



Liftoff Music Company

*Crowdsourcing for Musicians, Music Community
for Fans*

Business Plan Final Copy
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Executive Summary

Opportunity Statement

The crowdfunding industry is growing very rapidly. Successful crowdfunding platforms (CFPs), both niche and varied in their purpose, are starting to emerge. However, most of these platforms neither closely follow industry trends, nor innovate the services offered by their platforms. More specifically, music-related crowdfunding has yet to tap into one the largest group of musicians in the United States: smaller, newer, and independent bands and solo artists¹. The industry is starting to show signs of acknowledging and addressing this lack of innovation, and Liftoff aims to be at the forefront of serving this market.

Business Concept and Service

Liftoff provides a CFP for musicians to fund various projects, including tours and albums. Campaign creators have access to services that no other platform currently offers, including merchandise manufacturing assistance. Liftoff profits from each successful campaign by charging a fee proportional to the amount raised. Liftoff also strives to work closely with both its campaign creators and contributor base to form a music community revolving around supporting and discovering live music.

Description of the Target Market

Liftoff's target for campaign creators consists of new, indie, and locally-based music groups and solo artists who need assistance to get discovered by a record label, or that simply want to operate independently. Liftoff's target for contributors is anyone who might possibly contribute. This is a broad category that can be split many different ways, but generally involves an interest in music. The geographical scope of Liftoff is the entire United States, with possible expansion to Europe after at least 5 years.

Competitive Advantage

Liftoff is capable of customizing its CFP to a much greater degree than general-purpose CFPs are capable of, or likely even interested in. To prevent existing and future niche CFPs from copying Liftoff's services, Liftoff will form partnerships with venues to facilitate ticket sales and with record labels to provide them with new talent and/or data. This ensures Liftoff will be able to secure a hold over certain geographical areas. In addition, Liftoff plans to remain active in the cultivation of its community, leveraging human capital against duplicate services.

Essence of Marketing Approach

The music industry is intensely volatile at lower levels. While it is easier than ever before to produce and spread music content, the process of physically reaching fans remains an extremely difficult one. Tour management and booking is primarily carried out interpersonally, and is notoriously unreliable. Liftoff intends to bridge this communication gap by including music consumers in the touring process. In this regard, Liftoff positions itself 1) as a vital tool for artists interested in touring and 2) as a resource for discovering, supporting, and creating live music experiences. Liftoff differentiates itself from other music sharing/discovery services by focusing on

¹ For the purposes of this document, the terms artists, musicians, musical group, band, and solo artist are all approximately interchangeable and refer to customers who create funding campaigns on Liftoff.

live performance experiences; and from other CFPs by its niche focus on touring, its community involvement for both campaign creators and contributors alike, and exclusive merchandise and experience offered as donation incentives. Working within local music scenes and the social networks of artists using the service Liftoff will pursue a grassroots advertising campaign and focus on cultivating brand recognition and loyalty at small scales before expanding into other media outlets. Reputation is vital within the music communities, and Liftoff must be both instrumental and trusted if it is to be successful within such a community.

Economics, Breakeven, and Financial Highlights

Liftoff will operate on low margins, ideally high volume, high operating leverage, and with an inflexible income source. The volume of campaigns on Liftoff's site is a function of how successfully Liftoff can spread its name and message, as the market capacity is easily capable of sustaining Liftoff (between 40-50 million USD). Liftoff is projected to break even in 24 months.

Technology and Operational Issues

Liftoff will employ standard web technologies to create and maintain its website (HTML, CSS, Bootstrap, and so on). Liftoff is in a very early stage of development. A fully-functional front end of the site is almost complete, but back-end aspect will not begin development until mid to late April. Liftoff will outsource its manufacturing, distribution, and accounting tasks to third parties.

The Team

The CEO, Jeremy Baker, is a graduate of Gainesville's HackerHouse (a local incubator) and a senior studying computer science, with a strong practical background in design, at the University of Florida. Andrew Kerr is a senior computer engineer with a very broad range of experience involving leadership, web technologies, and industry operations. He consistently works part-time while attending UF as a full-time student. Alex Girard is a UF graduate in environmental science and is active and recognized in the local music community. His career experience includes strong analytical, logistical and organizational skills, and his prominence in the music community makes him extremely knowledgeable of Liftoff's target market. Frankie Ramos is also active within the local music scene, and maintains numerous contacts with artists throughout the United States and abroad. He is a University of Florida graduate with a degree in anthropology. Adam is a junior at UF pursuing a degree in finance with a strong background in customer service and leadership.

Financing Needs and How Liftoff Proposes to Raise the Money

Liftoff requires \$20,000 to plan and pay for its inaugural promotional tour, most of which will go towards reserving a booth at music festivals and other large events. Liftoff needs at least \$40,000 between June 2014 and January 2015, \$35,000 between January 2015 and June 2015. This funding would primarily be spent on marketing and employee salaries.

I. The Industry

A. Define Industry, Its Size and Growth Rate

Liftoff will be operating in the “All Other Telecommunications” industry, a generalized industry category that deals in providing specialized telecommunications services. Liftoff specifically will provide internet services in the form of reward-based crowdfunding for music-related projects, so for the sake of analyzing the industry Liftoff operates in, an overview of internet-based crowdfunding platforms (CFPs) will be provided.

The industry leader in crowdfunding, Crowdsourcing Inc., publishes yearly reports on the state of the industry under the research company Massolution. Growth and volume figures are given in the Figure 1.1. Crowdfunding both in North America and on a global scale is in a period of rapid growth. The newly launched CFP called HeadFunder estimates that by the year 2020, crowdfunding will consume 15% of all e-commerce. Despite the fact that HeadFunder is quite new to the market (it will launch on April 30, 2014), Liftoff has very good reasons for believing in the accuracy of its predictions that are discussed in greater detail in Section III Part E, Competition and Competitive Edges.

Figure 1.1: Industry Growth²

Year	Global Growth	Global Volume (billion USD)	North American Growth (%)	North American Volume (billion USD)
2011	64%	1.5	85%	~0.86
2012	81%	2.7	105%	1.6
2013	~89%	5.1	~131%	3.7

B. Industry Structure

The crowdfunding industry is quite fragmented. There were an estimated 813 CFPs at the time of Massolution’s report (2012), both existing and in pre-launch states. Many are relatively small and diverse in their purpose, so there are several different ways Massolution has chosen to categorize them. CFPs are primarily classified by the nature of the exchange between campaign owner and the contributor, referred to as the campaign *model*. See Figure 1.2 for details.

Figure 1.2: Campaign Model Definitions

CFP Model	Reward for Contributing	Global Growth in Funding Volume, 2013 Estimate (billion USD)
Donation	Nothing	1.43
Reward	Reward (anything)	1.34
Equity	Equity or similar	0.166
Lending	Eventual payback	2.12
Mixed/ Other	N/A	0.074

² Values preceded by ‘~’ were not specifically stated in Massolution’s report, but calculated based on data from this chart.

The second way CFPs are categorized is whether or not the CFP requires campaigns to have funding goals, referred to as Threshold-Pledge Systems (TPSs). 54% of all CFPs use a TPS, 28% do not, and the remaining 18% allow the TPS to be optional. The final distinguishing factor between CFPs is location; the crowdfunding industry is separated into six markets. These are North America, Europe, Oceania, Asia, South America, and Africa, in order of funding volume, largest to smallest. North America and Europe drive both the growth and overall funding by a wide margin.

C. Industry Competition

The competition Liftoff faces can be classified into two main categories: mixed-purpose CFPs and music-specific CFPs. Data for each of the platforms considered is given below. There are definitely more platforms in existence that could be considered competitors, but the ones below were chosen because they are either very popular, were listed on the website crowdfundingformusicians.org, or had crowdfunding statistics that are used in this document.

Figure 1.3: Competitor Data

CFP Name	Alexa Rating ³	Unique Visitor Growth for the Past 3 Months ⁴ (%)	Mixed-Purpose or Music-Specific
Kickstarter	706	-15.30	Mixed
IndieGoGo	1,251	-9.67	Mixed
Pozible	43,263	30.68	Mixed
RocketHub	55,527	-10.72	Mixed
HeadFunder	199,903	391.65	Mixed
Sponsume	330,276	-20.74	Mixed
HatchFund	349,877	32.24	Mixed
FeedTheMuse	2,282,195	67.57	Mixed
PledgeMusic	26,880	36.03	Music-Only
SellABand	461,117	-15.41	Music-Only
ArtistShare	812,440	7.94	Music-Only
GigFunder	1,773,453	72.72	Music-Only
SonicAngel	2,457,598	192.04	Music-Only

D. Porter's 5 Forces

A summary of Porter's 5 Forces is given in Figure 1.4. The Barriers to Entry category appears to be low since the technology for creating a CFP is widely available. The fact that a large number of CFPs exist supports this as well. However, it seems reasonable to argue that a *successful* CFP that is able to achieve third-level acceleration sets a high barrier to entry by creating and maintaining a community, which is not an easy feat. Liftoff can also create barriers to entry geographically by forming partnerships with venues and record labels in areas of a high volume of potential campaign creators. Partnerships will be discussed in more detail in Section II Part B, The

³ Alexa.com is an analytical engine that estimates a website's popularity. This rating system examines each site's average daily visitors and pageviews to determine rank, with 1 being the highest combined score which is currently claimed by Google.com. The ratings given here are with respect to the entire world due to the fact that US-specific data was not available for all CFPs.

⁴ Data recorded on April 3, 2014

Services. Assuming Liftoff can achieve this, Barriers to Entry is rated at medium. Threat of Similar Services is high because viable funding alternatives to Liftoff exist. Intensity of Industry Rivalry is high due to the large number of CFPs that exist that could effectively be used in Liftoff's place. Any kind of supplier bargaining power will most likely be small since there are many options to choose from. Customer bargaining power is likely to be the most challenging obstacle. Bands have a large number of incentives for using Liftoff's CFP, but contributors do not have reasons as compelling as furthering their careers like bands do. Potential contributors have other CFPs to give money to as well, so Liftoff must convince contributors that Liftoff is the best choice amongst all other alternatives.

Figure 1.4: Porter's 5 Forces

Barriers to Entry: Medium	Intensity of Industry Rivalry: High
<ul style="list-style-type: none"> • Cheap web server costs: low • Technologically easy to create a CFP: low • Community creation is difficult: high • Community maintenance is difficult: high • Partnerships secure locations: low 	<ul style="list-style-type: none"> • Growing number of CFPs, yet static number of funded campaigns: high • Highly fragmented industry: low • Alternatives to Liftoff currently exist: high • Industry is adapting and changing very fast: high
Threat of Similar Services: High	Bargaining Power of Suppliers: Low
<ul style="list-style-type: none"> • Alternatives to Liftoff exist: medium • A successful, music-specific competitor exists: high • No successful tour-based CFPs exists: low • Technologically easy to create a CFP: high 	<ul style="list-style-type: none"> • Cheap web server costs: low • Cheap manufacturing and distribution costs: low • Many hosting options: low • Many manufacturing/ distribution options: low
Bargaining Power of Customers: High	
<ul style="list-style-type: none"> • Alternative CFPs exist that are already well-established: high • No successful tour-based CFPs exists: low • Contributors do not have as compelling reasons as musicians do to use Liftoff: high 	

E. Industry Trends

Massolution's report highlights a few overarching themes for the direction that crowdfunding is moving towards. These points are as follows:

1. The probability of a campaign's success is highly correlated with a campaign owner's existing social network
2. However, the most successful campaigns are able to penetrate outside of their existing social network and reach what's considered "third-level acceleration" by Massolution
3. Niche CFPs will become more numerous
4. Reward-based models are one of the fastest growing models
5. Film & Arts campaign types are among the highest funded
6. Majority of the industry by both volume and growth exists in the North American market
7. CFPs are still very experimental, especially concerning niche platforms

The implications of the first and second trend are incredibly important. The first trend provides a basis for the market segment Liftoff needs to initially target to gain traction publicly. Not only does Liftoff need to appeal to each band's social network so that a band's campaign will be successful, but also as a means of marketing. However, as the second trend points out, Liftoff needs

to go above and beyond this group of people and reach individuals who have never heard of the band before. The ability to involve this group is termed *third-level acceleration*, or the “Holy Grail of crowdfunding.” This trend will be discussed in greater detail in the following sections as it is by far the most important segment to target.

Trend 8 indicates that the industry for niche platforms is still very new. There are multiple large, general-purpose CFPs that have successfully emerged over the past several years, but it is not as easy to say the same thing about niche platforms. PledgeMusic is the only platform that seems to be running smoothly, while all other platforms are either struggling to remain active or are simply not able to achieve the amount of widespread name recognition that the general-purpose CFPs are enjoying. Despite the increasing number of niche CFPs, there does not seem to be any guarantee that these platforms are capable of sustaining themselves.

The final trend to be discussed is not mentioned in Massolution’s report. This trend is the reputation that crowdfunding currently has among bands. While it’s not possible to say how prevalent the following conception is, there’s definitely a negative attitude towards music-based crowdfunding at the moment among some individuals. Artist Amanda Palmer successfully funded a landmark campaign outlined in the article by Tim Cushing, but subsequently made several questionable decisions with the money she raised. Crowdfunding went from a glorious new way for artists to fundraise to a tool only used by lazy artists that couldn’t become successful through the traditional system: record labels. This is important to consider when designing Liftoff’s CFP because ensuring accountability from both artists and contributors suddenly becomes a much more prevalent issue.

F. Key Success Factors

The most successful CFPs in the industry are the ones that appeal to the largest group of people and offer campaign hosting for a wide variety of purposes. This is due to the fact that larger communities are statistically more capable of achieving third-level acceleration. CFPs are also trying to develop new ways to attract and keep contributors on their site. These platforms are general-purpose and use a standard campaign template for multiple kinds of campaigns.

Social/ non-profit campaigns (typically using donation-based models) are generally the most well-received and successful types of campaigns. These have a higher success rate than any other model or type. CFPs that are able to market themselves as such are the ones that are able to receive higher amounts of funding.

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of the full document**

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