AN ABSTRACT OF THE THESIS OF

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This study outlines the challenges an entrepreneur faces when trying to innovate using public display of music rights. Public display of music rights are the licenses an individual or business needs to play music for a group of people larger than your immediate family either inside your home or in public. As an aspiring entrepreneur myself, I attempted to take a product to market using public display of music rights and encountered significant challenges. Through my startup journey I documented my team's struggles. Then I compared our struggles with those of others who have attempted to innovate in the music industry using public display of music rights. I found four significant challenges. The challenges include: the lack of a streamlined process for gaining public display of music rights, lack of education about what is allowed by rights holders which has encouraged businesses to use streaming services illegally, the need for an extremely large amount of capital to gain public display of music rights, and ethical issues regarding how far an entrepreneur is willing go to take a product.

Key Words: Music, Innovation, Public Display, Startup, Entrepreneur

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The Challenges Faced by Entrepreneurs While Trying to

Innovate Using Public Display of Music Rights

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I understand that my project will become part of the permanent collection of Oregon State University, University Honors College. My signature below authorizes release of my project to any reader upon request.

Annelise H. Moss, Author

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Introduction:

It is early 1999 in Hull, Massachusetts. Shawn Fanning, his uncle John Fanning and Shawn Parker are launching Napster in hopes of making millions. Unbeknownst to the co-founders, Napster would change the world of music within weeks. Almost immediately users seized the novel idea of free music downloads situated upon previously invented but underground software called peer-to-peer technology (Nieva). Currently, Napster sits as the Guinness Book of World Records fastest-growing company ever with 70 million users at its peak. Shockingly, Napster filed for bankruptcy after only three years of business.

The Napster story peaked my interest as I was accepted into a program at Oregon State University called Undergraduates Partnering Towards Innovation Commercialization (UPTIC). The program was designed to bring business and engineering students together to start businesses. I began working with two engineers, and as a group we decided to pursue an opportunity we saw in the music industry. We started by creating a device that would allow a customer to connect their phone to a pair of speakers wirelessly. We then *pivoted* two more times. For the purposes of this paper, a *pivot* will be defined as a significant change in the idea of what our product would do and who our customers would be.

As we dove deeper into our start-up I was reminded of the Napster story. I wondered why the fastest growing company ever fell to the ground after just a few years. As I started my secondary research I found the answer: intellectual property rights (Nieva). Napster put the music industry in a panic and changed the music purchasing culture forever. Before Napster, consumers often paid the retail price set by record companies for each record or CD they wanted. However, after experiencing free music downloading, the culture changed. Consumers had a taste of free downloads and did not want to go back to paying for music. In response, the industry fought to pass strict licensing laws to protect itself and its artists.

Although intellectual property laws have many facets, the piece I will be focusing on in this paper is public display of music. Public display of music is an all-encompassing term that includes any written or recorded song being played for other people (The Music Industry Survival Guide). According to the Copyright Act, public display is defined as, "showing a copy of the work, directly or via some device or process" to the public or a wider circle than friends and family (The Music Industry Survival Guide). Public display of music rights became extremely important to us because after our second pivot, we planned on selling our device to restaurants, bars and retailers.

After pivoting three times, I learned that adaptability is vital to business success. In contrast, the music industry has a history of resistance to change. This trend began in the 1980s when the Record Industry Association of America (RIAA) was unhappy with the decline in vinyl record sales. The RIAA blamed the invention of audio cassette tapes. They believed the mass production and popularity of audiocassettes as the new way to listen to music was taking market share away from vinyl records and resisted by publicly voicing their concerns (Moreau 18). Interestingly, an independent study conducted by the Copyright Royalty Tribunal showed "consumers who copied onto cassettes were also the biggest buyers of records" (Moreau 18). This study proved to be accurate when the total sale of albums and audiocassettes rose by 13% between 1980 and 1986 (Moreau). The trend continued until the early 1990s when the MP3 music-sharing format was offered to the major music labels. This format eventually became available for sale through iTunes in 2003 (Moreau 18).

By 2008 Pandora became available on mobile devices and usage increased (Panora Help). As music purchasers continued to progress towards a wider and younger audience, labels and governing agencies sustained their push back. Consumers continued to buy downloadable singles on iTunes or pay a monthly subscription cost for a music streaming service such as Pandora instead of buying entire albums. This prompted composers, artists, and labels to show concern about being paid per listen instead of per song or album and how they would continue to make a profit. When a consumer buys an album, they pay upwards of $15 for all songs on the album even though they may not listen to every song (Godrich, Yorke). Consumers began to notice this and chose to buy only the songs that they would listen to regularly. Time and time again consumers proved they wanted change by only purchasing one or two songs on an album. This hurt the profit margins of the industry and kept executives pushing for more "protection" of intellectual property laws to be passed (Godrich, Yorke).

Music streaming has become an even larger problem for music profit margins than the shift towards purchasing only a single song. In the case of music streaming, instead of the consumer buying a song, the consumer pays a monthly fee to the streaming service company and the company pays the artists and labels for each song their customers listen to. For example, Spotify charges consumers about nine dollars a month.

Spotify only pays artists and labels when their customers listen. However, customers must pay the monthly subscription fee whether they listen or not, allowing Spotify to turn a healthy profit. (Godrich, Yorke).

Turning a healthy profit in any industry is important. The music industry is no exception. As an aspiring entrepreneur, it is just as important to understand the industry you are trying to enter. Before I propose my thesis question, it is important to explain what has happened and what is happening currently in the music industry and surrounding public display of music rights.

Background:

Our initial idea of creating a device that would allow customers to control a stereo system remotely through a mobile phone became unattractive. Initially, I began by pitching the idea to everyone with whom I came into contact as well as researching what other products already existed in the marketplace. I quickly found that although the consumer market existed, the market would soon be saturated. Similar products already on the market included: Apple Airplay, Sqeezebox Boom, Nexus Q, Jukio, Sonos, and Rockbot. Although none of these products were exactly the same, they all embodied the idea of streaming music to a crowd through services 111talking with a few successful entrepreneurs, the group decided the business to business market offered a better opportunity than the business to consumer market.

When looking into what businesses were currently using to play music, I found most places used a streaming service. Streaming service is an umbrella term that encompasses both free to the end user streaming and subscription services. Both types of streaming service pay the artists and labels, but with the free versions the costs are covered with ads while the end user pays for the subscription service without ads. These streaming services are designed for personal use only and do not pay for public display of music rights. Finding that most retail establishments use streaming services was interesting because I learned both my friends and businesses have largely adopted the streaming service model to satisfy their music needs.

Consumers have chosen to adopt the subscription model because it allows them to have access to thousands of songs while only paying a monthly fee that is typically less than buying one record, and in some cases is free. While consumers are satisfied with these new music choices and payment options, many artists are not. Businesses have adopted streaming for similar reasons. With many customers coming through their shops on a daily basis, they needed an easy way to offer appealing music to many types of people. Adopting either a subscription or free with ads streaming service allowed them to have access to many different types of music without much cost.

With a newfound understanding of the market, the group made our first pivot from our initial idea serving the business to consumer market, to our next idea, serving the business to business market with a music player for retail shops. We decided to make the pivot due to our research surrounding the boom of streaming services. Shockingly, or maybe not so shockingly depending on your generation, in 2012, 99.6% of singles purchases were downloads (Health). Streaming has taken off even further. In the UK, consumers streamed a total of 3.9 billion tracks during 2012. In 2013 Spotify reported having 20 million users while Pandora reported having 200 million users. Right in between Spotify and Pandora is Last FM, who claims they have 50 million users (Health).

Although artists are feeling taken advantage of by the new widely adopted streaming model, $462 million in royalties were paid in 2012 and that number is steadily increasing as the user base of each service increases (Health). From the perspective of an independent artist, the streaming model is ideal. However, because mainstream music has an overwhelming amount of power in the industry, the public mostly hears criticism.

If you take a deeper look at what the streaming services offer, it is easy to understand why indie artists see the benefits. “When music is unbundled and paid for at a flat rate or through advertising, the cost of discovering music that has not had any airplay disappears” (Moreau). Prior to the advent of music streaming, most indie artists struggled to reach a large audience due to their lack of funds, but the streaming model puts them on an almost equal playing field, and consumers are responding well. More and more indie artists are being discovered by mainstream music listeners (Moreau).

Even though indie artists are basking in the opportunity streaming services offer them, mainstream artists are beginning to pull their albums from streaming services. The popular bands Atoms for Peace and Ultraista each pulled three albums for a total of six albums from Spotify recently, and many others are doing the same (Godrich, Nigel, Yorke). One complaint of the streaming model is that it doesn’t pay new mainstream artists that are represented by a label enough to get their feet off the ground. Unlike indie artists who represent themselves, new mainstream artists take on a significant amount of debt to their record labels to help launch their careers. Unless they have a hit single, it is hard to cover those expenses when revenue is generated over a period of time (due to payment per play of each song) instead of immediately like it would be if a consumer bought the album (Godrich, Nigel, Yorke).

Despite the fact that some artists and labels feel the rates they are paid for streaming their music are unfair, experts believe the rates "are a symptom, not the cause" and "higher royalties would force subscription services to raise their prices" (Godrich, Nigel, Yorke). Mainstream artists and labels have tried to blame subscription services for the decline in music sales, but according to billboard.com's article *The Longer Wait*, "music sales started falling well before Spotify" (Godrich, Nigel, Yorke).

It is already clear that consumers believe in streaming. Spotify was recently valued higher than other companies that have annual revenues much greater than Spotify's. This has put artists and labels in a fear struck position (Peoples). In 2009 the Association for Computing Machinery (ACM) recognized the needed culture shift in the industry and coined five emerging themes they felt would be the keys to success (Bhattacharjee et al).

Trend 1: "Lives are shifting to on the go, consumers expect flexibility, and individuality."

Trend 2: "Search as a product: Value can be created by developing technologies to guide consumers to music that consistently meets individual tastes."

Trend 3: “Product line extension: Consumer willingness to pay for new products where music is embedded within a broader experience.”

Trend 4: “Licensing: Research has recently shown that for a per download service, a per unit fee generates sub optimal profits compared to a lump sum payment or percentage of profit payment scheme, acceleration in this areas will be needed if the industry is to thrive.”

Trend 5: “Innovative pricing: rapid price reaction can be used as part of a marketing strategy in response to factors such as consumer activity or shifting competitive climate, consumers are changing what they want from and how they experience music, change is difficult and brings uncertainty but the good news is consumers have not abandoned music, they have actually embraced it and made it a greater part of their daily lives.”

Interestingly, today in 2014, five years after these trends were recognized, all of them hold true (Bhattacharjee et al). This shows industry related associations such as the ACM do have the capability to make reasonable predictions about the future and help the music industry move with the times. It is imperative that rights holders understand the importance of trends, and then take trends into consideration when making decisions. If rights holders become more adaptable to the trends seen by associations that study the industry like the ACM, they would be able to capitalize on changes instead of attempting to direct change.

To put the revenue issue in perspective, here is a comparison of the time it would take to make the same amount of money through Spotify's streaming service as it would if consumers bought the album. If Jay-Z's latest album, Magna Carta Holy Grail sold 527,000 albums in the first week after its release, at 14 million streams a week it would take approximately 1.7 years to reap the same monetary benefit. On the other hand, if they released a single which was bought 417,000 times in the week after the release, at the same 14 million streams a week, it would take approximately 7.3 weeks to acquire equal revenue (Godrich, Nigel, Yorke). Put in context, it is easy to see why artists and labels are not happy with the switch to streaming. The music industry has been somewhat of an oligopoly for years with the major players being Universal, Warner, EMI and Song. The emergence of new technology and services such a streaming has helped reduce the power of the oligopoly. Change is always hardest on the player that ends up with less power than they had before, so as the oligopoly continues to lose its power, their fear will continue to be apparent (Moreau).

Recently the industry has experienced a loss in profit. Some believe this is partly due to the limited ability to get licenses which has stifled innovation and narrowed the industry's audience (Faxon, Peoples). These commentators propose that if the industry can reform their processes to encourage innovation and establish a global rights database, everyone, including consumers, will be able to reap the advantages of talented entrepreneurs and innovative ideas (Faxon, Peoples).

As mentioned above, the music industry has a history of stiff push back against modern technology and advancement. Why should the music industry care to change?

There are three prominent reasons. First, the consumer market has already adapted the hardware necessary for innovation. The Apple IPad, IPod and IPhone have changed the way consumers listen, buy and share music. If the industry does not keep up with hardware advancements and growth, profit opportunities will be missed (Peoples). Second, unreasonably strict licensing rights dissuade talented entrepreneurs from pursuing ventures in the music industry (Peoples). The third is a byproduct of the second. If talented entrepreneurs are not innovating in the market, and consumers are not getting what they want, buyers will find alternatives (Peoples). When overly strict regulations too strongly influence the dynamics of a market, consumers are easily displeased. When consumers are displeased, they often choose an alternative. In the music industry this could mean an increase in illegal streaming, which would cut profits even further for the industry as a whole.

In an attempt to satisfy the needs of music consumers and keep the music industry profitable, subscription streaming services were created. Streaming companies such as Pandora and Spotify have become exceptionally successful, but others such as Rhapsody and Napster (although mostly a downloading service) experienced large losses. The public display of music rights were created to protect the industry, and the industry enforces these laws to protect their ability to make a profit. As an aspiring entrepreneur myself, this led me to my research question: What challenges do entrepreneurs who are trying to introduce new innovations to the market using public display of music rights encounter?

Findings:

<u>Finding #1: There is no streamlined process for gaining public display of music rights.</u>

When it comes to innovation in the music industry, knowing the right people and being in the right place at the right time is key. Many legalities have clear, effective processes to move people and companies through them, but public display of music rights do not. From my primary and secondary research, I learned about the many hoops and paths you must navigate to create partnerships with all the organizations that need to be paid.

Although according to successful entrepreneur Bryce Clemens, once you have one of the public display of music rights organizations on board it is easier to get the others, there is still no clear process to follow. I learned this the hard way when gaining rights became vital to taking our business to market. To start, finding the legislation that explained how public display of music rights work and who needs to be paid was difficult. Once I found the full documentation it was near impossible to understand. I spent hours going through just a few paragraphs trying to understand the legal jargon and make sense of it all. With the help of one of my partners we finally came to the conclusion that there is a large amount of gray area in regard to what kinds of devices need which rights, but we had a starting point.

Looking deeper into the companies that represent composers, including ASCAP, BMI, and SESAC, I found the information on their websites vague and confusing. I had the same experience when looking at the company that represents the artists called SoundExchange. Not only did we need to comply with unknown requirements from these companies but we also had to comply with the rules regulating how often you can play certain artists and in what time span can you play songs from the same album.

We had been working on this project for almost seven months and felt comfortable with our understanding of the industry, but this was all new. When I tried calling the rights holders, no one was interested in helping me. Everyone acted as though they were too busy for my call. My internet search looking for direction about what to do first was even less helpful. I found many others that experienced the same challenge as I did but no official documentation outlining a procedure. What I did find was that gaining rights can take years. This is when we got in contact with Mr. Clemens. Mr. Clemens had successfully navigated the hurdles and had acquired public display of music rights for his video company. How did he do it?

The old saying, “it’s not what you know but who you know” holds true in this situation. Mr. Clemens proved this to be true when he met a new business partner through a friend. This new business partner had connections and was close to an industry executive. Before this partner joined the company, Mr. Clemens started where we were and got nowhere. He attributes his success gaining rights to a multitude of connections that allowed him to get his foot in the door. To this day, he feels the hardest part of starting his company was gaining public display of music rights.

I would agree. Through my primary research I have found one of the challenges entrepreneurs trying to innovate using public display of music rights face is understanding there is no well-established procedure for gaining rights. Gaining rights is like climbing a wall without pegs. If you have a friend to boost you up, you might make it, but there is no streamlined way to get yourself over that wall. My research suggests that currently the simplest way to get your foot in the door of the industry is to continue with your innovation without worrying about the legalities, prove that you have a significant customer base, and then begin the process of gaining the legal rights for public display of music.

Finding #2: The lack of education and enforcement of laws about what is allowed by various rights holders has encouraged consumers and businesses to go about getting music illegally, making it a challenge for an entrepreneur to effectively explain the laws and sell a legal product.

The lack of education as it pertains to businesses in my primary research:

After speaking with over 20 bars and other establishments including restaurants, clothing stores, an outdoor gear store, ciderhouse, and others, I had a good feel for what was currently being used and what was needed. Many establishments were using Pandora. These stores were happy with their current situation, citing the most common reason of “It is free!” or “It is cheap!” Finding store after store using Pandora led me to wonder how the company managed to gain public display of music rights. When looking deeper into Pandora's agreement, I found that the Pandora business account only covers part of the public display of music rights and business are expected to pay for the rest. It was alarming to find many businesses using Pandora illegally. As suspected when probing further, I found almost all were unknowingly using Pandora illegally.

From speaking with potential customers we knew they were mostly happy with their free or extremely low cost, illegal music provider, so we knew if we wanted to be competitive we needed something with the same features. It had to be small, simple, easy to use, legal, and inexpensive but also have a competitive advantage. We needed something that made us better than Pandora aside from being legal.

In searching for a competitive advantage for our product, we were led to pivot number two. We were introduced to a company in the United Kingdom called Moment.Us. This company was a group of graduate students led by two brothers that had done extensive research on music and buying patterns. They were in the final stages of creating an algorithm that takes parameters such as "weather" "time of day" and "keywords" to create a memorable moment in time through music. After pitching our idea to them, they agreed to give us access to their API (Application Programming Interface) so the two engineers on my team could code our hardware to fit their product.

With the addition of Moment.Us, we had a value proposition. As a business student interested in sales, I knew accusing a potential client of illegal activity would not go over well, so the algorithm gave us a selling point to start talking with the customer. The lack of education about public display of music rights was a challenge that we were able to overcome. Talking with businesses became an interesting balance of finding out if they had a need for better suited music for their establishment and educating them about the laws regarding public display of music.

My personal lack of education about what public display of music rights are or how they have affected startups trying to acquire them cost me almost seven months of work trying to create a product that I ultimately decided to leave. Going into this project I skipped the research I should have done pertaining to the legal side and jumped right into researching the market needs and what businesses were currently using. As mentioned above, I found that most businesses were using Pandora and more specifically, the business account.

As mentioned above, the Pandora “business account” is similar to regular Pandora except Pandora also pays part of the public display of music rights entities. Because of the label and the higher cost than compared to regular Pandora, many businesses believe if they buy this subscription alone and use it in their businesses from their phone or computer, they are operating within the terms of the agreement. Unfortunately this is not true. Pandora has an agreement with DMX, a company that pays for the rest of the licensing rights of public display of music. To be in compliance with public display of music laws, a business must pay for the Pandora business account, the DMX account, and the $99 one-time fee for a DMX media player box (Pandora Help).

Although this news was startling, it was helpful. I realized the complete lack of education about public display of music rights had significantly reduced the profit potential of our product, making our business much less attractive to our team and customers. Many consumers and business owners do not know the inexpensive service they are using only pays for part of the public display of music rights and that they are responsible for paying for the rest. This lack of education about public display of music rights and the streaming service they are using coupled with the lack of consequences for using it encourages businesses to keep using inexpensive services illegally. Why would businesses feel the need to pay more for a different service if there is no consequence for what they are currently using? This became a significant challenge for us.

The lack of enforcement led to widespread illegal downloading by individual music consumers:

Instead of embracing what the consumers wanted and finding a creative way to make it work for both the music industry and music consumers, the industry chose to enforce strict laws in hopes it would steer consumers back to the record model. Instead of steering consumers back to the record model, these laws encouraged consumers to find alternatives (Godrich, Nigel, Yorke).

Similar to what happened on the business side with retail establishments, after experiencing Napster then having it taken away, illegal downloading by consumers became very popular. When Napster was taken from the public, programmers offered software to continue to download music for free illegally. Illegal downloading became a fad. Massive numbers of people joined the illegal downloading fad, and although subscription streaming services and enforcement of laws is helping to alleviate some of the illegal downloading, the effects are still felt when starting a business that deals with music consumers.

For every illegal download, an artist loses out on royalties they should be paid (Godrich, Nigel, Yorke). Adapting to the more economical prices of subscription streaming services would help to solve this problem. The industry is realizing that working to adapt to this model will actually help their sales in the long run. Free streaming services helped move the culture away from illegal downloads and towards using the free services (Bhattacharjee et al).

Through the process of talking with bars and restaurants about their current music providers I found a startling number of business owners who have the “out of sight, out of mind” mentality when it comes to using an inexpensive yet illegal music provider. I believe the widespread mentality about personal illegal downloading carries over to their businesses. I suspect that because most individuals have not been held accountable for their personal illegal downloading, business owners are sometimes uninterested in being educated about the public display of music laws.

As mentioned above, when selling our product it was important not to accuse the potential buyer of illegal activity, yet I also felt it was important to educate them about what they should be doing to comply with the laws pertaining to public display of music. This became a significant challenge for us as a startup. We were constantly battling to figure out when and how to bring up legality issues.

Although not perfect, subscription services have proven to be strongly adopted. Industry executive Ian Rogers explains he thinks in the future artists and labels will see that streaming services provide value beyond royalties. The streaming services can provide massive amounts of valuable data to artists and labels about their listeners

(Godrich, Nigel, Yorke). Streaming services also have potential for artists to connect directly with their fans, which offer new opportunities for revenue generation. Executives and artists will need to get creative to add value for their fans in order to create new successful revenue streams (Godrich, Nigel, Yorke).

Finding #3: To acquire public display of music rights a company must have hundreds of thousands if not millions of dollars.

Through my start-up experience, I learned if you have an innovative idea for the industry, there are three different routes you could take. First, launch as quickly as possible and prove your potential, and then once you have done so, work backwards to acquire the licenses and legal rights needed. This is a risky approach because you could face legal battles without the infrastructure to handle the negotiations process that currently comes with dealing with record labels and licensing organizations. Second, attempt to raise the capital needed to acquire the licenses you need before launching. This is also risky because your idea could easily become outdated, copied or never launched if you can't satisfy your funding needs. Third, you could try to take advantage of opportunities offered by the Technology Strategy Board. However, the amount of funds received from the Board would likely not be enough to support a business (Faxon).

After hearing about our struggles trying to get answers from rights holders, our advisor, a Professor of Computer Science in the College of Engineering, connected us with Mr. Clemens. He is a veteran in the music start-up business and very knowledgeable. Mr. Clemens co-founded a business that allows videos to be played in conjunction with music to set a mood. For example, you may walk into a hotel and the TV screens may be playing a serene video of nature that matches the song drifting from the speakers; this could be the work of their company. We set up a Skype meeting to get advice.

I already knew licensing was going to be difficult, but I was not prepared for the extent of advice we received. This successful entrepreneur intently listened as I explained the business side and my group members explained the hardware and software. After we finished, he paused and began by asking, “what do you want from this project? Do you want an adventurous project or do you really want to start a business?” All three of us replied we want both. He continued by giving us background about how his company got off the ground. Explaining how our group reminded him of himself a few years back, he made it crystal clear that getting where they are today was extremely hard.

His team had innovative ideas, finished hardware and software, and support from the market, but industry executives were not interested. What they needed was capital and endorsement from rights holders. Luckily one of their group members had a family friend who sat on the board of Warner Brother Records. After consistently reaching out and proving their idea, they finally got a break. They continued bringing in investors that sat on the board of all the big music services to help influence a deal with the industry. Mr. Clemens explained he felt his company got extremely lucky, “We were in the right place at the right time and knew the right people- not something that happens very often.” Also because of the connections they had made, the startup was backed strongly by multiple venture capitalists which provided the funds to create the agreements with each rights holding organization.

Mr. Clemens went on to explain what he thought our options were. First, we could continue as is and he would give us advice along the way. He warned us of the mostly insurmountable difficulties we would face if we choose to take this route. Second, we could continue without music rights until we gained a significant customer base of a couple hundred thousand, and then go after licensing. Third, we could use our existing hardware and pivot again. Although he did not know exactly how we could pivot again he encouraged us to be creative and find a way to use our work, create a new product that does not need public display of music rights and sell it.

This advice came as a shock to me. I was in serious talks with the Cafe Yumm on Monroe and 2Towns Ciderhouse, as well as with Cheba Hut and Flat Tail Brewery, who had shown great interest. However, Mr. Clemens opened up my eyes to a greater issue: the politics and cost of acquiring licensing rights of the music industry. Although our project did not need funding at this stage, there would without a doubt be a stage where a significant amount of funding would have been needed.

According to experts in the industry, including Mr. Clemens, venture capital funding would be very difficult to attain. Most venture capital firms are familiar with the struggles faced when working with music licensing rights, making funding extremely unattractive until you have a strong connection inside the industry. This is likely the reason why there are very few startups in the music industry. I am specifically speaking about the extreme cost of acquiring public display of music rights. According to Mr.

Clemens this costly trend is common with all types of music rights. The entire industry, including the public display of music sector, is motivated by money. The more money you have, the more power you have. With an understanding of the costs associated with the industry, we decided to take our project in an entirely new direction.

Instead of providing a service to businesses, we switched to providing the hardware we already had to school age youth to aid teachers in teaching engineering topics. By simply selling the hardware, we would take ourselves out of any legal issues. The business could have been taken in many directions providing teaching aids for technology requirements for children as young as kindergarten up to college age. There would also be a possibility of selling seminars to teens and adults wanting to learn more about software and engineering. While this new direction was promising, it was begging the question: are others experiencing what I have experienced? Do others agree that the inflexibility of music licenses limits the opportunity for innovation?

In search of an answer I looked to trade publications and scholarly articles. I found that while being an entrepreneur in any industry is difficult, being an entrepreneur in the music industry is especially difficult (Peoples). Music consumers had made themselves clear. They wanted change in their options for purchasing music. When consumers widely accepted illegal downloading, they showed the industry they were tired of paying over a dollar a song on iTunes (Bhattacharjee et al 138). Companies such as Spotify, Pandora, and Beats Music have answered with subscription service options, but why is there not more innovation and creativity in consumption of one of the most inherently creative art forms? Kim Ruiter, a music industry writer sums it up in just a few sentences,

“As global markets are squeezed, investors are approaching new opportunities more cautiously than ever.” When opportunities and innovations require seed funding, “it is easy to see why some great ideas just don’t get off the ground. Compounding this, the increasing speed of digital innovation just doesn’t sync with long periods of due diligence and complex negotiations” (Ruiter).

Finding #4: Ethical issues cause challenges regarding how far an aspiring entrepreneur will go to take a product using public display of music to market.

As mentioned above, following our meeting with Mr. Clemens we decided to take his third suggestion and pivot again. We called our educational engineering kit for school age children DJPi. After working on pivot number three for a few weeks all three business partners met up for a check-in. We all felt that the profit potential of the DJPi kit was significantly less than Project MusicBox. We also agreed that we all had less interest in creating the DJPi kit for school aged children than Project MusicBox. This inspired a conversation about moving back to Project MusicBox and pushing forward with the product without the licenses.

Looking back at our conversation with Mr. Clemens, we knew many others were taking this approach, and my two other group members felt confident that this was the only way to go about it. They proposed that we continue with what we were doing and work towards gaining rights as we continued to sell. I immediately thought about 2Towns and Cafe Yumm. I had already told them we would make sure it was a legal product before we sold it to them. That would have been a lie if I continued to work with them.

I was faced with a difficult and uncomfortable situation. Do I continue working on the startup I had been working on for almost a year, or do I walk away from all of our work and a group that needs me? It didn't take much thought for me to know what I was comfortable with morally. I knew I had to leave the group, but doing so felt selfish. This group was counting on me, and I would be giving up all the work I had done over the past year.

During our conversation with Mr. Clemens, he made a point to bring up this challenge. He explained this is a common challenge for entrepreneurs in the music industry or any industry that is strictly regulated. I learned in class the number one reason why startups fail is the founders cannot agree. This was exactly our case. The two engineers felt comfortable moving forward before we had agreements with rights holders, and I did not.

The culture surrounding illegal music downloading has been so relaxed and the lack of education about what is legal and what is not in regard to public display of music has encouraged the continuation of products that required rights at the beginning. With widespread use of illegal public display of music, the rights holders only prosecute a few retail establishments or companies. This leaves the door open for startups like ours to feel comfortable selling a service before rights agreements are put in place. From a moral and ethical standpoint, people feel it is acceptable to do this because those that are using streaming services illegally like Pandora have not been prosecuted. In sum, the lack of enforcement regarding public display of music laws makes it attractive for entrepreneurs to push the boundaries and behave unethically.

Ultimately I knew if I tried to stay it would cause more group disagreements in the future because ethically I would be uncomfortable. I made the tough decision to leave the group and leave the startup. Although it is unfortunate that I spent a year on this project and didn't get to experience any monetary benefits, I feel what I learned far outweighs the work I put into the project. Looking at the project as an educational experience allowed me to be confident in my decision. Leaving now was the best decision for the future.

Discussion:

Music is food for the soul. Music has the power to make us laugh, cry and dance all in just a few minutes. We are hungry for the emotions music gives us. That is why the music industry is as large as it is and why companies like Napster became an overnight sensation. Before advanced technology such as the iPhone and iTunes, the primary purchasers of music were adults. When records and record players were the only option, most children and teens did not have the funds to have their own record player. As technology changed, so did the age of the purchasers of music (Moreau). Today almost every child has their own music player with their own music. This created an interesting dilemma. Teens have little income but they also have a thirst for the latest and greatest new music (Moreau). Once the world was exposed to peer to peer sharing sites such as Napster, they were hooked.

The nature of the music industry elicits constant change, yet traditionally, record labels and public display of music licensing organizations have expected the industry to adapt to their traditional processes rather than change to fit the changing need (Faxon). If industry decision makers were willing to change their ways it would greatly speed up digital development (Faxon).

With the negative side effects of strict licensing rights apparent, is the industry trying to change? The short answer to this question is yes. But change takes time. Previously, the control of distribution and promotion has been crucial to the major record labels' strategies. They succeeded in establishing dominant barriers to entry in order to keep control and reap the monetary benefits (Moreau). Those accustomed to this traditional framework were unhappy with the changes being introduced to the industry mostly because it forces them to take a pay cut. One of the major music forums, Music Manager Forum (MMF) in London posted their support of the new subscription system and over 1,000 artists posted back expressing their concerns about the way royalties will be paid. The MMF posted back with no mercy explaining "everyone including artists and fans in the new business need to adapt to the new world of music" (Godrich, Nigel, Yorke).

One of the major cultural shifts that has elicited change from the music industry and public display of music rights holders is the widespread use of the internet and social media for communication. Interacting over the internet has changed our culture and how we live our daily lives. For the first time, celebrities can connect with all their fans personally. Social media allows artists to let fans into their lives, which increases their loyalty to their favorite celebrities (Heath). Although consumers have always had an emotional connection to music, social media heightens this to connect on a deeper level (Heath). Some celebrities have taken full advantage of this. Take Lady Gaga for example. She has 36.2 million twitter followers!

Social media has also given fans and consumers a louder voice. We are seeing an increasing convergence of video games and music such a Guitar Hero (Heath). In the future, industry experts are expecting to see a combination of games, music and social media for a fully integrated user experience (Health).

In addition to watching the closer integration of social media and music, in future study it would be interesting to watch the successful startups in the industry and how they adapt to change. How will the industry fill the needs of the labels, artists and market? Will the industry be able to prevent pirating of music? What would happen to the industry if the major labels and artists pulled their music from streaming services? How would the market respond?

These are just a few of many questions I have in the coming years for the industry. I will be fascinated to watch the changes and how they affect all parties involved. As a music consumer myself, I enjoy the subscription service option. I like a variety of music and would say I have an extreme case of music ADD. I like to switch the song often and don’t like to listen to the same thing over and over. Generally, I think this is becoming the reality for much of generation Y. Often times with information constantly at our fingertips, we get bored easily. Our challenge will be to find joy and contentment in what we have. As I finish this paper I want to leave you with a question. Will music always be a source of entertainment for us or will we figure out a new way to stimulate our senses and music will be a thing of the past?

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