

# crash changes

In 2006 *Idealog* introduced Generation C, the creative, connected generation that is remaking the way we buy, sell and communicate. Now **Jake Pearce** and **Simon Young** look at the impact Gen C is having on the music industry—and what it portends for the rest of us

## IT'S 2013. WHAT DOES YOUR MUSIC EXPERIENCE LOOK LIKE?

As you walk into a music store, a *mommelier*—a kind of waiter of music—greet you. “Hi! Want to learn about music, form a band, upload a song or catch a private showing of the reformed Goldenhorse?”

It's music retail without the commoditised transactionality of today's music stores. The music customer of 2013 wants an experience. “I'd like to learn, thanks,” you say. “How about Kiwi music of the 1970s? I want an iconic personalised track list.”

The usual small artists are coming into the store, uploading their new tracks and talking about their work. This isn't music retailing, it's a celebration of music. This is where good vinyl stores started—part cafe, part youth camp, part speakers' corner. Welcome back to the future.

This store has elements of today's music retail, plus elements of a recording studio, like the roadside studios that launched the careers of Elvis Presley and Johnny Cash in the 1950s.

You can simply buy music—but why would you?

You're here to co-create, to participate in the work of others, both recognised artists and average joes. In fact, that line between consumer and producer doesn't mean much anymore. Everyone has something to offer.

This is the world that Gen C is waiting to co-create. Unlike any generation before it, Generation C is growing as people of





**BY THE TIME LABELS AWOKE TO THE POSSIBILITIES OF ONLINE, THEY'D ALREADY IGNORED, FOUGHT, VICTIMISED AND ALIENATED THEIR CUSTOMERS. "THE CONSUMER JUST GOT PISSED OFF. THEY CREATED SIX YEARS OF KIDS WHO KNEW NOTHING BUT FREE MUSIC"**

all ages discover newer, better ways of doing things.

Why does it look like this? In media, music and porn have always led the way, so it's a useful indicator for other industries. The pornographic industry was the first to take the camera seriously in the late 1800s, while the music industry pioneered the use of the Internet around product distribution.

But this vision flows from the nature of Generation C—digital natives, people connected in a digital world. Gen C is defined by an attitude, not a demographic.

Most people who talk about Generation C miss the point. They talk about what Gen C does—Channels, Celebrity, Communities, Creation and Co-Creation, rather than the underlying driver: that Generation C want the control to make their own culture, rather than have society manufacture it for them.

That's why this vision of the future exists. They will co-create products with companies, so the future of music retail looks like a cross between a holiday shop, educational facility, music studio and café.

In the future, the individual will often have the choice to do a 'micro-joint venture' with companies. In fact, it's already happening. As we'll see, Vodafone is already doing joint ventures with its customers in the area of mobile video. But like most companies, Vodafone doesn't get Gen C fully when it comes to music. It thinks the answer is to host big music festivals, raise awareness and push sales. That's not where this is going; it's only part of the answer.

Music has always been the innovator where others have followed. Gen C will drive a new wave of marketing that will look futuristic, but also look back to a time before commoditised mass production.

Don't believe us? Check the early warning signals for yourself.

## A taste of the future

July 2007: a taxi pulls up at a car dealership. They'd said the place was hard to find, but a car dealership? Annabel Youens makes her way through the workshop, along a dingy alley to a metal door, minimistically decorated with a logo: V2.

Youens is in London pitching Voeveo (pronounced Vo-eve-o) to owners of record labels, including V2. Voeveo lets artists large and small connect with digitally-savvy audiences worldwide by releasing tracks as mobile phone ring tones. Voeveo's business model is

effectively a joint venture between themselves and all the little guys.

Since its inception in February 2007, Voeveo, based in Wellington has connected local, independent artists with their listening communities. Now, Youens is in London to invite the big shots to the party.

On this journey, some would welcome the new possibilities. Others ... well. "There's one we'll call Chicken Little," says Youens diplomatically. "They knew the sky was falling, but they didn't have any strategy to tap into the digital market."

You can't really blame the record industry. They've had it so good, for so long, that it's hard to realise they no longer have control. On its 25th birthday, the CD is almost dead as a format and sales of digital downloads, while growing, are far from making up the difference. But while income is shrinking, consumption is "ballistic", according to Charlie Clementson, Vodafone NZ's head of entertainment and media.

Technology is part of the problem for record labels—and it's undoubtedly part of the solution. The trouble is that the music establishment is fixating on technology, while ignoring the deeper cultural shift that has taken place.

In 2001, music sales fell by five percent. That's also the year free file-sharing site Napster was closed down. In their book *Creating Customer Evangelists: How Loyal Customers Become a Volunteer Sales Force*, Ben McConnell and Jackie Huba make a link between the two. Napster had distributed free samples, which converted to higher sales. The music industry missed the power of a co-creative business models and discovered what happens when you remove them—both companies and the consumer are hurt.

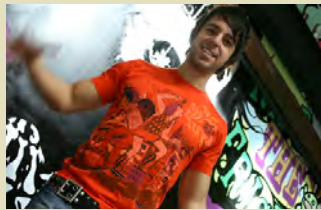
When labels and retailers complain, threaten and cajole against downloading, they treat downloading as an aberration, as something that only naughty or careless people do. They don't seem to understand that technology has enabled a new freedom and convenience. They don't seem to understand Generation C.

As Jake wrote in *Idealog #3*, Generation C wants to be in control. Why? Because overwhelming choice—as written about in Chris Anderson's *The Long Tail*—means Gen C people potentially have everything, but risk having nothing that's truly their own.

Previous generations could affiliate with clearly-recognised tribal groups: rockers, punks, disco freaks. The lines have blurred for

# What this means for the rest of us

Okay, so you're not a rock star, nor are you a rock star manager. What do Generation C's habits mean to the rest of us? Here are some companies showing the way



## Fashion

Fashion is a huge gamble, hoping against hope that the design you like will also be what your audience likes. Unless you're Threadless, the now-famous t-shirt design company designed by two Generation C guys who simply didn't know any better. Having never been to business school, they didn't know fashion was supposed to be a gamble, and having been raised on the Internet, they didn't know you couldn't simply ask your customers to vote on their favourite designs—or even submit their own. They didn't know any better, so they went and created something new.

There's a sting in the tail of such consumer-driven marketing, though. While Threadless doesn't have a venture capital investor to answer to, it does have a very vocal and empowered community (which in some cases can be even harder to deal with).

## Consumer goods

FMCG—fast-moving consumer goods—is one of the most secure and yet unpredictable fields of marketing to get into. Secure, because people will always need

tins of baked beans, coffee, frozen pizza and toilet paper. Unpredictable, because it's near-impossible to tell what kind of baked beans, coffee, pizza or toilet paper people will go for.

A new soft drink vending machine in the UK lets customers customise a thirst-quencher. The PouchLink system developed by WaterWerkz mixes, packages and dispenses beverages on demand, according to TrendHunter.com. We're seeing the beginnings of prosumer culture.

This is where Generation C actually makes it easier. We've learned to create our own stuff, whether it's a video on YouTube or our own website. Sooner or later, we start to think about the stuff we use every day. We always have ideas to make them better but, until now, we haven't had a way to share them.

Smart companies are cracking on to the idea of co-creating products with their customers. Lego discovered in 2000 that its most important audience is not kids, but the adults who love to invent things with Lego bricks. Since then, Lego has built a strong relationship with this core community, holding design competitions and rewarding winners with free trips to Lego HQ in Denmark.

The infrastructure is already there for this kind of conversational, collaborative marketing. In New Zealand, Nestlé has been reaching customers one-to-one through

the txt2taste community, which communicates offers to customers and in turn receives detailed information on customer behaviour and preference. Customers don't consciously send this information; instead it's gathered from activity over email, text messages and in store.

Imagine if that channel became even more interactive—where customers could give active feedback on what they want, and how they want their products to serve them. We have the infrastructure, but do we have the mindset?



## Industrial design

Consumer-oriented products like cars have always depended on market research to point where new innovation is most needed. But, as Lee Iacocca pointed out in his autobiography, the car design cycle takes so long that last year's research is as irrelevant as the research of 20 years ago. You have to go on gut feeling.

That's been the common wisdom, anyway—but designers of industrial products for both consumers and business markets are now inviting their customers to have a say in the design of products.

One unlikely candidate for co-creation, Boeing, has a team of over 160,000 on its 'World Design Team'. These aviation enthusiasts around the world helped Boeing design its 787 Dreamliner, from choosing the name to having input on the most important cabin features.

## Software

Generation C is about cutting the crap. And by 'crap', we mean everything that doesn't quite make sense any more. In music, it no longer really makes sense to buy prepackaged tunes on a small plastic disc, when we really want to integrate new music into our music collection, mix it up and see what happens.

Similarly, software is less about what the software does, and more about how it fits into our existing digital life. There's not enough time to learn an entire new system—we want stuff that integrates [seamlessly!] into our main applications. Does it do something useful, without disrupting life too much?

Blip.tv began life as yet another platform for broadcasting video on the Internet. It covers all the givens—automatically encoding your video so viewers can simply press 'play', and distributing the video on Blip.tv's site. But it also offers distribution to other key venues not owned by Blip.tv—like the iTunes store, Blogger weblogs and Facebook.

the citizens of Generation C, who connect and collaborate with others to create meaning. They co-create their own symbols. More importantly, they control them—as a group.

How does this affect the music industry? And, since the music and entertainment industry tends to lead others, how does this affect business in general?

For established players, it's a difficult time. Record companies are still scratching their heads over how to keep making money. "The recording industry has had this coming for a long time," says Chris Hocquard, an entertainment lawyer and founder of [amplifier.co.nz](http://amplifier.co.nz). "It's been obvious, and they have tried as much as they could to stop it—or make as much money as they can before it finishes."

The labels, he says, have kept profit margins obscenely high since the introduction of the CD, and become so unwieldy that they think they need to maintain those high margins just to survive. Not exactly customer-centric thinking.

"So the consumer just got pissed off," says Hocquard. "When the opportunity to download for free came along, consumers went 'Woohoo! We don't have to go through the music labels.'"

By the time the labels awoke to the possibilities of online, they'd already ignored, fought, victimised and alienated their existing and potential customers. "They created six years of kids who knew nothing but free music," says Hocquard.

So what's a poor label to do? Now that they're on the Internet, they're trying all sorts of things. But running their own music stores hasn't worked out so well: Sony recently ditched its

Connect music store along with its proprietary file format. Working with the biggest music player in town, iTunes, also hasn't worked out so well for Universal, which decided to go its own way in a six-month experiment to see whether people prefer music with or without digital rights management (DRM) protection. Instead of trying to create its own online store, Universal is selling music from its many labels through Amazon.com, Rhapsody and Wal-Mart.

While the giants are finding their way—and struggling—a host of small, nimble new players are finding fertile ground in the gap left by the slow demise of broadcast radio. Take, for instance, the growth of recommendation engines such as Last.fm, Pandora, Sonific and iLike. iLike plugs into the iTunes music player and displays similar tracks to the one you're listening to. There's also a social networking side to it, as you can compare musical taste with people who enjoy the same artist. The social networking link has been taken a step further with a Facebook widget, enabling people to incorporate iLike into their Facebook profile. iLike makes money through a mix of affiliate

links to online music stores and advertising. Already, it's fulfilling the function of our music sommelier.

iLike has no music product as such, just connections. They take what users give them—information—and use it to make connections between songs and between people. Meanwhile, it's offering musicians the opportunity to market themselves to a burgeoning audience: iLike experienced a rush of nearly a million users when it launched on Facebook in May 2007.

While iLike harnesses the recommendations of users, it doesn't reward them. SlicethePie, on the other hand, gives everyday folks the chance to be talent scouts, and earn money doing it. SlicethePie lets bands raise money directly from their fans to professionally record albums, letting fans invest in their favourite band.

The genius of these companies is that they're not trying to create anything new; they're just connectors.

It's happening in the world of film as well. Online video sites like YouTube, Revver and Blip.tv are enabling video publishers to earn a cut of advertising revenue from their videos.

It's not just happening overseas, either. Vodafone NZ's Self Central is a mobile-only community site on Vodafone Live which lets people express themselves through videos and photos. While it costs users 20 cents to upload a photo or video to their virtual 'rooms' on Self Central, Vodafone subscribers can earn five cents every time that video or picture is downloaded. The community, which has been around since November 2006, hasn't been advertised, yet by late 2007 it had seen 300,000 images and clips uploaded into 25,000 rooms.

Vodafone's Clementson says while Self Central isn't a big money spinner for Vodafone, it is a way to get people to use mobile Internet. His approach is decidedly hands-off. "It's not about what Vodafone allows you to do, it's about what you want to do."

In a business as fast-moving as music, perhaps being a beginner is an advantage. Vodafone has the ability to be a major player, and to do it sensitively. Meanwhile, what can the big record labels do?

Hocquard says labels are shifting from a 'full service' model—where labels fund recording, marketing and distribution of albums in return for a cut of the sales—to what is called a 360-degree deal.

The 360-degree deal sounds more like a music manager's role, partnering with the artist and in return taking a cut from all the artist's income streams: personal performances, endorsements, merchandising, songwriting, acting, modelling ... the more lucrative sources of potential income, now that album sales account for a smaller portion of revenue. "That's why record labels are buying up management companies," says Hocquard.



Voeveo's Annabelle Youens

In short, they're becoming talent agencies. But why not attract talent to you instead of hunting for it at fringe bars and gigs? Why not help the next U2 where they already are—in music stores.

Switzerland-based music futurist and author Gerd Leonhard agrees, saying the most important role for labels will be to source and groom good artists. "But to survive they will need to switch to providing access rather than just copies of plastic or downloads."

In an open letter to the independent music industry, Leonhard warns: stop the sharing and you'll kill the music business. "Web 2.0 is a canvas that allows information to be put up, shared, changed and remixed," he writes. "It's about the interaction, the send-and-receive options that make it useful and 'special'. And in music, it's always been about interaction, about sharing, about engaging—not sell-sell-sell right from the start."

Auckland-based French DJ Cyril Groisard says he's optimistic about the future of music, but not in its current form. "There's not going to be an industry, but a network of people showcasing their music," he says. "Everything's become so democratic."

But we believe there is still a place for the behemoths—if they act as facilitators, instead of creators. Enablers, rather than controllers. Let Generation C do the controlling. It's what they're best at.

Back in London, Youens discovered that many labels were saying the right things but missing the real point about interaction, sharing and engaging. "Some labels tell us they'll give us content, but that's not just what we're about," she says. "You have to partner with us in a true sense: to work with your artists and get them involved, bring them on our forums, be part of the community."

Community has many facets. Feeling good is one; effective marketing is another; distributing funds effectively is a less-explored area. We're picking that for smart music companies, the future of music is the kind of revenue-sharing model we've seen on YouTube, where video submitters get a slice of the advertising revenue.

The distinction between artist and audience is blurring, as more people find a place in the spectrum between karaoke legend and professional musician. The question for the music industry is, will you facilitate or block Generation C's efforts to co-create?

## What now?

In parts of this article, we've peered into the future, but most of it is happening right here, right now. Want to be part of it? Start thinking of your company, brand or product as a facilitator, not a creator.

If the music industry has shown us anything, it's shown us that no one holds a monopoly on developing world-class products. Now is the time to position yourself as a facilitator of Generation C's creative urge.

Or in simpler terms, it's not about you. It never has been. It's about your customer.



## The Crimea Let your niche define itself

UK band The Crimea is hard to put in a box, and they're happy that way. Founded almost ten years ago, the band went through a number of record labels before going it alone in 2007 and releasing their fourth album, *Secrets of the Witching Hour*, online—for free.

"We decided long before we made the record that it would be free," says frontman Dave McManus. "Part of the reason was getting it out as widely as possible. It got us a lot more exposure than if we'd gone with a little indie. It was part publicity stunt, part stroke of genius."

The album is only available as a single download of all 11 tracks, which flies in the face of the traditional method of releasing a hit single first. Making the download freely available has introduced The Crimea to a global audience, and also listeners who may not have found them any other way.

"Throughout our career we've been in an unclear genre," says McManus. "Coming from the UK it's difficult because everything's got a scene and a haircut and we've always been kind of outside that. But secretly, that's what I'm most proud of."

Offering *Secrets of the Witching Hour* for free means listeners can hear the music

and decide for themselves what genre the music is. But haven't The Crimea deprived themselves of income? No, says McManus. Income comes from live performances, licensing and, ironically, CD sales.

The CD release was an accident, and not with the help of a record label. "Labels won't touch us because we won't give them digital rights," says McManus. The Crimea holds tightly to download rights. "Over the last ten years we made most of our money from licensing for radio and TV, even when we did have a record deal."

So was *Witching Hour* just a publicity stunt to get more paying customers for the next album? No again. "All our future albums are going to be free," says McManus.

What does it mean for you? To paraphrase writer and journalist Cory Doctorow, in the age of abundance, obscurity is a much greater problem than piracy.

Choose carefully what you can make available free, at low cost, to reach a wide, deep audience.

Question assumptions about what your money-earning product is. For The Crimea, it's not their recorded songs—it's their live performances, CD sales and licensing deals. What are you really selling?