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**How The Music Industry Is Putting Itself Out Of Business**

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[**Ross Gerber**](https://www.forbes.com/sites/greatspeculations/people/rossgerber/)Contributor[**Great Speculations**](http://www.forbes.com/sites/greatspeculations/)

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*I write about investment themes and opportunities in the stock market.*

There was once a time when mid-level bands with a modest following could make a pretty decent living playing music. They’d put out a record, sell a couple hundred thousand copies and then go on tour to promote it – which would drive additional sales, even as the tour itself was lucky to break even.

For the largest acts, this formula was a bona fide moneymaking bonanza, lining the pockets of all involved, including the musicians, managers, promoters and record labels. For everyone else, it didn’t produce vast riches but nonetheless supported careers and promoted the creation of new music.

Times, however, have changed. Besides a handful of superstars, it’s impossible for bands and musicians to generate significant revenue taking this approach. And the reason is simple: Consumers won’t pay much for music.

Napster jump-started this trend back in the 90s, pirating content and making it available online, producing a generation of listeners who didn't value music because they were able to download it for free. Then, streaming services basically continued the practice.

The likes of Pandora and Spotify don’t steal content, but they still offer it for free with the support of ads. Others such as Apple Music and Amazon Music obviously aren’t stealing either and do charge users, but it’s a nominal fee. Both models result in most artists getting the shaft, receiving, in most instances, less than a penny per stream.

Incidentally, from an investment perspective, the streaming services themselves aren’t faring much better. Pandora and Spotify have always struggled to turn a profit, while Apple Music and Amazon Music are money losers, in place as part of broader distribution play that merely supports other parts of their company’s other businesses.

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The reason for these struggles is pretty simple. As music shifted from a product-based business (CDs and individual downloads) to a service-based business (streaming), no one was able to create a model to support that transition adequately. At roughly $10 a month these companies have been giving away music at a loss, and until that price point rises, perhaps as high as 100%, there’s no reason to expect any of them to achieve profitability.

A great irony of all this is that music has become devalued at a time when there are more ways than ever to promote it, thanks to social media platforms like Facebook, Twitter, Instagram and Snapchat.

Because of these industry growing pains, musicians have had to adjust. Some have begun to focus their efforts on brand building, using their music, in effect, as a form of advertising to hock products and services for companies. Megastars like Beyonce and Lady Gaga, and Michael Jackson before them, have always done this, pushing everything from soft drinks to clothing to fragrances

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More and more, musicians from across the spectrum are pursuing this path to prosper. One good example is Gary Clark Jr., a talented artist but hardly a household name who has endorsement deals with Lincoln and John Varvatos. In the past, purists probably would have called him a "sell out." Now, it's called getting paid.

Ostensibly, playing concerts is another way to boost the bottom line. But save a precious few, most musicians are neither able to draw big audiences nor command the type of prices that make touring worthwhile – and the ones who can are senior citizens who play to audiences that are either roughly the same age or only slightly younger.

Bruce Springsteen (67), Paul McCartney (75) and the Rolling Stones (formed in 1962) were among the top-grossing acts last year. Also on that list was Guns N' Roses, the founding members of which are all in their fifties. Even the surviving original members of the Grateful Dead tour successfully more the 20 years after the death of Jerry Garcia. An orchestra ticket for their upcoming show at the Hollywood Bowl in Los Angeles goes for nearly $400.

Who are the next generation of stars that will replace these aging performers, and does it matter given the current generation’s preference for festivals like Coachella, where the music is almost incidental to the experience?

Some probably question why anyone should care about all this. After all, the consumer is winning, since the principal fallout has been that accessing music content is cheaper than ever before. Further, large industries have always gone through difficult transformations – what makes the music industry’s struggles any more noteworthy?

The reason is that without meaningful changes to the way musicians get compensated, creativity will suffer immeasurably – and with it, the entire music industry. Consider that the revenue streams created by record sales and concerts once formed an informal infrastructure that continually bred new artists. Without such revenue streams in place – or something similar to replace them – the time will come when musicians will have no practical way to stay afloat, forcing them to give up and many would-be ones never to try at all.

All of which means that the music business may not be a much of business at all before too long.

*Ross Gerber is CEO and president of Santa Monica, Calif-based Gerber Kawasaki, an investment advisory with approximately $575 million in assets under management. Clients and employees of Gerber Kawasaki own positions in Apple and Google.*