Why So Many Music Technology Startups Fail, According to DataArt Senior VP Media and Entertainment

NEW YORK, NY--(Marketwired - January 23, 2017) - The digital evolution has had a massive and continuing influence on the new music technology ecosystem, including the plethora of startups entering the space. But let's face it, just like music artists, not every new company will make it big -- and rarely is there only one reason for a startup's failure. So what do music technology startups need to know to increase their chances of success?

Although peer-to-peer music sharing already existed on the Internet, Napster's launch in 1999 made it much easier for consumers, introducing the concept of a massive online marketplace for free MP3s into the mainstream. Record companies and artists were divided over whether or not to support the service, with many labels attempting to have their music removed from Napster. Although Napster tried to save the service with a licensing and subscription model, as times changed, so did people's affinity to accept change. Ironically Napster is back, and they are making money. In June, it was announced that Rhapsody was rebranding itself as Napster. Napster has a much stronger brand than Rhapsody, and even though it may not be "millennial" in nature, it does have a great deal of brand leverage and strong new leadership.

Fast-forward a few years where peer to peer is no longer a thriving music sharing environment; we see the launch of Pandora Radio, which is aimed at creating optimized radio stations based on algorithms and a sophisticated song sorting program that enable the listener to engage with the platform on a personal level. Pandora has spent a lot of time in court fighting traditional music companies since its launch, due to complicated copyright laws which require payment of considerable royalty fees, with artists still complaining that they receive too small a share of revenues. Pandora has unfortunately decreased its overall user count from 84.5M users in January 2015 to 84.1M users in January 2016.

Another startup named Tidal, a high fidelity streaming service currently being sued over consumer fraud, claims to have over 3M users, but like many other music technology companies that enter the market, they are losing money faster than they are making it.

On a global level, Spotify is often considered to be the first legitimate music streaming service that experienced real success in the United States. Support from musicians, however, quickly declined as royalty payments were again minuscule. While artists and labels demanded that Spotify switch to an exclusively subscription-based model, the company believed that such a change would send the masses back to illegal downloading services. Spotify has had plenty of interest thrust upon it. Even though they are losing money and acquiring companies, they are in the game for the long haul. There is a good chance that Spotify will IPO in the second half of 2017 per a Bloomberg news article written in late July of 2016. We will have to see how it goes and with the funds driven by the IPO, how will they become revenue positive.

Some Primary Drivers of Startup Failure

One of the biggest problems music tech startups face is the inability to effectively analyze the market, determine the pain points, and develop as well as market a viable solution. A widespread misconception is that there are many underserved markets in the music streaming industry, when the truth is that the space is already fairly heavily saturated, with each service having comparable catalogs to offer consumers. Innovation and delivery are key elements to the decision to launch a startup however without broad market knowledge both on the consumer and business sides of the equation; startups can set themselves up for failure.

Another problem is that many music industry startups do not actually test their riskiest assumptions when developing a strategy. For example, many streaming services assume that consumers care enough about music to pay significant monthly fees for access, which may be a dangerous assumption. There is also the fact that the industry is somewhat incestuous and as such, having the right people associated with your "brand" can mean success or failure. When a startup needs specific artists to align themselves with their startup, without industry insiders, this can be extremely challenging. Some of the bigger names have hired Jimmy Lovine at Apple, Troy Carter of Spotify, Jay-Z of Tidal and now Lyor Cohen at YouTube to enable them to garner the talent they need and to build exclusive deals. Also, many startups that don't possess enough knowledge about the industry as a whole and develop technologies that are overly influenced by perceptions or passions as opposed to focusing on the solutions demanded by the market as evidenced by data. Unfortunately, too many startups have tunnel vision about whether they can, and should, build something, and lose sight of whether the technology has the potential for broad appeal and adoption.

Finally, startups need to look to strong partners to assist in helping them navigate the murky waters associated with the music industry. Startups, at times, feel that they can do it all themselves. But this is definitely not the case. Yes, they may have an excellent executive team, industry advisors and exciting new technology, however, it is imperative that they partner with companies that have been in the trenches developing solutions for the industry. These companies know the good, bad and ugly and will be able to assist in the development of relevant solutions and help with road mapping the future.

About Sergey Bludov

Sergey Bludov is Senior Vice President of Media and Entertainment Practice at DataArt, which serves clients in entertainment, music, publishing, advertising, and sports industries.

In his 10- year career with DataArt, Sergey has held a variety of leadership positions across key areas of the business. Starting as a senior developer/team leader in July 2007, he became a project manager in November 2008, focusing on project setup and day-to-day management of the full software development cycle from business analysis to deployment and support.

From December 2010 to November 2015 Sergey served as delivery manager, building exceptional client teams and ensuring immaculate execution and delivery of high-profile projects serving healthcare, financial services and media and entertainment industries. In November 2015 Sergey advanced to the role of Senior Vice President of the Media and Entertainment Practice. In this role, he oversees key projects in media and entertainment sector and plays a key role in setting the strategy for sales and revenue growth as well as for client relationship management.

Sergey earned his master of science degree in computer engineering from the prestigious National Aerospace University 'Kharkiv Aviation Institute' in the Ukraine.

Original article — http://www.marketwired.com/press-release/why-so-many-music-technology-startups-fail-according-dataart-senior-vp-media-entertainment-2190278.htm