Can 1,000 fans replace the music business?

By Will Page
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Analysis Californian technology utopian Kevin Kelly says we don't need a music business. Artists can cut record labels, collection societies and distributors out of the loop, he reckons - they only need "One Thousand True Fans (http://www.kk.org/thetechnium/archives/2008/03/1000_true_fans.php)". Economist **Will Page** picks through Kevin's rule-of-thumb argument - and finds the math doesn't add up.

According to Kevin Kelly, an artist needs "only 1,000 true fans to make a living", and it's got all the blogs abuzz. But when you're talking about a creative business like music, a rule of thumb formula can't be applied; and that's something Kelly has overlooked.

For starters, you need to ask where does an artist need to 'make a living', exactly? The cost of living varies across cities and countries considerably. Take New York for example, where many artists need to perform in Manhattan to make a living, but can actually only afford to live further down in Brooklyn, or further away in Philly – and travel in each night to perform. From there, a little economics can kick in: how many more 'true fans' would be needed to live in Manhattan, and would basing yourself there lead to more performances, artistic satisfaction and revenues as a result?

Kelly then highlights Google, YouTube and eBay as new means by which an artist can create a sustainable living from these 1,000 true fans. But, with the exception of YouTube which has been licensed by the MCPS-PRS Alliance here in the UK, I'm not aware of royalties flowing from any of these entities back to the creator of the works. Moreover, when Kelly points to the benefits of the "eBay page where your out-of-print editions show up", he's forgotten that, as with Amazon, second hand online sales only generate revenue for the willing seller and the platform; again, nothing necessarily goes back to the creator.

Not-so-Modest Expenses in Creating or Collection

In terms of the math, Kelly calculates that at $100 of consumer disposable expenditure each, and with 1,000 fans, you get $100,000 per year, which, minus some "modest" expenses, is a living for most folks. I've already pointed out the relative aspect (so his generalization will be distorted by the region to which it is applied) but what about these modest expenses? Indeed, what about the initial investment needed, presumably by the solo artist, and how would that be recouped?

Similarly, the "current" popularity status of the artist and the "crowded" state of their chosen genre are going to be two more important variables, which erode the relevance of Kelly's theory further. Even when you see successful examples of songwriters and performers "going it alone", there are significant upfront costs and risks associated with doing so. Radiohead might have broken free from their record label, but they did employ a large management team, many of whom were experts in their field. Are these captured in his "modest expenses" - or does he like to keep them off his balance sheet?

So, if the 'new' economics of creating recorded music is not going to be the 'free lunch' which utopians would have us believe, the cost of collection of that assumed $100,000 revenue poses even more questions. Namely, what's the "net"?

For the sake of round numbers, let's say that all of the $100,000 came from iTunes, so the artist sold a nudge over 100,000 unit sales. Under a conventional record deal, those true fans will have returned a fraction, maybe as little as 10 percent, of that sum to the artist, after costs, deductions and recoupment. An even smaller fraction would be collected on behalf of the publisher and writer. Now of course Kelly is referring to the artists' option of going it alone, but this form of independence will inevitably be *dependent* on other "aggregators". Even in the digital world, you need these to get product to, and collect revenues from the market - and they take commission that will often be priced at the margin. Someone, somewhere, takes a cut.

A Monopoly of Obsession

According to Kelly, your 1,000 "True Fans" could each give you $100 a year. No doubt some fans do just that - if not more - but most of us are not such obsessive compulsives; we reward lots of the artists we're passionate about with the limited resources we have.

No artist therefore has a monopoly on the fan, no matter how obsessive they are. Competition takes place both in the market for artistic creation, and in the market for the fans' attention. For sure, having fan clubs is a great way to try to monopolize those markets (the rock band Kiss mastered this trick way back in the seventies and continue to do so today) but is this really the way "fans" and "artists" could or should interact? Surely the artist should, if he or she is any good, need to compete for those 1,000 fans every time they sit down to pen and perform their new album. If the money (or fans) were guaranteed, would that actually impair the level of creativity that would otherwise have taken place?

Similarly, if a portion of the fans' musical budget was "ring fenced" to one artist, then that would hinder the ability of the fan to discover and reward other new artists, and vice versa. And besides, what sort of artist would be 'content' with just 1,000 fans anyway? Again, once you start thinking about `n+1`, the marginal costs and benefits kicks in.

Fast and cheap means more fans are needed

It does no harm to shed some light on the practical challenges in accommodating the "Long Tail" that broad-brush generalizations like Kelly's tend to ignore. Indeed, on reading his much-hyped blog, I wondered at times if he was applying yesterday's "unit price" to today's market place. At the basic level, if the "duplication and dissemination" of small quantities of stuff becomes, as Kelly states, "fast, cheap and easy", then if price tends towards marginal cost, then it will be sold cheaply too, suggesting that you need higher volumes to make up for the reduced price. Which means you will need *increasingly* more fans, not fewer fans!

At a more detailed level is the issue of cross-subsidisation which is embedded throughout the music industry, and how that holds up (or breaks down) when you have a tail as long as the one we're currently dealing with and a head that ain't hitting like it used to. Concepts like "micro payments" have been banded around as a panacea for years, but ultimately the market will provide a role for intermediaries, be they labels, digital aggregators or collecting societies, who seek to apply economies of scale. In many ways, the fact that the long tail leads to lots of granular transactions from lots of retailers to lots of niche artists makes the case for collective licensing stronger, not weaker.

The role of the 'rational' mediator

In a rare acknowledgement of reality, Kelly concedes that "not every artist is cut out, or willing, to be a nurturer of fans" and therefore need a "mediator" to manage their fans for them. Presumably, those artists to which he refers present a bigger challenge to "compete" for those fans, than those who would otherwise have been an "instant hit".

Given the relative toughness of the task of managing someone who was "not cut out", a rational 'mediator' would surely be seeking marginally more than the market average in terms of commission, or more in terms of upfront investment – advances, to you and me - to get them to this nice round number of 1,000 true fans. Either way, more cash up front or more cash in terms of commission again affects Kelly's overly simplistic math - and questions his view that expenses will be "modest".

At this point, it's worth reminding ourselves of another (Scottish) economist's reference to the 'invisible hand', and wondering if this brave new Web 2.0 give-it-all-away-for-free world has come full circle, only to be undressed to reveal the same old rules of supply, demand and economies of scale.

Perhaps it's about time the new school got to grips with the old rules - if the long tail is to really succeed in significantly affecting demand, not just supply.

Does better music mean more fans?

Kelly points out that an increase in fans is in direct proportion to the increase in the creativity of the group. Let's deal with the theory and then some practical realities. To begin, when Kelly states that "if you increase your group size by 33 per cent, you need add only 33 per cent more fans".

But this proposition fails to accommodate the established literature on what's called Baumol's cost disease. This theory examines the phenomenon of areas of the economy that have experienced no increase of labour productivity in response to rising salaries.

For instance, if the music industry pays its musicians 19th century style salaries, the musicians may decide to quit and get a job at an automobile factory where salaries are commensurate to high labour productivity. Hence, musicians' salaries are increased not due to labour productivity increases in the music industry, but rather due to productivity and wage increases in other industries. It's a hotly disputed theory, but it's well worth considering, as the music industry struggles with reduced demand and increased supply, and other media sectors – which often employ the same external intermediaries - grow.

There are interesting implications for the role of government which follow from the economics of Baumol's cost disease, in that a little intervention from the state could go a long way for the independent artist, given their new *internal* cost structure. This is something that Kelly gets right.

Let me conclude with a personal and practical example that highlights Kelly's naïve and simplistic approach to this issue.

Music isn't a formula - nor is the business

For the best part of a decade, I've been working in a personal capacity with the legendary Brazilian composer Eumir Deodato (http://www.eumirdeodato.com), and we're now well on our way to confirming him to perform at the prestigious North Sea Jazz festival in Rotterdam this summer. In order for us to secure the date, we offered a hybrid solution of a five-piece band from New York and then a horn section which would travel up from Italy, as this allowed us to keep within the initial budget. It would be cool to see a nice linear cost structure, but we are already looking at a 'cost malaise' of hiring two tour managers as opposed to one, for example, and two separate sets of flight packages.

Of course, Deodato could have opted for a more economically viable 'Trio' performance, which would have satisfied his ***existing*** fans, but given the recent interest in his work via Lupe Fiasco's *Paris-Tokyo* single, he wants to go that extra mile (and costs) and deliver a show that will win over new fans too.

And you might say "but Deodato is a special case", but then isn't that the point? All creators are a special case in that their works (and the way they are created and performed) are unique. The point is that it just isn't smart to assume a simple mathematical rule of thumb formula can be applied to a creative business like music.

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