

On the future of the music business

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...I keep writing books, and writing books about this industry and the industry has never invited me over, so thank you.

So, I'm going to start by pointing out that for the period I'm talking about, which is my entire youth, not ill-spent enough, but my entire youth, the record business was perfect. It was a perfect industry. And I want to tell you why. Each one of these factors is important.

Number one: An entire medium and entire section of the spectrum devoted to promoting the stuff you make...that's great right...for free! An entire thing built around helping you sell more stuff.

Number two: An oligopoly. For those who didn't grab an MBA [an oligopoly] is where there is a small number of people competing against each other. If you are a band hoping to break out in 1974, 1984, 1993, you didn't have a lot of choices, and since you didn't

have a lot of choices guess who had a lot of power, a few companies. And, those companies could demand certain things that they needed from the world.

The third thing that made it perfect is it was a key part of our lives. Look up senior prom on the internet and all you'll see are stupid pictures, ugly dresses, and people remembering the songs they were listening to. It was the soundtrack for generation after generation. The people in the shoe business don't have this advantage. The people at almost every business aren't featured on the prom pages, you guys are.

The next thing, entire chains of retailers devoted to selling your product. In malls they're paying the rent, not you, Sure they're extracting shelf space allowances from you, but isn't that really cool? Whole stores you don't even have to own, devoted to promoting what you sell.

Next thing, you have God on your side. (slide of “Clapton is god”) Where was the last time you saw a piece of graffiti that said Starbucks is God. This is really good times.

The next thing, one of my favorites, this piece of technology is so cool, it is really cheap to make. You can sell it for a fair amount of money. You can't copy it, you wear it out and then you need another one. Its pretty, other people can see you own it, and they want one too. And once I don't have it anymore and give it to you, I don't have it anymore. This was a really cool thing, bad idea to get rid of this. (audience clapping)

Alright, I'm on a roll here. The next thing, a magazine, not one magazine, several magazine devoted to promoting the product you sell. Again, no magazines about coffee, plenty of magazines about music. And, a whole cable TV channel about it. Lets see if I understand this. Everyone else has to buy TV commercials, you guys get your own channel...and you're allowed to put scantily clad women on it. (laughter) This is amazing. I'm almost done-almost done with all the good news.

It used to cost a wicked lot of money to make a record. (laughter) Thats good for you because that means the

artists need you. Because you're the ones who pay all the money it costs to make a record.

And the last amazing piece of news is this guy. The voice of Scooby Doo (slide of Casey Kasem). Because, if you made it to the top 40, you made it! There is really something special about best seller lists. Something magic happens when you make the best seller list. What happens is people buy your stuff because other people are buying it. Think about that. You're popular because you're popular. And it's an ever going cycle. And that is underlying a lot of what is going on. So! We can look at this and say, “this was good”, and I'll grant you, it was good. But that doesn't mean it's going to last forever. Just because all of those things lined up to make this the greatest business in history, thats legal, doesn't mean that you should assume it's all gonna stay. So, rather than me going through each one of those and bumming you out I'm just going to pick a couple of them and remind you of how the dynamic changed.

Obviously, it's really hard to make money doing that. Also, remember those guys who bought Beach Boys records? This is what they look like now. (slide of aging couple) (laughter) Now this is really important to understand because when the typical person is a

teenager, they're spending a lot of time looking for more. "What's the new thing, what's the next thing, what's the new thing?" But these guys don't want that. They want to remember THEN, they don't go looking for the new thing. And, it's not your fault they were baby boomers, it's not your fault the baby boomers are getting old. It's just true.

The next thing we talked about, this technology wasn't as good as we hoped when we started. And it's had a lot of side effects, the biggest one of course being it's digital. And once you make it digital, all of a sudden the math changes. Because, it used to be if I gave you my record, I didn't have my record anymore. And now, it's if I give you my record, I still have my record. And that's different. I'm not saying it's better, I'm not saying it's worse. I'm not saying it's moral, or immoral, I'm just saying it's different and we got to accept that. And, one of the side effects of that is that something has fundamentally shifted here. Now, I'm going to give you a little bit of a preview which is, I think the internet is the new radio. And I think we're needing, in the record business, people in the record business are going to have to think about the fact that, that might be a really good thing, not a really bad thing. And, we'll come back to that in a minute.

The next idea is this idea that American Top 40, Casey, I don't even know if he is still alive but it doesn't matter so much anymore. And the reason it doesn't matter is because of something called the long tail. I don't know if you've read this book, you should go out and read it right now, you can read it in 45 minutes. And what Chris Anderson [author of *The Long Tail*] pointed out is this, if I look at Netflix, what I see is that Netflix rentals, half of them are products Blockbuster doesn't even carry. If I look at Amazon sales, half of Amazon sales are products that are unavailable in any Barnes & Noble store. If I look at the iTunes music store, half of iTunes sales are titles that you could not buy if you went into any record store. What happens when you give people an infinite number of choices in any genre, polka, doesn't matter, they spread out. And two things occur. One, they go down the tail and start finding what's just right for them, and two, sales go up. And so what this means is that the very structure of "how do we force as much attention as we can to the top 40" is actually the opposite of what leads to more consumption.

And then the last one, you've seen it before, is this idea of suing the very people you're trying to talk to is unfortunate.

So, what's next? And where do we go from here? I want to start by saying this really clearly. Music is not in trouble. I believe more people are listening to more music now than any time in the history of the world. Probably five times more than twenty years ago...that much! But, the music business is in trouble. And the reason the music business is in trouble is because remember all those pieces of good news?...every single one of them is not true anymore. Every. One. Now, if you want to, you can curse the fact the Solomon's couldn't figure out how to keep the tower going. You can curse the fact that it's really easy to copy a CD. You can curse the fact that we don't care about the American top 40. You can curse the fact that there isn't top 40 radio that matters. What good is that going to do? Or, we could think about the fact that you have more momentum and more assets and more talented people than any body else. [And], at the very same time that people are listening to more music than ever before. That's really cool. And, so when we think about transitions what we know is that timid trapeze artists are dead trapeze artists. And, that the only way you get from here to there is to just do it. Now, you might be wrong but the alternative is you WILL be wrong. There is no way to go from the perfect music business to the new music business with guaranteed ROI and written assurances-it doesn't exist. So what will

happen, I will guarantee this to you, is that 90% of the people in this industry will timidly start walking their way over and they will all fail. That's why when you go to look up something online, you don't go to RandomHouse.com, you go to Google.com. That's why when you go to buy something on auction online you don't do to Sothebys.com, you go to Ebay.com. Go down the list, what happened was AOL lost their nerve and didn't start AOL Book where you could meet friends. They forgot. They were too busy trying to get people to buy a CD and start joining a membership internet service because they weren't willing to do this. So it's a little quixotic on my part but I've devoted my career to try and get people to do this. So, I think there is a new business here that might even be more perfect than the last one. It's not the same business, the waves are shaped differently, and you need different skills but someone is going to win big in this business. So, what I want to do, and I'm excited-I'm talking too fast, we don't have a lot of time here and that's fine with me, is tell you some of the tactics that I would use if I were in your shoes. But I don't think I'm necessarily right. And if Berry Gordy had called me on the phone in 1964, I would have given him bad advice too. But, I hope what you'll see in this is the thinking process about some of the realities of what really "is" in the world because you

guys are much better than I am at turning those realities into an actual business. So let me try.

The first one is that people don't listen to companies, they listen to people. And what is unique, almost entirely, compared to the movie business, the book business, whatever, is that you sell people. And, there is something magical about the connection between one person and another person. There is something magical about the way we treat celebrities. And so part of the thing that is out there is that there is a large number of people who want to be led. There is a large number of people who want to connect. There is a large number of people who want to join a tribe. And you have the ability, from where you stand, to make some of those connections happen. What's really neat is...my friend gets all excited because he needs to score some Bruce Springsteen tickets. Isn't that interesting, right, because he's using Greg to get to this tribe of people. That's really valuable. He doesn't need to have somebody get a copy of an album, he can just get that, you know, from Amazon for ten bucks, or for free. But the tickets, the connection, the insider, the handshake to one handshake-thats worth a lot! And so far you guys have been treating it like an interesting side effect. But it might be something right at the core of what you do every day.

The next one is my biggest one, and what started me down this whole path which is, if I asked you for the name and address of your 50,000 best customers, could you give it to me? Do you have any clue? Then what happens every day is you guys go to a singles bar and you walk up to the first person you meet and propose marriage and if that person won't marry you, you walk down the singles bar to every single person until someone says I do. That's a stupid way to get married. A better way to get married is to go on a date. If it goes well, go on another date. Wait to tell them on the third before you tell them you're out on parole. (laughter) Then you meet their parents, they meet your parents, you get engaged, you get married. Permission is the act of delivery. Anticipated, personal, and relevant messages to people who want to get them. I have every record Ricky Lee Jones has ever made including the bootlegs that she sells. Rick Lee Jones should know who I am! (laughter) I have bought many of them (pause) well her agents, her people [should know who I am]. I've bought many of them directly from her site. I desperately want Ricky Lee to drop me a note telling me when she is going to be in town. I want her to ask me, "should I do a duets album with Willie Nelson, or should I do one with Bruce Springsteen?". I want to have these interactions. And I want her to say, "I'm making another bootleg, but not until I get 10,000

people to buy it as patrons before I make it". Because I'd sign up. I'd buy five if it would help, but she doesn't know who I am. She doesn't know who I am, she never talks to me. And then every once in a while her record label tries to yell at me, but I'm not listening because they're yelling at me in a place where I'm not paying attention. And so we look at these phrases, "paying attention". That's what you've wanted people to do all along. "Pay attention to this artist". Paying is a weird word isn't it? You want me to pay you something-my attention. And if you're wrong, I get nothing back. I had to listen to the Backstreet Boys...AHH! I want those three minutes back. So, it's a weird relationship.

The next thing is this idea that people care very much about who is sitting next to them at the concert. They care very much about the secret handshake. They care very much about the tribal identification. "Oh you like them, I like them". The Grateful Dead is an amazingly successful paradigm for many of the things I'm talking about. They didn't make any money selling records compared to the way they made money doing everything else. Part of it was, you knew if you met someone at a dead concert, they had some things in common with you. The secret handshake, the clothes, whatever it was. And that was important and you were

willing to pay money to be with those people. And after Jerry died it was very interesting. Because obviously there was thousands of hours to listen to but that's not what the people missed. The people missed the place they could go to meet the people like them. At Facebook, it's all about that. 64 million people who go there every day so they can meet people like them because [Facebook] is very good at dividing people up.

The next thing is what I call the Seinfeld curve. The Seinfeld curve shows us Jerry's life. If you like Jerry Seinfeld you can watch him on television, for free, in any city in the world two or three times a day. Or, you could pay \$200 to go see him in Vegas. But there is no \$4 option for Jerry Seinfeld. This is death. You can't make any money in here. Because if you're not scarce I'm not going to pay for it because I can get it for free. And one of the realities that the music industry is going to have to accept is this curve now exists for you. That for everybody under eighteen years old, it's either free or it's something I really want and I'm willing to pay for it. There is nothing in the center-it's going away really fast.

The next one is back to this long tail model. The magazine business imploded a long time ago. Saturday Evening Post, Time Magazine, they're all irrelevant.

But you can make a fortune with Playstation magazines, PC gaming [magazines], Game Informer, because there are silos of people who care a great deal. And if you know who those people are, if you have permission to talk to them, ready for this, if you stop looking for listeners for your music, and start looking for music for your listeners instead, the economics of your business totally changes. Magazines make 10x return on equity of books, you know why? Because magazines have subscribers and books don't. So every time a book comes out they gotta run around looking for someone to buy it. Whereas the magazine people just look for the next author to write the next article in the next magazine.

The next idea is this idea of liking. There is a lot of music I like. There is not so much music I love. They didn't call the show, "I Like Lucy", they called it "I Love Lucy". And the reason is you only talk about stuff you love, you only spread stuff you love. You find a band you really love, you're forcing the CD on other people, "you gotta hear this!". We gotta stop making music people like. There is an infinite amount of music people like. No one will ever go out of the way to hear, to pay for, music they like.

And the last one is back to this tribal thing. It's really

important to people to feel like they are part of that tribe, to feel that adrenaline. We are willing to pay money, we're willing to go through huge hoops, trampled to death in Cincinnati if necessary, in order to be in the environment where we feel that's going on.

So if I put all this together I'm going to come up with what I call the Merchant Solution. It has nothing to do with stores, it has to do with Natalie Merchant. (laughter) So, Natalie Merchant shows up in the New York Times last week saying not only do I not have a record label, I'm not going to make records anymore because I just figure out how to do it. And that is the biggest opportunity times 10,000 because Natalie doesn't want to be in business, Natalie wants to make records. Thirty years ago Natalie couldn't put together the scratch to record an album because she couldn't afford a recording studio. That's what you guys did for her. She couldn't come up with the time and energy to go out to California to sell and pay for shelf space at Tower, that's what you guys did for her. The point is, now she needs somebody to say "let us take care of your tribe". Let us figure out the business model that says you get to do what you're great at, write songs, perform them, find people who love you, not like you, and they are A LOT in the case of Natalie Merchant,

and we will figure out not how to exploit that, not how to write a contract that you're going to regret for the rest of your life, but to sit next to you and say guess what, there are all these people in the tribe [and] we need to figure out how to make stuff for them. And, because we have three other artists that are just like you, Cowboy Junkies, we can start mixing tribes together in appropriate ways that makes everybody happy. Because you [record label] could go to the Cowboy Junkies tribe and say Natalie Merchant is coming to town and they'll all go. Because they love her and they love each other and they want to see each other again because they can't wait a whole year till the [Cowboy] Junkies come back.

So if the model that we loved about the record business in 1968 was A&R, taking care of artists, finding artists who people will love, and the model that we hated was brand management, I want to argue that the next model is tribal management. That the next model is to say, what you do for a living is manage a tribe...many tribes...silos of tribes. That your job is to make the people in that tribe delighted to know each other and trust you to go find music for them. And, in exchange, it could be way out on the long tail, no one wants to be on the long tail by themselves, the polka lovers like the polka lovers, they

want to be together. But that you, maybe it is only one person, technology makes this really easy, your job is to curate for that tribe, like the curators upstairs [at the museum]. There is a museum of modern art tribe, you can see them here every Thursday. And if you can curate for them guess what the [musical] artists need...you! Guess what the tribe needs...you! You add an enormous amount of value by becoming a new kind of middleman.

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Limited number of media outlets	Countless media outlets
Limited physical retail outlets	Countless online retail outlets
Emphasis on horizontal success (hits)	Emphasis on vertical success (niches)
Marketer-to-consumer communication	Consumer-to-consumer communication
Barrier between consumers and makers	Permeability between consumers and makers
Spam	Permission
Product line limited by factory	Product line limited by imagination
Long product cycles	Fads
Market share	Fashion
Features	Stories
Advertising a major expense	Innovation a major expense
Large overhead = stability	Small overhead = low risk
Customer support	Community support
Focus groups	Launch and learn

So let me go through, real quick, a bunch of tactics and we can come back to these after I'm done if you want. So, old world, new world. Old world: it mattered who you knew. You know Jan Wenner...that's a good thing. Now it doesn't matter because there's an infinite number of outlets-you can have your own channel.

Number two: limited number of physical outlets, now there's an infinite number of online outlets. An infinite number of places where I can find music.

Number three: an emphasis on hits because you didn't have a lot of channels, you had to own the ones you had. Now, it's about niches. I write the number one marketing blog in the world. Who cares. Well not many people here care, but lucky for me that niche has a bunch of people in it who care. And so I enjoy my day writing that blog, I could never write a blog that appealed to everybody. I couldn't write a Boing Boing blog or a blog about popular culture, but because I get to be the king of this little silo I get benefits out of it.

Number [four]: you yelled at the consumer. You talked directly to the user. Now it's about two things. One, consumers talking to each other and two, consumers talking to you. How easy is it for a fan to talk to you?

Almost impossible because you're not organized for that and because you didn't see that there was a benefit. But if you're in tribal management that's the number one best thing that could happen to you all day is that you get an email or a phone call. Alright? Back to the barrier between the consumer and the permeability.

The next one: your whole life was about interrupting people with messages they didn't want to get. Fortunately radio made that socially acceptable. Unfortunately the government made it against the law for you to pay for that to occur but you still managed to pull it off. I could get in the car, turn on the radio and hear a song I wasn't expecting and maybe I would like it. If I didn't like it, it didn't cost you anything anyway. Now it's about permission. Now I get on the radio and in my car I have either my mp3s in there or I have satellite in there, I don't hear anything I don't want to hear. So, the model has totally changed.

Next one: you used to have a factory. The factory is the recording studio, you know, the ability to get the number of things on the shelf space at Tower. You built everything around that factory. There's no factory anymore! If you guys put up one ad on Craigslist you'd have records here tomorrow, done, finished, by email.

Because everyone has the ability to make a record now. It used to take a long time. Someone would go to the studio, Boston, and we'd hear from them three or four years later. Now you can put a State of the Union speech out as a hip-hop record one day after he gives his speech and you could sell a bunch on iTunes. It used to be "how big a share of the market can we have?" Now it's about "how do we touch a tribe, just for a minute?" As long as the tribe is happy, we're happy. It used to be about what features, checklist stuff, now it's "is there a story behind this artist, is there a story behind the person?". Advertising, promotion, shelf space, that used to be what you paid cash money for. Now you're going to have to figure out how to innovate in the way you interact with people.

And I think this is my last one: stability used to be "we're big, you can trust us.". Now small overhead, we own the polka silo, we only need one person to take care of it, gives you the ability to have low risk when taking care of the long tail.

Customer support isn't as important as consumer support. How do you get people to help each other?

So, if I had to show you one slide again, it would be this one. It would be, "I really want to hear from you".

Ricky Lee. Please! write to me, I want to be part of the tribe, I want you to talk. It's not about, anymore, how many people can you reach. Super Bowl, doesn't matter. it's irrelevant. The internet is the new radio. What that means is this you've been arguing and hassling and yelling and pushing for 40 years to get more air time. Now you have infinite air time. That's what the internet is for you. The internet is the ability to get any song you want in front of the people who want to hear it with huge reach and no barriers. What matters isn't how many, it's who. Who are you reaching, who are the thought leaders, who are the people who are going to tell other people? Who are the people who are out there trying to find the next big thing because those people are going to influence what the next trend is, and if you're in the middle of that trend, because you've used this new medium to spread the ideas, you're going to start paying for internet airtime soon because it's worth it. It's not that you need to say "no, no, no, I can't let you hear this" it's "I want you to hear this". Because if you hear it you might join the tribe, and if you join the tribe then over time I'll take care of you so well you'll want to pay me. And then people will be passionate when they hear what you do for a living, they're going to die to have you help them meet other people in the tribe.