

MUSICJUICE.NET: THE CHALLENGE OF STARTING UP A NEW INTERNET VENTURE

Rocky Lui wrote this case under the supervision of Professor Simon Parker solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Version: (A) 2010-05-10

In August 2008, Rocky Lui, the co-founder and chief executive officer (CEO) of MusicJuice Inc., based in Toronto, Ontario, faced a difficult decision. The company had been losing money month after month since its inception, revenue had not been close to expectations and the co-founders were having difficulty working with each other. Lui wondered what had gone wrong with the business model he had imported from Europe, where it seemed to have been very successful. He needed to decide what could be done to save MusicJuice.net or whether he should close the business for good.

THE ENTREPRENEURS

In 2005, upon graduation from the Richard Ivey School of Business at The University of Western Ontario with an HBA, Lui worked for a start-up company in the dental software industry. After a year, he moved on to IBM, where he worked as a marketing consultant, advising clients in IBM's server business. In the early 2007, Lui had talked with his long-time high-school friend John Wong, who graduated from the University of Waterloo in 2006 with a computer science degree. Wong was working at a programming company where he did the coding for programs and websites. The two friends discussed new trends in the online world and wanted to get into the Internet business together but did not know where to start. They looked around and noticed some interesting Internet business models that had popped up. After evaluating several of them, in July 2007 they founded MusicJuice Inc.

IDEA CREATION

While looking around on the Internet, Lui and Wong had noticed one concept that sparked their interest. A Dutch company called Sellaband.com had created a platform on which musicians and fans could interact, and fans could raise money for the musicians. The musicians used the funds raised to record a CD, and profits from the sales of the CD were then shared with the fans who had contributed to the fund.

The idea was that musicians joined the website, created a profile and through the profile allowed the public to listen to their music for free. Users who liked the music and believed in the musician's potential could invest a minimum of \$10 or as much as they liked. Once the musician had raised the fund target of \$50,000, the musician could go on to record a CD. The funds raised covered the costs of making the CD, marketing and distribution. The profits generated from the sales of the CDs were split three ways: a third to the musician, a third to the website company and a third to the user (investor) pool. The investor's pool were then further divided by 5,000 because each investment unit was divided into \$10 denominations. The more units the user invested, the bigger the portion the investor would receive from the CD's profits. This action of pooling money from users was termed *crowd-sourcing*. A portion of the funds raised were used to pay a local producer, depending on the location of the musician. The marketing and branding would be conducted by Media-Star Inc., which had extensive experience working with independent musicians.

Lui believed he and Wong could import the idea, which was currently targeting the European market, and apply it to North America. Lui would add more features to differentiate and improve the solution they provided to the users. According to the U.S. Bureau of Labor Statistics for 2008, the potential market size was approximately 240,000 musicians.

THE TRADITIONAL MUSIC INDUSTRY MODEL

Four "major labels" dominated recorded music — Sony Music Entertainment, Universal Music Group, Warner Music Group and EMI — each of which consisted of many smaller companies and labels serving different regions and markets.

Musicians signed with record labels, which were the companies that financed the recording process in return for part or full share of the rights to the recording. Record label companies managed brands and trademarks in the course of marketing the recordings, and they could also oversee the production of videos for broadcast or retail sale. The share the musicians received depended entirely on the deal they agreed to with the label. Typically, labels offered artists a royalty rate between 10 and 20 per cent¹ of the wholesale (distributor) price, which they had to split among themselves, although this amount was negotiable.

One way for musicians to gain a bigger share of the profits, at least in the early stages of their career, was to release their music themselves (through a distributor), either alone, or in partnership with another act. That way, the musicians could just split the profits. Profit-sharing deals were also common with smaller independent labels, which typically had less money to spend on flashy recording studios. Although the bigger labels offered the opportunity for better studios and greater exposure, they usually also wanted a larger share of the profits in return.

According to interim physical retail sales, in 2005, the industry was a US\$4,783.2 million market in the United States alone. Album sales had been on a steady decline of approximately 5.3 per cent over the past five years. On the other hand, digital music sales had been on the rise. According to Nielsen SoundScan, sales were up 2.1 per cent in 2008 from 2007, with consumers snagging 1.16 million digital tracks (an 8.3 per cent increase from 2007) and 76.4 million digital albums (a 16.1 per cent increase over the same time period). In fact, 40 per cent of all music purchases in 2008 had been digital. The entire music industry was moving toward a digital sales format through avenues such as iTunes and Amazon.com. Digital music sales now generated approximately \$2 billion in revenue.²

¹ "What about Royalties? A Sound Guide for Musicians," *VentureNavigator*, November 2006, <http://www.venturenavigator.co.uk/content/499>, accessed April 1, 2010.

² http://en.wikipedia.org/wiki/Music_download.

THE MUSICJUICE.NET DIFFERENCE

The idea Lui wanted to import from Europe was the core business model used by Sellaband.com, whereby musicians created a profile and were linked to fans willing to invest in their music. MusicJuice.net included some features that differed from the offering at Sellaband.com. In addition to raising funds for CD creation, MusicJuice.net offered a tour creation feature, which enabled musicians to raise money not only to record their CDs but also to pay the expenses to fund a tour. The tour creation feature provided MusicJuice.net with more cash flow coming into the business and was an opportunity not offered by its competitors. In addition, if fans were willing to pay \$10 more, the site offered an added experience that would last until the CD or tour was completed: the fan would become a premium member, which included an invitation to private group chats with the musician and receiving both a signed version of the CD and previews of new unreleased music. Lui believed that these two features differentiated the company from any of its current competitors. In addition, these features provided added value for the users and enabled MusicJuice.net to be the market leader.

What Happened to MusicJuice.net?

Lui and Wong sought several website developers that could deliver on their idea. In the end, they choose a Toronto-based developer in May 2007, and the creation of site began. To the surprise of the co-founders, a new competitor, Slicethepie.com, was launched one month after MusicJuice.net began its development. This competitor's idea was not identical but shared the idea of helping musicians to raise money on the Internet. Slicethepie.com's launch was backed by a large Internet blast campaign to bring awareness to its website. This unwelcome news shocked Lui and Wong, who wondered whether this small sub-industry within the music industry was big enough to handle three competitors.

The development of the website was not without issues. As first-time bosses, Lui and Wong had not been very good at setting out the contract details with the website developers, which had led to numerous delays and additional costs to the project. Because of Lui's lack of knowledge on the coding aspects, he was frustrated and impatient with the slow progress of the website. On the other hand, Wong lacked the business skills in understanding how the business model would actually work. The combination of these factors caused the relationship between the founders to deteriorate. The months dragged on as the site was built, and the two first-time entrepreneurs did not enjoy the ride together. Finally, in March 2008, the site had been completed and fully tested. The site was delivered three months later than anticipated and was 40 per cent over budget. The two entrepreneurs engaged in much finger-pointing over why the project had faced so many issues.

With \$5,000 left in the company's bank account after paying off the website developers, Lui and Wong started to conduct their marketing for the website (see Exhibit 1). Most of the marketing decisions were made by Lui; however, marketing the website was a learning process because he did not have much experience with Internet marketing. The site had been able to generate some buzz; a few music blogs wrote stories about the website. The site was able to sign up 180 musicians after four months of operation (see Exhibit 2).

How MusicJuice.Net Planned to Make Money

The entrepreneurs planned several revenue models for the site:

1. The 33.3 per cent share of the profit generated from both CD and tours sales. After the musicians raised the target funding through the fans' network, the CDs would be sold by the musicians at their shows, on online portals such as Amazon and iTunes and on the MusicJuice.net website.
2. The premium member sales, whereby the company would make \$10 per premium membership
3. Google Ads revenue from the clicking of the ads by users on the website
4. The interest generated from the money raised by all the musicians on the website but not yet used

COMPETITION IN THE CROWD-SOURCING FOR MUSICIANS INDUSTRY

Sellaband.com

MusicJuice.net's competitor, Sellaband.com, was set up in August 2006 by Johan Vosmeijer (formerly with Sony/BMG), Pim Betist (formerly with Shell) and Dagmar Heijmans (formerly with Sony/BMG). The company was located in Amsterdam, Netherlands, and employed a staff of 25. In December 2007, Sellaband formed a partnership with Amazon.com for the U.K. region. By April 8, 2008, the company had raised US\$5 million in its series A round of financing, led by Prime Technology Ventures. Sellaband.com worked on a business model very similar to that of MusicJuice.net — by raising crowd-source funding for musicians from fans. The target was set at US\$50,000, and the minimum investment was US\$10. The company had held three concert events in Europe that featured musicians from its website.

- To date, Sellaband.com had successfully funded the recording of CDs for 18 musicians.
- Sellaband currently had 2,000 musicians signed up.

Slicethepie.com

Launched in June 2007, in Berkshire, England, by its CEO and founder, David Courtier-Dutton, Slicethepie.com was a similar business model that raised crowd-source funding for musicians through fans. The target goal was set lower at only €15,000,³ and investments could be as low as €1. The company created a stock market-like set-up for the shares invested, whereby fans could buy or sell the shares they own.

Musicians were only able to raise funds if they received the most votes from the users of the website. Each month, the winning musician or musical group joined the showcase group, which was qualified to receive investments from fans and music financiers. Musicians who failed to raise €15,000 in six months were dropped from the showcase, and all investments in those musicians were refunded.

- To date, Slicethepie.com had successfully funded the recording of CDs for 13 musicians.
- The number of musicians signed up by Slicethepie.com was unknown.

CURRENT RESULTS OF MUSICJUICE.NET

Since the launch of the MusicJuice.net website in April 2008, no artist had yet reached the fundraising goal. No premium members had been signed up. Thus, two of the four revenue streams had netted no revenues for the company. The third revenue stream, Google Ads, had generated only \$233 over the past four months. The average revenue from each click was roughly US\$0.37. The fourth revenue stream, the

³ €1= US\$1.34 in June 2007.

interest generated from the funds raised, was minimal as the funds were kept in a bank deposit account that generated interest revenue at a very low rate.

Market Research

After seeing the poor results, Lui asked users and friends where the website had gone wrong. He wanted to learn the answers to the following questions:

- Why do you not visit the site more?
- Why did you not invest in the musicians?
- Why did you not become a premium member?
- What do you want to see from MusicJuice.net?

The results painted a grim picture for the co-founders. Some of the common responses included the following:

- The site is boring. I do not wake up every day looking to invest in unknown musicians.
- I do not trust the website with my money.
- I do not know these musicians.
- None of my friends are using this site.
- I am not interested in paying to chat with musicians I am not a fan of.
- Give me more things to do on the site.
- Make some competition between the musicians on the site.

DECISION

Because of the numerous problems, Lui knew he needed to act fast and decide what to do to save the company. The issues facing him were trouble with the revenue stream, the lack of interest in the website, the stiff competition and the deteriorating relationship with his partner.

Both he and his partner did not want to invest more money if the business was not viable. As Lui started to plan their next meeting, several options presented themselves:

- Boost marketing (online and possibly by trying an offline strategy).
- Build additional revenue streams into the website.
- Expand the crowd-sourcing platform beyond the music industry (e.g. movies, novels.).
- Create more activities for users to supplement the core platform (e.g. blogs, videos, music contests).
- Identify and recruit investors to provide the capital needed to keep pace with competitors; however, a viable revenue model would first need to be in place.

Lui and Wong had invested a lot of time and effort into the business. They did not want to see the company closed down. MusicJuice.net was their first start-up, and they were emotionally attached to the website. Time and money were both running out. Which of the options, if any, should MusicJuice.net pursue?

Exhibit 1**MUSICJUICE.NET'S 2008 MARKETING EXPENSES BY MONTH
(IN CDN\$)**

April	May	June	July
\$400	\$700	\$1,000	\$1,500

Note: The majority of MusicJuice.net's marketing expenses were for ads in Google AdSense. These ads were shown on a network of websites. The advertiser paid a set fee per click on the ad, which took the user to the destination page set by the advertiser. A company's ads were shown if it bid the highest for the selected keyword. The cost per click varied, depending on the competition for the keyword. For example, the bid prices for highly competitive keywords could range from \$0.50 to \$0.90 per user click.

Source: Company files.

Exhibit 2**MUSICJUICE.NET'S 2008 SELECTED STATISTICS BY MONTH**

	April	May	June	July
New Musicians Signed Up	20	40	50	70
Total Website Visits	859	2,400	3,632	7,784
Total Web Page Views	2,984	7,300	11,893	22,231
Total Money Raised (Cdn\$)	\$100	\$500	\$1,000	\$1,200

Source: Company files.