



meet THE millennials:

Fans, Brands and Cultural Communities

EXECUTIVE SUMMARY



FOREWORD

Following the success of our 2006 *Beyond The Soundbytes* report, we commissioned Terry McBride, CEO and co-founder of the Nettwerk Group (Barenaked Ladies, Sarah McLachlan, Avril Lavigne, Dido and countless others), to write our second report, aided by long-time cohort, Brent Muhle.

Scoping recent developments across the business, the report lifts the lid on the increasingly important Millennial demographic, providing an authoritative account of fan influence over musical creation, exploitation and consumption.

Having heard Terry speak at many seminars around the world, it has been impossible not to be impressed by his clarity of thought and his emphasis on quick, agile and flexible reactions to the business's constantly evolving circumstances.

Terry was a very early adopter of the idea that the traditional record company model is broken; not only did he adopt the idea, he also set about proving it. His leadership of the current movement towards diversification has resulted in Nettwerk enjoying unparalleled international success.

The U.S marketplace has been at the forefront of swingeing change across the business and, while Terry's report has an unashamed North American focus, the underlying principles are clearly relevant across the international marketplace.

Many of the familiar areas of music business discussion - the 'band-as-brand', 360 degree business models and 'free vs. paid' for music - are covered in some depth, with great insight offered into current hot buttons of social networking, mash-up culture and copyright.

The final part of the report is a very useful marketer's bible, a road map of questions that anyone bringing music to market must ask themselves.

Terry acknowledges at the outset that there is no 'silver bullet' solution to the problems challenging the business, and there is plenty of scope for further discussion of the many ideas put forward. Nonetheless, *Meet The Millennials* is an extremely intelligent and illuminating work, and I am very grateful to Terry and Brent for putting it together.

Keith Harris - Chairman, MusicTank / May 2008



EXECUTIVE SUMMARY

MEET THE MILLENNIALS

Born '81/'82 to present day, Millennials are a generation raised on a diet of instant gratification and limitless choice. They are ethnically and racially diverse, independent and empowered: three-quarters of U.S teenagers are online, while 93% are computer users. Liberated from the concept of 'prime-time', Millennials demand that content be made available simultaneously across multiple formats, portals and territories.

They are more concerned with convenience and interactivity than 'ownership', valuing active involvement in their consumption to such an extent that mash-ups, tagging and sharing have become culturally entrenched. They think and have the power to act globally via a range of networked computers and handheld devices, choosing to self-define and socialise in an online world where international borders and copyright laws are largely seen as irrelevant.

FREE VS. PAID

This empowerment has had drastic repercussions for the music business and for attitudes towards IP in general, raising the question of whether consumers are still willing to pay for recorded music. This 'free vs. paid' debate lies at the very centre of discussions on the future of the recordings business, with possible solutions encompassing a host of traditional and non-traditional revenue models, many of which appear free to the consumer.

Monetising the behaviour of a generation that expects free content is the challenge for today's nascent digital marketplace. Embracing the whole spectrum of 'free vs. paid' will doubtless be key to success, while a modernised IP business framework will facilitate the development of innovative services that provide consumers with greater freedom and choice.

This will include collapsed copyrights (bundling the various copyrights associated with a piece of work to enable easier licensing) and collaborative copyrights (IP policies that sanction the making of and recognise the value of derivative works). Most importantly however, business practices and IP law need to be malleable, adapting to keep pace with technological change.



Today's digital music marketplace provides many examples of lower pricing strategies leading to increased revenue, supporting the assertion that a tipping point exists whereby legitimate purchasing becomes more convenient than piracy. Nonetheless, it is apparent that there are other factors at stake than price alone.

Entrenched P2P behavioural patterns betray a significant disconnect between the music business and the public regarding intellectual property, one that hinges on more abstract definitions of 'ownership'. A fan's emotional affiliation with a piece of music will always take precedence over mundane legal concerns. Such personal and social behaviours cannot be changed, but they can be monetised. As such, the notion of 'free' music will evolve beyond a conversation about illegal activity or under-valued art forms, becoming an up-sell technique for other music-related products (e.g. Prince's Mail on Sunday covermount preceding his O2 residency).

BANDS AS BRANDS

For such change to take place, it is essential to view artists as brands. The lifestyle and attitude an artist represents are saleable commodities, and purchasing their music is just a way (but by no means the only way) of buying into their brand. Horizontal extension into other, non-musical areas can thus only increase an artist's ability to monetise their brand.

Association with other brands and causes can be of great value to an artist. Such collaborative branding relationships can either be used to bolster revenues (when aligning with a consumer brand), or to garner some positive publicity (when the association is with a charitable cause – a so-called 'cause alignment strategy'). An understanding of interdependence is key here: recognising that an artist's individual actions cannot be viewed in isolation, and that each has a contributory effect with regard to the artist's overall brand persona.

Branding relationships can be hugely beneficial as long as they do not compromise an artist's authenticity, which is vital if genuine, meaningful artist-fan relationships are to be established and maintained. These relationships are the lifeblood of any musical career, and efforts to reach out to fans will be handsomely rewarded. Sharing in the artistry by way of blog posts, behind-the-scenes video segments and social networking posts make for more direct, more personal artist-fan connections: two-way relationships in which each party values the other.



CULTURAL COMMUNITIES

Millennials buy into an artist's brand just as countless generations of music fans have done before them, but with technologically empowered behaviour. One of the millennial generation's most notable characteristics is their affinity for online social networking, and nowhere is this more apparent than in their consumption of music. Some 70% create content for others to see, while 86% watch and listen to content created by others (eMarketer, 2007). MySpace alone has over 225 million users (April, 2008).

Tagging, sharing, recommending and blogging are just a few of the activities Millennials frequently engage in, enhancing their own musical experience and

that of others by placing their consumption in its wider social context. Monetisation of these activities, or P2P activation, represents a significant business challenge. Ideally, purchasing options will be bundled with recommendations, enabling instant access to legitimately acquired music for those who like what they hear. In essence, everyone becomes a virtual storefront – perfectly illustrating the all-important principle of utilising an active fanbase.

Such behaviours have hidden benefits too, as records of successive interactions build to form complex classification systems – folksonomies – such as those created by Last.fm’s users, which make discovering great new music more convenient than ever before. The searchability and immediacy of social networks and folksonomy services enable a broader and more fulfilling relationship between the artist and fan – think SleeveNotez.com – and go some way to explaining the continuing attraction of P2P networks, where a single search term frequently leads directly to the desired track.

Combining such networks with expert recommendations and audio fingerprinting technology will make the music libraries of the future programmable, customisable and easily searchable, vastly improving the fan experience. The widespread availability of listening data also means artists can more accurately target individuals and consumer groups, providing bespoke content (e.g. higher quality, censored lyrics) dependent on their particular requirements.

However, monetising millennial sociability doesn’t end with P2P activation. The PURL (personalised URL) allows fans to be targeted with highly personalised information, services, and promotions based on geographic and demographic information, while widgets track and record users’ music consumption to make recommendations and provide pertinent artist-related information. Such mini-apps can also be distributed virally, making it easier than ever to hardwire fans into an artist’s every move. Slide’s content widget, for example, already has 50m registered users.

DIRECT AND INDIRECT DISTRIBUTION

The digital revolution has affected drastic change across the music business, and nowhere is this more apparent than distribution. Online, shelf space is limitless and delivery is instantaneous, enforcing a new dynamic that will see several distribution models, both direct and indirect, existing side-by-side. Direct mechanisms include à la carte downloads (e.g. iTunes), non-tethered subscription services (e.g. eMusic), tethered subscription services (e.g. Napster To Go) and streaming services (e.g. Rhapsody). Such diversity makes the administration of royalty payments more complex, while affiliate programs allow fans to participate in the revenue streams of artists they help to promote.

Technological advancement also increases the potential for monetising live performance. Live, online performances for globally-assembled groups of paying fans are already made possible by such services as DeepRock Drive, while Instant Live and Nuggs.net allow fans to purchase live recordings for later enjoyment. While there may be no substitute for actually being there (a rigorous touring schedule will still be key, both in terms of revenue generation and recruiting new fans), exciting new services will extend the reach and potential impact of any given performance.

SUMMARY AND RECOMMENDATIONS

In years to come, the music business will make money by creating products with features and benefits that cannot be replicated. Those that leverage emotional, authentic and direct artist-fan relationships will yield the best results, with discovery and consumption of music becoming largely synonymous in a marketplace where payment is quick, easy and pain-free. Such a scenario will be brought about by capitalising on the increasing complexity and expansion of social networks, encouraging sharing rather than attempting to stamp it out.

To best apply the recommendations made in this report, it is suggested that a 'branding road map' be constructed. Such an exercise requires a full appreciation of the 'artist as brand' concept, and firstly involves taking inventory of an artist's assets – both in terms of their aligned 'tribe' of fans and music/non-musical content – before moving on to the identification of suitable content platforms or 'highways'. Such highways (and there are many to choose from), should be classified according to their relative importance, and the 'road map' weighted accordingly.

Carefully selected case studies illustrate the importance of this process, referring particularly to Nettwerk's work both for Avril Lavigne (who scored 2007's biggest digital single) and Barenaked Ladies. The road mapping process associated with the release of Avril Lavigne's *The Best Damn Thing* is described in detail (including alternate song versions, movie tie-ins and bespoke animations), while readers are also encouraged to draw inspiration from the unconventional efforts made on behalf of Barenaked Ladies. An essential roadmapping checklist for new artists is also provided, underlining the importance of non-album assets, multi-platform availability and crowd-sourcing.



In summary: technological advancement will promote further diversification in the music industry, in terms of business models, content and mechanisms for artist-fan interaction. No single approach is 'the next big thing', and experimentation is strongly encouraged. No-one can afford to wait for proof of concept when the next big innovation is always just around the corner. Millennials are constantly experimenting with and evaluating their experience as consumers: we suggest the music business does the same.

meet THE MILLENNIALS

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MEET THE MILLENNIALS - The MusicTank Report is available directly from MusicTank - www.musictank.co.uk - as a full-colour, 46 page pdf and is priced accordingly:

Rate A	£35	Trade Body discounted rate for individuals.
Rate B	£45	Non-discounted rate for individuals and companies with 5 or fewer employees.
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Established in 2003, MusicTank is a business development network for the UK music industry – an independent body set up to engage with innovation and change across the music business, owned and operated by University of Westminster.



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