Byrne and 14 others.\footnote{http://www.davidbyrne.com/music/cds/grown_backwards/grown_press/WallStreetJournal.php.} There was no technical difference between the CD and CDs released under more restrictive copyright licenses, but the Creative Commons license permitted free copying and trading.\footnote{http://www.davidbyrne.com/music/cds/grown_backwards/grown_press/WallStreetJournal.php.} Beastie Boys makes available acapella tracks "for your own personal use to make your own remixes,"\footnote{http://www.beastieboys.com/remixer/.} although that part of the band's website does not explicitly refer to the Creative Commons license.

The concept does not exactly seem to be taking the world by storm. Most of the press reports and the references on Creative Commons' own website are to events in 2004 and 2005. Several points of tangency, however, can be envisioned between the Open Source software concept and indie music. One is to use the Creative Commons non-commercial attribution license to allow indie music to be freely distributed, copied and adapted. Another is to develop open-source software applications that would automate the porting of indie music to other media, for example, to permit a consumer to extract a certain portion of a song and automatically download it into a cellphone as a ringtone. Such an application could insert the name of the band, automatically accomplishing the required attribution. Or tools could be developed to facilitate the incorporation of a song into a video production.

The most profound impact of open-source technologies is likely to be the facilitation of new classification technologies, and lower-cost videogames that provide virtual access to musician personalities, as discussed in § VII.A.2.a)(g).

4. **New intermediary entrepreneurship**

New intermediaries can perform a variety of activities in the marketplace, ranging from simply providing convenient distribution channels for digital formats, to deployment of new technologies for matching consumer tastes to the characteristics of new music, to more proactive “push” techniques for building celebrity status. To be successful economically, they also must implement methods for earning revenue from the value they provide. Creativity is required with respect to each of these activities.

VI. **Structure of the new marketplace**

The new marketplace for music will be one in which the gatekeeping functions traditionally performed by major labels, concert promoters and broadcast radio are relatively

\footnote{http://www.beastieboys.com/remixer/.}
unimportant. It will be one in which copyright is essentially irrelevant, because recorded music is free or close to free. It will be one in which the demand for popular music increases dramatically because recorded music is portable and can be obtained not only through the Internet but also wirelessly. It will also be one in which the number of musicians and the amount of their music increases as least as much because of the demise of the traditional gatekeepers.

A. Matchmaking

In such a competitive and crowded market new forms of intermediation will be necessary to replace the functions formerly performed by the traditional gatekeepers. It is unlikely that complete disintermediation will work, producing a market in which every music consumer considers with equal interest the new music available through MySpace or CDBaby written and performed by every musician.

Automated matching of consumers and musicians holds considerable promise, although it is unlikely that technology deployed by new entrepreneurs can do the whole job.

Peer-group and friend influence suggests that social networking sites can be effective music-finding intermediaries. Those in which the network are constructed based on personal relationships, like Facebook, are likely to have more power in this regard than those in which “friendship” is a marketing tool, like MySpace music pages.

The power of word of mouth as a finding tool suggests that live performances may be effective sources of intermediation as well as important revenue sources. Someone who has just attended a live performance and enjoyed it is more likely to talk about it to his friends than if he merely heard a song on the radio or downloaded a song and listened to it.

Much of demand for popular culture is driven by network effects, as discussed in section —the desire to be "cool" by associating oneself with the same products and celebrities that one's peer group is consuming--or, to some extent affiliating with the same products that admired celebrities endorse. Therefore, musicians and intermediaries must have some way to make the velocity of adoption visible to consumers. That is the current function of Billboard and of other “charts” that musicians want to “make.”

B. Role of the bottom tier

Will a two-tiered market for popular music emerge, in which the top tier provides music made by a handful of stars for a mass audience, and the bottom tier provides music made by thousands of musicians operating on the borderline between amateur and professional for the enjoyment of mostly friends and family of the musicians?

If this occurs, what are the prospects for the bottom tier to satisfy some of the demand otherwise concentrated in the top tier? If this occurs at all, will it occur mostly by consumers
discovering unknown musicians residing in the bottom tier through the Internet? Will it occur mainly through informal file sharing? Will it occur mainly through serendipitous exposure at live performances?

C. Breaking through

Who and what will mediate the process through which a handful of musicians break through the barrier separating the bottom tier from the top tier? It likely won’t be major-label A&R reps dropping in on live venues or surfing the Web. It may be mass-marketed television programs such as American Idol and its imitators, which erect their own audition and screening processes. It may be, as with Harvey Danger several years ago, and Fallout Boy more recently, a combination of viral word of mouth, fed by college and conventional radio, and by the specialized press outlets such as Rolling Stone and Spin.

It’s not enough to say that people will break through as they always have by touring widely and getting good reviews unless we also can describe who will be attending the tour-performances and reading the reviews that have the power to catapult a musician or group of musicians into the top tier. The major labels and A&R reps used to do this, but they will not exist in the future.

Will there be a new class of entrepreneurs who perform this function, acting on the (shoestring) scale of Sam Phillips and his Sun Studios with Elvis Presley, George Martin and EMI with the Beatles, Norman Petty and Buddy Holly, and Murry Wilson with the Beach Boys. The stories of these three discoverers are quite different. Sam Phillips is the most interesting because he was a new label owner on the make who was trying to discover a new sound. EMI was a behemoth and Martin just happened to work for them and had unconventional tastes. Wilson was the father of the original Beach Boys who had a handful of low-level industry connections.

Who is today’s Sam Phillips? What is he doing? Is he running an indie label? Is he doing something innovating with social networking on the Internet? How does he reach out to find new musicians? What kind of influence does he have with consumers and why?

What role will intellectual property play in the new marketplace? Surely some realms in which celebrity flourishes, it plays a relatively small role. Professional sports comes to mind. On the other hand, the power of someone who needs capital to transfer some kind of durable property interest to those who provide capital seems efficacious.

Even if most musicians continue to make music for free—or for something considerably less than a living wage, intermediaries will not work for free. Some business models must exist that provide incentives for effective intermediation and for investment in intermediation.
D. Investment capital

“Capital” refers to generally is understood to refer to the stock of resources that can be used to produce income. Capital can be enhanced by various sources, including investors, who expect a share of the firm’s profits, the excess of revenue over expenditures, or gifts. Invested capital is thus distinguished from revenue, which refers to a stream of money attributable to purchases or goods or services.

1. Capital sources

For most indie musicians, revenue does not exceed expenses, at least not by a significant amount, and so they are dependent on other sources of capital, which are properly called “subsidies” or “savings.” Capital may come from their own personal savings, in which case they are investors in their music enterprise. It may come from parents, in which case the contribution to capital may be—but is not always—a subsidy in the form of a gift.

From the 1950s to the end of the twentieth century the usual investor for an indie musician was a record label. Not, the reduced probability of a major label deal, and the diminishing amounts labels are willing to invest even when they made deals, have heightened interest in the identity of other potential investors. The universe of potential investors has been increased because the lumpiness or granularity of investment in a band has declined significantly. A band can make a high-quality album for about $5,000. Such an album can be financed by third-party investors who expect a return because they a betting that the musician will succeed in generating a significant profit. Many people have that much money to invest in a promising though risky enterprise. The rapid expansion of investment in films by private individuals illustrates the phenomenon.293

There is, however, a significant barrier to investment in indie music that does not exist in the film industry. One can put together a business plan for a film project that shows huge upside for a film that captures public affection. It is much more difficult to put together a business plan for a music project that shows the same upside. The result is that there has been no major infusion of private capital into indie music and may not be.

2. Sources of subsidy

a) Day job

Caves reports that most artists support themselves with day jobs. Most musicians do likewise. Any assessment of the economic viability of indie musicians must consider the kinds of

293 CITE indie film investor phenom.
day jobs available and their impact on music activities. The interaction between day jobs and making music has already been considered in the section on opportunity cost, supra. This section focuses on the kinds of day jobs available and the extent to which a day job may fulfill some of the artistic impulse because it is related to music.

Musicians can supplement their income by employment in ancillary functions in the music industry itself. They can work as recording engineers, organize and promote live, make websites, design and place advertising, and do press outreach for other musicians. But such broadened employment does not increase the aggregate income stream for the musician community overall unless one of two things happens: the ancillary activities are successful enough that the aggregate revenue increases more than enough to compensate both the performing musicians and the new intermediaries for their activities, or the specialization capitalizes on the greater productivity of comparative advantage.

To illustrate the first point, suppose two musicians earn $200 per night each for live performances and another $100 for CD sales at the performances. Now, one of the two stops performing and concentrates on enhancing the potential of the other. Unless the new activities produce more than $600 per night for the musician still performing, the average income for both of them has declined.

The second point related to comparative advantage. The musician still performing may be a better musician than the one who concentrates on advancement. The one who stops performing may be better at advance than the one who continues to perform. In this case the total revenue for the two of them is likely to increase because each is able to spend more time on what he does best. On the other hand, if both are equally good at both functions, the specialization produces no net benefit. Each would be just as well off if he split his time between performance and advancement.

The size of the revenue stream that can be tapped by this form of specialization depends ultimately on whether the opportunities are limited to increasing share of a fixed market demand, or whether specialization can produce increased aggregate demand. It is plausible that increased demand could result—or at least a shift of market share from established artists promoted by the industry heavyweights to indie musicians. Anecdotal evidence suggests that even those

294 He may not stop performing altogether; he may just perform less to make time for his new intermediation activities. But the point is most easily illustrated by imagining, that the new activities substitute, hour for hour, for performing time.

295 Cite Adam Smith’s pin-making example.

296 See consumer profiles posted on www.indiemusicchicago.org.
enthusiastic about indie music and interested in encountering new groups spend little time searching for them by browsing MySpace or websites or by going to small venues. Their interests in new music could be tapped by more effective outreach on behalf of indie musicians. That is what specialization in the promotion and advertising functions could produce.

Many musicians supplement their income within the music industry by teaching, usually giving individual lessons. This can be a fairly lucrative source of income because the going rate for private lessons in $30-$50 per hour—substantially greater than what a musician can earn in a basic day job, in which the wage level is likely to approximate minimum wage: $6.50 per hour [check current level]. This source of employment has an advantage over other types of employment within the music industry: it taps a new revenue stream. The source of revenue for music teaching is (mostly) people who are not already musicians but who seek to acquire a skill to make music. Most of these students will not become sufficiently proficient or otherwise be motivated to become serious musicians, and so there is a churning effect that magnifies the available revenue over what might be estimated if one considered only the supply of new musicians necessary to replace those exiting the industry or needed to meet growing demand.

Many indie musicians use established recording studios when they accumulate sufficient capital to record an album. Technology has reduced the economic barriers to entry for the recording function without requiring sacrifice in quality of the result. This enables those who presently spend their time making music as performers but who possess the requisite artistic and technological skills to shift some of their music-making or day-job time to offering recording studio services. Their income potential from making such a shift depends on whether the aggregate demand for recording studio services is fixed, or whether it could be increased by reduced prices associated with new market entry and greater competition.

Abundant evidence suggests that musicians want to make more recordings that they are able to do because of the barrier represented by the cost of making an album—whether intended for commercial release or for demonstration purposes. So this direction for specialization has the potential to produce an increase in overall recording revenue, albeit still limited by the total assets available to musicians already engaged in the industry.

b) Subsidies

“Subsidies,” as the term is used in this article refers to payments made by third parties—persons other than a musician or a consumer of that musician’s music outside a direct exchange for the music. Parents don’t generally say to a 24-year-old son who is a member of a rock band, “We like that song; we’ll buy it from you.” They say, “until you are on your feet, we will continue your allowance,” or, “we will pay your apartment rent,” or “we will pay for your car and the insurance on it.” In other words, they subsidize the son’s music.
Governmental subsidies for music are not widespread in the United States, unlike in Europe. But one type of music making that is generally subsidized at least in part is the music made by high school bands, and other music groups. Public funds support the young musicians in their music making activities because those activities are perceived as being part of the educational process that serves a public benefit.

Even if public subsidies were efficient ways to address market failure, they are unlikely. Moreover, the politics of subsidy would be likely to result in subsidies, not for new forms of music creation, discovery and distribution, but to perpetuate established and now essentially obsolete business practices. The dinosaurs are well organized in Washington and the state capitals. The beavers are not. But there is a type of public subsidy that exists, is politically viable, and has less risk of capture. Federal, state, and local governments support culture, they support education, and they support tourism. All three types of subsidy receive broad public support because they are perceived as productive in creating jobs and human capital. These policies should reflect greater consciousness of the contribution that indie musicians make, to the reality that most musicians first identify themselves as such in their junior-high and high-school experiences, and to the allure that indie music venues can have for tourists.

When state agencies and municipalities publish tourism guides and design advertisements, they should feature the communities of indie musicians found almost everywhere, and tell tourists how to find them, on line and in the flesh. This is not a zero-sum game, benefitting the indies at the expense of the celebrities. Many tourists will not go to a major concert in an arena or a stadium. But they will go to a smaller venue where they can combine an informal opportunity to eat and drink while they explore new music. Given the DIY tradition of indie musicians, the potential match between musical entrepreneurship and relatively modest public expenditures is pregnant with opportunity.

When school boards budget for music activities in the public schools, they should recognize the potential of programs that embrace genres of music and the types of music creation that are most accessible to the students they educate—rock and hip hop, as well as Sousa marches for the band and Rossini for the orchestra.

VII. Business models: the money part

Markets evolve under the stimulus of entrepreneurship; their future shape is not the result of some grand policy vision. Nevertheless, it is appropriate to identify likely instances of market failure, where policy intervention or some burst of entrepreneurial spark is most needed.

Popular entertainment is big business—historically it has generated billions of dollars. As the technological revolution threatens traditional business models and established intermediaries, the search for new business models must start with the question: what is money needed for? It is
clear that money is needed to support intermediaries and to draw new ones into the market. The prospect of profit is what induces entrepreneurs to take the risk of experimentation.

It is less clear that money is needed to support musicians. Most musicians do not make any real money under existing business models; they make music for other reasons. To be sure, some of them are drawn by the fantasy of becoming celebrities, but the prospect of that happening is vanishingly small. Money may be necessary to forestall exit by the best musicians. But money is not everything. Most musicians would continue making music even if they cannot make money at it, so long as they can find the time, given their other obligations, including obligations to work at other jobs to support themselves.

To discover new business models for either group is daunting. As earlier parts of this article explain, technological innovation is pushing the cost—and therefore the price—of recorded music to zero. Increased competition because of reduced barrier to entry mean a smaller share of revenue streams for each market participant. Much further entrepreneurial experimentation is necessary to discover how functions essential to the effective working of the new marketplace will be performed.

Flip Filipowski, a Chicago-area high-tech entrepreneur, remarked in 2002 that venture capital must finance 100 or 1000 startups to get one successful innovation. Most startups fail, he pointed out, but that is not a bad thing; it is the inevitable process through which innovation in markets occurs. This means that a large venture capital stock is needed, a significant portion of which funds the set of “experiments.”

Paul Resnikoff, reporting in November, 2008 on the failure of prominent digital intermediaries to make money even as the traditional record-label model collapses refers to the quest for economic viability in the music industry as a "the lure of figuring out this seemingly hopeless riddle, coupled with a passion for the sexiness of music, is enough to keep the experimentation alive. The reason is that demand for music is so immense, and so is the entrepreneurial appetite for translating that energy into cash.”

The good news is that the size of the chunk of capital needed for each experiment does not remain fixed. New technologies, including new ways of organizing things, reduce the size of the chunks. It takes less capital to finance an innovative Web-based channel between musicians and music bloggers than to finance a new CD warehouse for a music distributor. A new statistical matching algorithm could be implemented through open-source software or a video game could be written to offer virtual access to musician personalities for tens of thousands of

dollars rather than millions of dollars. That means that even a diminishing stream of investment capital can fuel more innovation.

No investor will invest, however, unless the enterprise seeking capital can present a business plan demonstrating the potential for sustainability and an adequate rate of return.

A. Elements of a business plan

Two types of business models must be considered: a business model for musicians and a business model for intermediaries. It makes sense to start with the business model for musicians because the most straightforward business model for intermediaries is to take a share of the musician’s earnings. If those earnings are sufficient to support a share acceptable to the intermediary then the problem is solved: viable business models exist for both musicians and intermediaries.

1. For musicians

The following evaluation of business models for musicians assumes that musicians have made their own judgment that they want to create music and make it available to audiences, trading off desires for financial rewards against the opportunity cost of devoting a significant part of their time to musical endeavors. Some will stay in the market only if they expect to reap substantial economic rewards from their music; others will stay in if the combination of their music—profitable or unprofitable—and the incomes from their day jobs and from subsidies makes it possible for them to cover their costs and support themselves at a modest level.

The analysis focuses on situations in which music must be financed by funds available from day-job employment, from savings, and from subsidies. In other words outside financing is unavailable. To obtain such financing, the musicians must explain to a potential investor what the money is needed for. Profit-seeking investors need to understand how much return on their investment is contemplated and the circumstances under which it will be realized. As the following analysis shows, a positive rate of return could not be offered and thus no investment could be attracted. Section 2VII.A.2 shows how investors could be attracted to finance a band in conjunction with a new intermediary.

a) Costs

(1) Recorded music

The starting point for developing any business plan is to identify the costs of the proposed business, focusing particularly on cash outflows.

298 See § III.B.2, supra, regarding the tradeoffs.
The costs of creating recorded music include the costs of composition—inventing a new song; the costs of recording it; duplicating the recording; marketing it; and distributing it to consumers.

The costs of composition, for most musicians, are opportunity costs. Few musicians earn salaries for composing music, a handful of songwriters in Hollywood or Nashville being the exception. Well known musicians benefit from advances under their record-label contracts, intended to support them and their costs as they record a new album.\(^{299}\) Lesser-known musicians use leisure time for composition, for which opportunity cost is what matters. The time required to come up with a new song varies enormously. Typically, bands take a year off from touring to create a new album of 12-15 songs, but a month or two of intense effort can suffice.\(^{300}\) Rock bands usually compose in the studio on their instruments, working from outlines of musical concepts developed by one or more of their members.\(^{301}\) The process is recursive: the creator tries out an idea with his colleagues; they make suggestions or perform adaptations, and the creator goes back to rework and integrate the collective ideas. Based on the author’s experience, a total of 25 hours by the principal composer is realistic for one song. So, if opportunity cost is measured by minimum wage, the cost of composing a song is $164.\(^{302}\) This ranges upwards for musicians with better day-job prospects. It is $3125 per song if the opportunity cost is $1000 per day, a reasonable figure for a successful entertainer or someone with a professional job as a lawyer or physician.

Musicians without access to paid intermediation, as this part of the business-model analysis assumes, must record during their leisure time. The opportunity cost for such time is zero. Expenses must be incurred for recording, duplicating and distributing. Studio time costs $50-100 per hour in major markets. Most indie musicians consider that they can record an album of songs reasonably well worked out in advance—usually by playing it at live performances preceding the recording process—for $5,000 to $7,500. The model assumes the higher figure: $7,500. When all the musicians are part of the same band, there is no cost for studio musicians. A generalizable business model, however, needs to accommodate the situation in which the band needs to be filled out with session musicians, who may charge $200 per recording session. Once

\(^{299}\) CITE Bumping into Genius re size of advances and how much is available for the musicians directly.

\(^{300}\) See Bob Spitz, The Beatles 584-592 (2005) (describing process of recording new album, “Rubber Soul,” as beginning on 12 October 1965 and being completed by Christmas of the same year; characterizing this album as the one that established Beatles as serious musicians).

\(^{301}\) See Spitz at 584-592 (describing creative process).

\(^{302}\) The statutory minimum wage was $7.25 per hour in the United States, beginning in July, 2009.
the songs on an album are recorded and mixed, duplicating one thousand copies costs on the order of $2,000, and mailing it to reviewers and radio stations costs another $3,000

Based on these estimates, the total cost of an album is $12,500. Few musicians have enough capital or the expertise and intermediation technologies to finance expenditures for paid advertising or paid publicists.

(2) Live performances

The costs of creating live music include the costs of composition; the costs of promotion; the costs of touring; and the costs of the actual performance. When musicians perform close to home, the costs are minimal, after they have incurred the costs of composition. If they want to expand their public-performance opportunities, they must tour, because local markets eventually become saturated—only a certain number of public performances in a specific time period can draw audiences.

Touring is not cheap. The musicians must have a vehicle. They need a route that does not leave them traveling long distances and backtracking unnecessarily; they want to play venues that form a logical geographic sequence. They have to pay for fuel, meals, and lodging, unless they can persuade fans to let them sleep on the fan’s couch. Most tours produce psychological gratification but the expenses eat up the revenues.

If a band is aggressive in touring, while holding day jobs, it might tour 56 days per year, playing performances twice per week. A band on tour drives an average of 250 miles per day in a vehicle that gets 20 miles/gallon. If fuel costs $3/gallon, it must spend $37.50 per day on fuel. The cost of lodging can be estimated at $50 per night, if all the band members stay in one room when they stay in a hotel or motel, and sometimes sleep on a fan’s couch. Food expenses can be ignored because the band members would have to spend money on food even if they were not touring, so food is not a marginal cost attributable to touring.

The total outlays for one year are thus $4,900.

b) Revenue

In a viable business model, revenue must be sufficient to cover costs and to produce an ROI acceptable to investors.

303 $7500, plus $2000, plus $3000, produces a total of $12,500.

304 Four two-week tours.
The thesis of this article is that substantial revenues from CD sales are not part of the business model for musicians. Nevertheless some CDs can be sold at performances, when audiences are enthusiastic about what they have just heard and want a tangible souvenir of the experience. While CD sales are declining industry wide, audiences remain likely to buy a CD at a concert by a band that they like because it is a tangible impulse purchase, rewarding the performers and being able to take some of the music home. Sales of 10 per show would be optimistic. The model assumes that 5% of the attendees at venues with an average capacity of 75 purchase CDs at a price of $10, yielding revenue of $600 per year from CD sales at shows.

Indie musicians and some celebrity musicians often argue that they will make up for lost revenue from the sales of recorded music by shifting their energies to life performances, where consumers can be charged for access. It is certainly true, as § Error! Reference source not found. explains, that the technologies that facilitate free riding on recorded music do not threaten the integrity of business models based on live performances. The size of the market for live performances, however, is not as elastic as the size of the market for recorded music, because the effect of new technologies of consumption is more dramatic for recorded music than for live performance.

Most indie musicians perform in small venues, usually bars, with capacities of 25-500 people. They receive, at most, a few hundred dollars for each performance, and are expected to do much of the promotion to bring out crowds of their friends and local fans developed by their own Internet promotion and street teams. The venue owners are more interested in sales revenue from alcohol and food, supplemented sometimes by cover charges, than they are in the nature of music. As long as a good-sized crowd is willing to come and drink and eat while they listen to it, the venue owners are happy.

There are advantages to both the venue owners and to the musicians in this arrangement. The venue owners get more revenue than they would with no live entertainment because they can count on the musicians to beat the bushes to get their friends to come out. The musicians get an opportunity to perform live in front of a crowd. Bigger cities have hundreds of small venues, with three-to-five slots on the bill for Friday, Saturday, and Sunday, and some weekdays. Nearly every hamlet in the country big enough for a Wal-Mart has at least one bar that may be interested in having live music performers.

Live performances help sell recorded music, and recorded music helps bring crowds to live performances. Most bands have a table in the back of the venue at which CDs and merch are for sale, and they make sure their audiences know, by saying so during their performance. Audience enthusiasm right after the performance makes it likely that at least a dozen or so fans will pick up a CD for $10 as a souvenir of a good time, whether they ever listen or it or not. It takes a certain amount of effort to go to a live show, and if potential have heard a band's music
on a CD, an iTunes download, or through a free copy or a free file exchange, and like it, they are more likely to attend a live show.

Section VII.A.1.a)(2) assumes that a band would tour for 56 days per year, playing two performances per week. The band’s share of revenue for each live performance is 20%, producing annual revenue from touring of $3,600.

Merch—tee shirts and coffee cups and beer mugs or liners—might net another $50 per show, for an annual total of $800.

So total revenues for the band include:

Touring: $3,600
CD sales: $600
Merch: 800
Total: $8,563

If the members of the band split the earnings evenly, the result is $2,141 per musician. Minimum wage is $14,500 per year.

Costs, as estimated in section VII.A.1.a), are $22,400, considerably in excess of revenues. Few indie musicians could finance such a three-investment of $32,200, and operating on their own, most lack the expertise to translate their music and their efforts into celebrity. The ROI for such an investment would be -73.4%. Most would tour much less because of the constraints of their day jobs, thereby producing less live-performance revenue. Most would not be able to afford a publicist or paid advertising, as the calculations assume. They would scrimp to finance studio time and their recorded music would go mainly unnoticed except for what they sell at performances.

In other words, there is no sustainable business model for indie musicians unless new sources of revenue can be tapped.

2. For intermediaries

Despite the variety of the intermediation resources available to any indie musician on a shoestring budget, identified in § V.B, none of these third-party services (except for iTunes) shows signs of dominating the market. It does not appear that any is particularly successful financially.

The result is that everyone is scrambling to find a way to make money. The major labels are infatuated with "360 degree deals," in which they take a portion of the revenue obtained from
all the activities of signed bands, in contrast to their traditional practices of looking only to revenue from sales of recorded music, leaving the revenue streams from live performances, merch, and video-entertainment deals or advertising alone.

If a viable business model for musicians exists, the business model for intermediaries is simple: they simply take a share of musician profits adequate to cover the intermediaries’ costs and to provide an adequate rate of return. That’s what labels, concert promoters, publicists, and lawyers historically have done. But that business model for intermediaries works only if the musician’s business model generates sufficient income to share it with the intermediaries. For most indie musicians that condition will not be satisfied.

But as the preceding discussing concludes, a sustainable business model for musicians does not exist for musicians that draw only on existing sources of revenue. Accordingly, for the new market to function well, an independent business model for intermediaries must exist. This exists only for intermediaries who do more than perform match-making functions. Economically successful intermediaries will perform a combination of match-making and promotional functions, drawing more consumers into the orbit of client bands. They will have to push as well as pull.

Much good music has always been made—and will continue to be made—by musicians who essentially pursue music as a hobby, even if they would be insulted by the term. These musicians will continue to make music in the interstices of their day-job and family responsibilities, and some will do it all their lives. It does not matter that no business model exists for their artistic activities. One never has, really. Many of them talk about getting a major record deal, but this never has been a realistic possibility for most of them; it is simply too hard to get discovered, and they are not willing to pay the price of trying.

Another group of musicians, however, has what it takes in terms of emotional energy and modest opportunity cost, to try to break through the barriers and to earn sufficient income from their music to support themselves. To realize their aspirations, they need capital—as much for advertising and promotion as for creating and distributing their music—and they need new kinds of intermediaries who can promote them successfully using new technological channels.

These intermediaries badly need a viable business model. For them, the combination of advertising, new revenue streams from things like ringtones, and paid packages that combine access to recorded music with narrowly targeted discovery tools, represent the best possibilities.

Intermediaries will be available to them if a business model exists adequate to draw intermediaries into the market and keep them there even though most of the musicians for whom they provide services cannot pay them enough. The answer is already, “yes,” for a subset of new intermediaries. For example, Myspace, YouTube, AT&T and Comcast perform important intermediation functions in the new marketplace helpful to hundreds of thousands of musicians;
yet their business model does not depend on a share of their musicians’ earnings. They get their revenue from someone else: ISP subscribers in the case of Comcast and AT&T and advertisers in the case of MySpace and YouTube. All these control distribution channels for music that consumers already want. They make money off established celebrities by charging for access to the distribution channels.

It is worthwhile to explore, therefore, the possibilities that new music intermediaries can construct a business model that relies on revenues from music consumers\textsuperscript{305} or from those who want to reach those consumers.

To be successful, these new intermediaries—one might refer to them as “agents,” because they would be closely tied to musicians—would need skill sets that match the architecture of the new marketplace:

- Clear understanding of the potential for behaviorally targeted micro-advertising
- Entrepreneurial creativity on how to develop and sell access to celebrity
- Capacity to promote live performances

A sustainable business model exists for such people or entities, consistent with the pessimistic model suggested for the musicians themselves in sections VII.A.1(business model for musicians) and VII.A.3 (capital requirements).

\textit{a) Revenues: tapping new revenue streams}

Capturing a revenue stream requires four steps: one must identify the revenue stream and develop a strategy for tapping it; one must make it easy for sources of that revenue to acquire the music or other product or service associated with the musician supplier; and potential consumers (sources of revenue) must be persuaded to allocate some of their discretionary income to that particular product or service. In this regard developing a "brand" is essential.

Pete Wentz\textsuperscript{306} recognizes that, when recorded music is free, bands have to have a multi-dimensional brand, including not only the music, but also clothing, videos, all linked through communities and clubs.

\textsuperscript{305} One should distinguish consumers as sources of revenue in the Comcast sense from consumers as sources of revenue in the music label sense. In the latter case, the consumer considers that she has entered into a commercial contract with Comcast, and that the music subsequently flowing through the Internet connection is the product of a separate deal. In the former case, the consumers considers that she has entered into a contract with the musician, even though the legal relationship may be with the label and its distribution channels because the musician has transferred all the rights in the music.
Multidimensionality, however, has its costs. It’s hard for one person to know enough about the logistics of live concerts and touring, making productive use of studio time, merchandising of merch, designing and propagating a resonant image, in addition to being talented in creating appealing music. This means that, if indie musicians are to be effective in the new marketplace, they need two things. They need education and training in the activities they are not already skilled at. They also need intermediaries, because the finer granularity of the activities inflate transaction costs relative to the substantive costs and benefits.

Section IV.B.4, supra, explains that network effects influence the demand for music: consumers prefer songs that are already popular. Musicians and their agents must be ready to capitalize on this by making the “velocity of adoption” visible to potential fans. That is the function of Billboard and other charts referred to in the colloquialism “making the charts.”

(a) Live performances

Considering the costs, including the opportunity costs, of extensive touring, most musicians will not be able to tour more than a few weeks a year unless they can attract outside investors. Even if they shift their strategies to live performances and publishing and away from sales of recorded music, there is no room in those submarkets for all the wannabe suppliers; the demand for both live performances and publisher assets is essentially fixed, while the demand for recorded music has been growing dramatically for decades and will continue to do so. If more musicians focus more of their productive effect on performing live, they will be fighting for market share in a market the size of which is relatively fixed—or at least growing slowly based on immutable demographic factors. The amount of concert revenue available to each will decline as they compete with each other for the same audience.

Musicians will not be able to overcome this reality and to get the full benefit from touring unless they enlist the services of new kinds of intermediaries whom they will have to pay, increasing the investment requirements proportionally. With support from investors and the right kind of intermediary they can increase their market share, getting the days on tour up to the 180 days projected in § VII.A.2 and the performances per week up to as many as five or six, with efficiently scheduling and routing. The resulting word of mouth, if exploited adroitly could help fill larger venues as well.

(b) Publishing

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306 See § III.C.2.b supra.

307 CITE CMC and Chicago Cultural Affairs seminars.

308 Cave at 297.
Conventional wisdom says that musicians often enjoy better financial prospects from the sale of sheet music and public performance rights in their musical works than they do from sales of recorded music. "Publishers always get paid, and always share 50-50 with the artist," repeated one musician at a February, 2008 focus group in Chicago.

Even as the new technologies threaten established business models for recorded music by facilitating unlicensed copying, distribution and performance, they strengthen business models for publishing. As performance gravitates to the Internet, it is easier for rights owners to detect unlicensed performances. It’s almost as though there were now only one jukebox and only one venue with multiple spaces. All a rights holder or its licensing cooperative need do is to stake out this new venue/jukebox and watch and listen to what is being performed.

But changes in lifestyles undercut the growth of revenue from this source. Singing around the piano at home--once the mainstay of sheet music sales--has declined precipitously since a century ago, because of the ubiquity of recordings and broadcast music. Dance bands have declined in popularity, and they once were important revenue sources for sheet music sales. Most indie musicians, unlike Elvis Pressley, write their own music, rather than relying on independent songwriters (the country music sub-industry remains an exception). The wide availability of sheet music for paid downloading on the Internet represents a potential channel for expanding musical-work revenue, but most indie musicians do not represent their songs in conventional scores, and for the most part to not exploit this channel.

(c) Merch

Sales of merchandise (“merch”) such as tee-shirts, posters, coffee-cups, and mousepads are a mainstay of the revenue stream for both indie and celebrity musicians. At small venues, the same table that offers CDs for sale often has merch for sale right beside the CDs. Some musicians—Fall Out Boy, and its marketing genius Pete Wentz—aggressively exploited the potential of merch early in the days of the bands emergence from obscurity on Chicago’s northshore by establishing a line of clothing associated with the band, and by producing medium-length video features which it sold.

The limitations on this revenue stream, however, result from the certain correlation between sales potential for merch associated with a band and the band’s celebrity. No one is going to buy a tee shirt identifying the buyer with a band or a performer that no one has ever heard of—unless the purchaser was so

(d) Ring tones

As cellphone use exploded, and it became easier to download person ring tones to cellphones, the revenue stream from cellphone owners to music rights holders from this source grew rapidly. The U.S. ringtones market grew to $873 million in 2006 and continued to grow
thereafter until the first quarter of 2008, when it fell for some major labels.\textsuperscript{309} Still, indie musicians, by creating catchy musical hooks and by making it easy for consumers to download 10-30 seconds slices of their music can tap the ringtones market as an entirely new revenue stream for them.

\textit{(e) Music tracks for movies}

Musicians can exploit their musical talent and leverage growing popularity by creating and performing scores for video works, such as feature or documentary films or television productions. Most commercial video works have some music in their soundtracks, and, and the demand for the video works stimulates demand for musicians to create the soundtracks. Andreas Kapsalis, for example, the principle in the Andreas Kapsalis Trio, a Chicago indie group that makes unusual Jazz/Rock/\textsubscript{___} instrumental music, defined by Kapsalis’s virtuoso guitar technique and the creative percussion of Jamie Gallagher and Darren Garvey, has extended their popularity and earnings by writing and performing the soundtracks for several movies that are scratching their way up to mainstream distribution through the festival circuit.

\textit{(f) Advertising}

Consumers are not the only potential sources of revenue. Advertisers and bar owners also will pay, if they think the music or the musicians will draw people to spend money on their products. Conventional advertising is not the only possibility. Merchants also may be willing to sponsor musicians, much as they sponsor little-league team and NASCAR race cars and drivers.

Advertising is another form of subsidy, as it was defined above. Many aspects of popular entertainment are “free” to consumers yet are well funded. Over-the-air radio and television are the two most obvious examples. Early hopes that broadcasting could be developed on a subscription basis, with consumers allowed access only if they had wired connections,\textsuperscript{310} radio and television broadcasting has been supported from their earliest years by advertising. Other branches of the entertainment industry, broadly defined, benefit from substantial advertising revenue, even though consumers pay something in most cases. Stock car racing, newspapers and magazines are examples where consumers pay something, but only a small fraction of the total costs\textsuperscript{311} Little League baseball and similar sports activities are examples where consumers pay nothing but advertisers (“sponsors”) cover some of the costs.

\textsuperscript{309} See Joshua Chaffin, Warner ecoes industry woes as ringon sales fall flat, Financial Times, Feb. 7, 2008.

\textsuperscript{310} CITE Early Bell ideas for telephone-based broadcasting.

\textsuperscript{311} Cite shares of subscription and advertising revenue for newspapers and magazines.
Historically, advertising played only a minor role in financing popular music. Manufacturers of musical instruments, especially guitars and drumsets would supply their hardware for free to musicians who prominently displayed the logo of the supplier on the instruments. Once musicians reached celebrity status, they could earn income by endorsing products.

Celebrity endorsement is a mainstay of modern mass advertising.\textsuperscript{312} Once musicians attain celebrity status, this revenue stream is easily available and celebrities can command a high price. Even unknown performers, however, often can make more money modeling than performing.\textsuperscript{313} An entrepreneurial musician can diversify by constructing an image or persona that is interesting not only to consumers of his music but also to advertising agencies and advertisers. A unique persona has power to move consumers of a variety of products. Physical appearance plays a major role in this, as explained in § IV.B.3, but other factors do, as well. Fall Out Boy and Vampire Weekend recognized this. The former cultivated a bad-boy image; the latter cultivated a cultivated, educated, preppie image.\textsuperscript{314}

The rapid growth of behaviorally targeted advertising, which permits advertising intermediaries to place ads based on detailed data about the purchasing and shopping behavior of individual consumers opens new possibilities for musicians, both as advertisers and as hosts for others’ advertisements. One commentator\textsuperscript{315} expresses fear that, as licensees associated with advertising replace record label A&R executives, the tendency will be to back away from music for its own sake and to replace it with music that is not too distracting as background for an advertisement.\textsuperscript{316} On the other hand, licensees can “be good talent scouts,” offering an alternative channel to radio play to build an audience.”\textsuperscript{317} Indeed advertisers may turn out to be more embracing of offbeat and creative music as they seek to give their ads impact, compared

\textsuperscript{312} [CITE marketing literature]
\textsuperscript{313} 7 November 2008 Conversation with Brian Kennedy (19-year-old Chicago actor), reporting ready availability of modeling opportunities paying $500 per appearance, contrasted with struggle to find paying roles in theater or film performances.
\textsuperscript{314} See § III.C.3.a)(comparing promotional strategies of Fall Out Boy and Vampire Weekend).
\textsuperscript{315} See Brian Stelter, Those Funny YouTube Videos Are Pulling In Serious Money, N.Y. Times, Dec. 11, 2008 at p.1 (reporting on sponsors of YouTube videos who are earning six-figure incomes from share of advertising revenue through YouTube partner program, which places advertising on YouTube pages).
\textsuperscript{316} Id. at 29.
\textsuperscript{317} Id.
with radio chain executives who seek only mainstream music to satisfy the established tastes of demographic segments of radio audiences they want to hold or build.

Many other possibilities exist, mostly unexploited so far. Bands could receive advertising dollars by offering “naming rights.” Oucho Sparks, Curtis Evans, or the Andreas Kapsalis Trio, Chicago based indie groups, could become the “Coca-Cola Sparks,” “Curtis Evans for Nike,” or the “Facionable Trio,” in exchange for substantial capital infusions. Or, groups could retain their names as bands, and offer naming rights to albums, or songs. Modofac’s “They Have to be Watching You” could be called the “Tide Watch” album, or David Safran’s song, “Starving Time” could be called the “Gatoraide Ballad.”

This, no doubt, is a startling—and instinctively unwelcome—idea for all these groups, but it is a way to finance bands, albums and songs.

Also interesting is the development of targeted advertising, based on increasingly rich databases of individual consumer behavior, such as “click tracks,” showing what websites a consumer has visited, collected by search engines such as Google. Most usefully termed, “micro advertising,” the technology permits advertisers to buy access to very narrow groups of persons potentially interested in the advertiser’s product, at low prices. It also permits musicians with a small fan base to sell advertising “space” at low prices.

\[(g)\] Access to celebrity

Revenue can be generated by selling direct access to the celebrity, much as political contributors making larger contributions get to see the candidate in a more intimate group setting, and even larger contributors get a “photo-op” with the candidate, a brief one-on-one meeting or even—it is rumored—a night in the Lincoln Bedroom of the White House. Adapting this idea to the popular music setting, a musician could give away CDs at a concert and sell the autograph session, for $25. Or, he could offer a post-performance backstage “hangout” session for $100 or more. Virtual hangout sessions also could be offered, which would have more value if they include live audio, and perhaps video.

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318 The phrase “naming rights” usually refers to municipalities who offer major facilities to sponsors who get to name the facility in exchange for investments in the general fund of the municipality or in specific activities linked to the named facility. “U.S. Cellular Field” in Chicago—the stadium for the Chicago White Sox—is an example of the result.

319 See generally Jon Pareles, Songs From the Heart Of a Marketing Plan, N.Y.Times, Dec. 28, 2008 Arts sec., p.1 (reporting on growing tendency for pop musicians to license music for advertisements and ) “as [many consumers] see no need to pay for [recorded music], . . . emerging practical solution is to let music sell something else . . . .” Id.
Technology can be employed more aggressively capitalize on fan desire for access, as celebrity status builds. Bands can offer video games that permit individual fans to enter a virtual space and interact with realistic representations of the personalities of the band members. As one might expect, Pete Wentz and Fall Out Boy is an early adopter of this strategy. Fans can log on to a special Web site that permits them to take part with Fall Out Boy in a concert tour in which the fans participate in making decisions that determine the success or failure of the tour. In an interview, Pete Wentz said, "is part of the band’s dedication to finding “ways for people to engage” with the band beyond albums." The technology used for the FOB game is primitive; much better software exists now. For example the promoters of the Transformer series of movies offer a game. Video games are proliferating in which players control the personalities of the characters in the game. Electronic Arts’ “The Sims 3," is a popular video game that focuses on social behavior, allowing players to define detailed characters according to user-selected personality traits. Players can create a new kind of a person that has unique desires in life that shapes their destinies in the game. These features are combined with high quality animation and moviemaking tools.

Such techniques permit a band to design and deploy games that permit fans to create and interact in movies with the band members. The band members’ personalities would be pre-defined by the band according to its selected persona.

Open-source software tools, discussed in § V.B.3.b), reinforced by the explosion of experience in developing small applications for Apple’s iPhone, will permit collaborative development of videogame technology that can reduce the historically high costs of videogame development.

(h) Revenue results

320 See Pete Wentz Explains the Birth of Online Video Game 'Fall Out Boy Trail'," Rolling Stone Rock&RollDaily, Mar. 9, 2009,


321 http://www.friendsorenemies.com/cp/fobtrail/

322 See http://en.wikipedia.org/wiki/Transformers:_The_Game

323 See http://www.theactgame.com/

324 http://www.thesims3.com/
The main differences between the business models for musicians operating without a new intermediary and the intermediary model are:

- Larger venues
- 180 days touring, compared with 54 days touring
- Larger fan base
- More revenue from advertising
- Revenue for music videos, and backstage hangout

An intermediary could expect a revenue stream of $244,200 per year for each band, sufficient to produce a 27% rate of return on invested capital, after a development period of three years.\(^{325}\) This revenue stream comprises about $128,500 from public performances, about

\(^{325}\) Based on the following assumptions:

Fan base: 50,000

Opportunity costs payments to each band member: $15,000 (based on minimum wage of $7.25 per hour)

Compensation for agent: $1500 per month

Average venue size: 250 seats (as celebrity status grows, the size of venue can increase, thus improving financial performance)

Average ticket price: $20

Touring days per year: 180 (The same results could be achieved with fewer touring days per year if better scheduling results in more than five performances per week)

Gigs per week: 5

64% of fans attend public performances

Music video price: $30

Percent of fans buying music videos: 2%

Price of personal chat with musicians: $25

Percent of fans paying for personal chat: 2%

Percent of fans clicking on ads: 10%
$15,000 from Web-based advertising, about $30,000 from sales of music videos, and about $50,000 in payments for direct access to the musicians. It assumes only $24,000 in revenue from sales of CDs and $21,500 from sales of merch at performances.

**b) Costs**

(1) Total costs, including costs of tapping new revenue sources

The main differences between the business models for musicians operating without a new intermediary and the intermediary model are:

- Intermediary compensation
- Paid advertising
- Payment to musicians to cover opportunity costs
- Production of music video
- Production of video game

Marketing costs are the hardest to estimate, depending on the availability and efficacy of volunteer labor, such as street teams, and the scale and type of paid advertising used. A reasonable marketing plan for a new indie album would include mailing copies of the album in CD form to 500-1000 radio stations and music reviewers, at a cost of $3,000. Advertising costs range from five figures for advertising in major newspapers to single digits for behaviorally targeted advertising on search engines. The weekly rate for a "home page cube" ad on www.chicagotribune.com is $50,000, and $10,000 for a "home page header." Ads on Google's AdWords service cost $5 for an activation fee, and a minimum of one-cent per click, and 25 cents per thousand impressions. Advertisers can set a daily budget and a maximum cost--Google offers an example of a daily budget of $5 and a maximum cost of ten cents per click.

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Advertising rates based on Google AdWords, described in section VII.A.1.a)(1).

326 Actual cost of the CD approximating $2; postage for regular first-class mail of about $1.60.


328 https://adwords.google.com/select/AfpoFinder?countryCode=US.
Advertisers are charged only if someone clicks on the ad, not when the ad is displayed.\footnote{329} Contracting with a publicist costs on the order of $1500 per month in the Chicago market. A serious six-month advertising campaign in which all services are paid for instead of being volunteered would cost $15,000-$100,000, depending on the amount of paid advertising used. The business model assumes paid advertising expenditures of $15,000 per year.

\textit{(2) Bribes ("payola")}

In the past, a business model would have included expenditures for bribes to radio stations. Now, such “payola” is illegal,\footnote{330} and it is therefore omitted as a cost item.

One of the characteristics about economic and legal transactions in the music marketplace is the proliferation of various kinds of deals among different players. Musicians enter into contracts—usually separate contracts—with recording studios, public relations specialists, concert promoters and labels. Labels contract with distributors, retailers and advertising agencies. Music publishing companies and rights-enforcement collectives enter into contracts with musicians and with each other.

Some kinds of economic exchange, however, are disfavored, including payola. Caves explains why payola is common in the music industry and how it can be efficient.\footnote{331} The prevalence of fixed costs encourages suppliers to reduce the effective price of their goods by offering a discount in the form of bribes.\footnote{332} The infinite variety of music available and large volumes of new music provide incentives to persuade influencers to differentiate a supplier’s product by offering bribes.\footnote{333} Payola may be efficient because it increases revenue to music suppliers through enhanced CD and download sales to those who have heard a song featured on the radio, because it may increase listeners and therefore advertising revenue to stations that hype songs, thereby increasing their popularity. The enhanced sales and the increased size of station audience probably swamps the cost of the bribes to the supplier and to any decreased radio audience because disk jockeys play music for which they receive bribes rather than music that in some objective sense would be more popular. Because potential popularity is so difficult to determine “objectively,” it is hard to say that selecting songs for radio play based on payola produces a worse result from a consumer’s perspective than any other method of selection.

\footnotesize{\textit{\textsuperscript{329} https://adwords.google.com/select/Login?sourceid=awo&subid=na-en-ha-ct&medium=ha.}}

\footnotesize{\textit{\textsuperscript{330} CITE}}

\footnotesize{\textit{\textsuperscript{331} Caves at 286-287.}}

\footnotesize{\textit{\textsuperscript{332} Id. at 286-287.}}

\footnotesize{\textit{\textsuperscript{333} Id. at 287.}}
including purely random selection. What may matter more than the quality of the selections is repetition of particular songs.

Caves details all the techniques, including contests, sophisticated inter-corporate “pay for play” deals, and exchange of advertising placement for new coverage and favorable review, that permit music suppliers to evade statutory prohibitions on payola.\textsuperscript{334} Musicians who are not yet celebrities are not well-positioned to engage in these forms of indirect payment.

3. Capital requirements and ROI

If a musician or an intermediary cannot construct a sustainable and credible business model, it makes no sense to talk about “capital requirements.” Any “investor” is providing a subsidy, not “capital” to an enterprise that has no realistic prospect of producing a return on investment. A realistic business model must cover the opportunity costs of human capital and produce sufficient revenue to provide a return above and beyond that. The analysis in sections VII.A.1 to VII.A.2.a), supra, suggest that such a business model cannot be constructed if only traditional revenue sources are tapped. Viable business models depend on activating and tapping new sources of revenue.

The business model offered here is one under which a new kind of intermediary—one might call him or her an “agent” or a “manager”—coordinates the band’s efforts at music making, image creation, and promotion. A band spends three years writing enough music for one album, recording the albums and distributing it publicly, and touring constantly when they are not in the studio. The intermediary gets the word out about their music and their performances. They give up their day jobs during this three-year period, at the end of which they project sufficient revenue from both traditional and new sources to generate a 38.7% ROI for the total amount invested. Such a plan must include sufficient capital to cover the following sources of cash outflows during the three-year development period:

- Compensation for musicians to cover opportunity cost: $174,000\textsuperscript{335}
- Studio time: $7500
- Duplication and distribution of albums: $5,000
- Publicists: $54,000\textsuperscript{336}

\textsuperscript{334} Caves at 292-293.

\textsuperscript{335} Minimum wage of $7.25, times 2,000 hours per year, times four musicians, times three years.

\textsuperscript{336} Assuming publicist compensation of $1500/month.
Touring costs: $47,250\textsuperscript{337}

That results in a total capital requirement of $322,750, and implies a revenue stream of at least $244,232 annually and expenditures of $119,250 annually thereafter to provide a 38.7% ROI after the end of the 3-year development period.\textsuperscript{338}

4. Uncertainty

The credibility of any business plan—for a musician or an intermediary—is undermined by uncertainty. A musician’s work product—a song, an album, or a concert\textsuperscript{339}—may be a huge success in the marketplace, or it may be a failure or only a modest success.\textsuperscript{340} The failures vastly outnumber the modest successes, and they vastly outnumber the huge successes. Statistical methods permit analysis of these possibilities by decisionmakers, including both musicians and potential investors, through probability functions, expected values, and variance, although some of the literature suggests that luck matters more than definable characteristics of the music.\textsuperscript{341}

A probability function is a mathematical equation, which can—and usually is—expressed in graphical form. Such a function represents the probability that a song will achieve a particular level of success. Probability is reflected as a number less than one, usually expressed in percentage terms. A graphical representation shows all of the possible levels of success and the height of the graphical line shows the probability. The familiar bell curve is a normal frequency distribution, in which a maximum probability, indicating the most likely outcome, is surrounded by two “tails” of similar shape, indicating that the probability of a very good outcome is exactly the same as the probability of a very poor outcome. Poor outcomes usually are represented to the left and better outcomes usually are represented to the right, on the horizontal or “X” axis

\textsuperscript{337} Assuming 180 days of touring per year, $32.50/day for gas and $50 per day for lodging.

\textsuperscript{338} This estimate is plausible, considering the amounts of capital benchmarked for indie music groups by innovators in off-label financing. See Brad Stone, Musician, Market Yourself, N.Y. Times, July 22, 2009 at page B1 (reporting on new venture, “Polyphonic,” by manager of Radiohead, which has $20 million in seed financing that Polyphonic plans to invest in chunks of $300,000 in individual bands, emphasizing personal contact between musicians and fans as part of business model).

\textsuperscript{339} The following discussion, in the interest of simplicity, uses the term “song” to refer to any type of musical work, sound recording, or live performance, generated by a musician.

\textsuperscript{340} See Eisenberg at 18-19 (noting that labels cannot determine which records will be hits—“the millions of dollars spent on market research and promotion cannot psych out the buyer,” citing example of 1979 Kiss album which was "with much fanfare," shipped to stores in quantities totally more than a million and "came back almost untouched")

\textsuperscript{341} See Kee H. Chung and Raymond A. K. Cox, A Stochastic Model of Superstardom: An Application of the Yule Distribution, 76 Rev. of Econ. & Statis. 771, 771-772 (No. 4 Nov., 1994) (superstardom does not depend on being especially talented; it is a phenomenon of "luck").
The probability function for the success of a song is not a normal distribution. The most probable outcome is that a song will earn nothing. As the level of possible success becomes greater, the probability of achieving it becomes smaller. Some songs become so popular that they earn tens of millions of dollars. The probability of any song achieving this level of success when it is first written is very small, but it is not zero. Any level of success, no matter how great is theoretically possible. So the right hand side of the probability function for music gradually approaches zero but never actually reaches it. This is what is called, in mathematics, “asymptotically approaching” zero.

The poorer outcomes, on the left hand side are more probable, but a song ordinarily will not earn less than zero, absent the unusual circumstance where a musician pays a fan to take the song or to come to the concert—and that kind of outlay is better reflected as a cost than as negative revenue. There is no reason to expect that any particular outcome better than zero is more likely than any other, except that all better outcomes are less likely than all worse outcomes. So it is plausible that the probability function will be at its maximum at the zero point on the outcome axis, and steadily decline as one moves further to the right. The most appropriate equation to express this is likely to be a decaying exponential function, which produces a declining curve that is concave and asymptotically approaches zero.\textsuperscript{342}

The “expected value” of any probability function can be calculated. It is simply the sum of the value of each outcome multiplied by its probability: the same thing as a weighted average or mean. The expected value of the revenue earned for any song is thus non-zero because there always is some small probability that the song will be a great success. For example if the community of indie musicians in Chicago create 50,000 new songs a year,\textsuperscript{343} suppose only one is a hit, but the one hit earns $10,000,000 in revenue. The others are failures and earn zero. Considered after the fact,\textsuperscript{344} the probability of success was one out of 50,000, or .0002 percent—not very good odds. But the expected revenue was $200 because of the large earnings of the one success.

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342 f(x; \lambda) = \begin{cases} \lambda e^{-\lambda x}, & x \geq 0, \\ 0, & x < 0. \end{cases}
\]

\textsuperscript{343} This is not an implausible figure. According to the Chicago Music study, there were 10,000 MySpace music pages showing Chicago as the home town in 2006. If each of these musicians creates five new songs per year, that is 50,000 songs. If one wants to assume that only a fraction of these 10,000 sponsors of pages creates any new music, one can do the arithmetic to determine the number of new songs.

\textsuperscript{344} Economists call this “ex post.”
While $200 is not much money, it would be quite misleading for a musician or an investor to consider nothing more than the average revenue in seeking or planning an investment. Instead, a more realistic assessment of prospects for a return requires consideration of the variance as well as the mean. The variance represents the spread of outcomes around the mean or the dispersion of the distribution. Professor Cave’s research, based on data collected in the 1990s, showed that artist income has greater variance than day-job income and that variance is greater for artists holding day jobs that those who can support themselves from their art income. This suggests that the lower one goes down on the status hierarchy, the greater the variance in revenues and income.

The job of the new intermediaries is to shift the probability function to increase the likelihood of celebrity status, while not eliminating uncertainty altogether.

In the business model calculations, certain of the assumptions are particularly prone to uncertainty. The projected sales of recorded music, music videos and videogames and advertising revenues are conservative. If a band’s celebrity status mushrooms, they could be much larger. The assumed average venue size is reasonable, but if a band really catches on, the average venue size could be at least an order of magnitude larger and ticket prices could be higher as well. On the expenditure side, the paid advertising assumption is on the low side, and the production costs for the music video and the videogame similarly are on the low side.

It is entirely possible that the band may fall flat in the marketplace, despite all the intermediary’s efforts and creative. In that case, the revenues would be more like what the musicians could earn on their own, while the expenses are considerably higher. In that eventuality the investors would lose their investment, and the intermediary would have difficulty attracting investors for other clients.

**B. Effect of declining efficacy of IP protection: making money from free music**

Given the concerns raised by the major labels that technology threatens the future of music because it undermines copyright protection, it is appropriate to comment on the relationship between policy balances constitutionalized by the Patents and Copyrights Clause and the probable evolution of the music market.

Section II.B.2, supra, explains that copyright becomes mostly irrelevant in a market in which technology has reduced the cost of producing and distributing recorded music to near zero and competition has force prices to these near-zero costs. It acknowledges that copyright still has

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345 Cave at 82.
a role to play in mitigating large-scale commercial piracy, and argues that trademark can play a major role in protecting the identities and personas of musicians.

Popular music will not disappear in such a legal environment; musicians will continue to make music even if their potential revenue from sales of recorded music diminishes or disappears. Still, money has to be generated for intermediaries, if not for musicians. Musicians might make music for the artistic gratification, but fewer intermediaries will facilitate access to it unless they can make money.

Any viable strategy in such an environment must begin with an understanding of what consumers will pay for. Three possibilities come to mind:

1. They will pay for access to celebrity, either actual, physical, access, or vicarious access.

2. They will pay for sons and daughters, nephews and nieces, and grandchildren to pursue their dreams.

3. They will pay for—contribute to—civic advancement.

Each of these possibilities is considered in greater detail in the sections that follow.

Law has no role to play in providing incentives for the second and third, but it does have a role to play with respect to the first: it can protect the value of promoting celebrity.

Consider Pete Wentz, the most visible member of Fall Out Boy, as an example. Pete Wentz faces a potentially free-riding threat, not because people copy his music and try to sell it—there would be no demand for such pirated products; it is available all over the place for free. Consumers can get the real thing for free; they don’t want the counterfeit. A free ride in this reality is pretending to be Pete Wentz. And that is what trademark law protects against—passing off an imitation as the real thing.

In this environment, the goal for an indie musician, and those who invest in him, is to build celebrity status. The question, of course, for both musician and investor, is how to do that.

Defenders of the IP status quo in the music industry often ask rhetorically, “How can we compete with free?” The question implies that no business model exists for either musicians or intermediaries unless the flow of unlicensed music to consumers who do not pay anything for it is shut off. The implication is invalid. First off, challenge of “free” only applies to recorded music; concerts are not free because it is relatively easy to exclude those who have not paid.

Second, many very successful firms do compete with free. Cable television competes with over-the-air television which is free. Sellers of bottled water compete with free tap wager.
People buy music through iTunes even though they could get much or all the same music for free through peer-to-peer file sharing services.

The reason consumers are willing to pay and to pass up free in these circumstances is either, avoidance of transaction cost if they pay or the availability of some improved service if they pay—more channels in the case of cable television; purer water in the case of bottled water.

The author always is willing to spend 99 cents for a song or $9.95 for an album through iTunes because it is so easy, compared with searching out the same music through a peer-to-peer service and then taking the risk of viruses or cumbersome performance or compatibility issues. Once musician/fan matching services have proven themselves, it is plausible that consumers will be willing to pay something, especially on a subscription basis, for the service, even though they theoretically could spend 200 days per year finding the music themselves.

And of course, much of what is free to consumers is financed by advertisers, as considered in section ___.

The central argument of this article is that advances in technology and the resulting reductions in cost make recorded music essentially free. Old business models based on selling recorded music are deeply embedded in the thinking of persons interested in the future of the marketplace for music. They have difficulty understanding how any business model can exist when the most important product is free. Chris Anderson, author of The Long Tail,\textsuperscript{346} explains a diverse array of business models, in his subsequent book, Free: The Future of a Radical Price.\textsuperscript{347} He describes the many historical examples of markets based on free—or heavily subsidized—goods such as free lunches in drinking establishments, safety razors, free product samples, and free long-distance-calling plans. He offers a prescription for making such a market successful, in the context of open-source software and hardware:

1. “Build a community around free information and advice on a particular topic.

2. “With that community’s help, design some products that people want, and return the favor by making the products free in raw form.

3. “Let those with more money than time/skill/risk-tolerance buy the more polished version of those products. (That may turn out to be almost everyone.)

\textsuperscript{346} Chris Anderson, The Long Tail ( ).

4. “Do it again and again, building a 40 percent profit margin into the products to pay the bills.”  

While this plan has obvious conceptual links to the practices of the open source software movement, it can be adapted easily to popular music, at least conceptually. Expressed in its most basic form, it would look like this:

1. Build a community around the persona and music of a musician.

2. Involve the community in shaping the musical and other performance activities of the musician. Offer new songs free to this community and to others who might be motivated to join it.

3. Design and make available other products and activities that fans are willing to pay for. These might include more elaborate forms or mixes of the free songs, paid concerts, videos highlighting the personalities and social activities of the musicians, and special “backstage” opportunities for fans to interact with the musicians.

4. As celebrity status develops, sell targeted advertising opportunities to advertisers interested in the demographics of the fan group.

This formula takes somewhat different forms from the perspectives of the musicians and of new kinds of music intermediaries

VIII. Conclusion

In the end, the market will evolve successfully, lubricated by new technologies and entrepreneurial energy.

Section ___ suggested that the music of the future will be performed and consumed at two levels, a celebrity level and an amateur level. The lower tier may take music back to a context resembling that of the turn of the 20th Century. Most people enjoyed music in small communities of family and friends. Individuals would be able to play the piano or another instrument such as the fiddle, banjo or harmonica. At almost every social event, people would gather around the piano and sing together. No one expected to make a living off their music.

348 Anderson, Free at 69.

349 See Anderson, Free at 67-69 (briefly describing open-source software and hardware movements); § VII.A.2, infra (describing role of creative commons).
The 21st Century equivalent would not be family centered; it would be centered on informal communities of rock musicians who share membership in bands, and who rehearse and record together. They perform in jam sessions, rehearsals and small venues. The attendance is mainly other members of their own music communities and friends. Many of them may hope to make a living off their music, but most will not. In the meantime, they enjoy performing and making new music and their friends enjoy listening to it as well.

Celebrity will not vanish. Established celebrities—Bob Dylan, Paul McCartney, Green Day—will continue to draw admirers, some who seek a nostalgic connection with their younger years, and some who are in their younger years and discover the artistic creativity of the “old guys.” Meteors—once unknown musicians who shoot into the forefront of public consciousness—will continue to emerge—Arcade Fire, Fall Out Boy, Vampire Weekend.

Outside the realm of celebrity, more people will get to make music, more musicians will get to share it, and more consumers will be able to enjoy a wider range of creative effort from more sources. New intermediaries, spawned by the revolution, will help them find each other.

The new intermediaries will have skills and creative imagination that enable them to tap new sources of revenue, to make money, and to attract investors who will make money too. Through these new intermediaries, a handful of musicians will achieve celebrity status based on their presentation of interest personal and band personas. Consumers will be enthralled by their celebrity and identify with them. Investors will cash out through public offerings and corporate acquisitions in which the relevant intellectual property is trademark rather than copyright.

The major labels and their corporate bureaucrats will fade from the scene, like Hollywood’s studio system, newspaper linotype machines and stereotype plates, typewriters, and analog tape drives. Some will be nostalgic for the old order, spinning urban legends about how it was better. Notwithstanding the legends, the new music will be better, created by a wider range of artists, and enjoyed by more consumers.