

## Fan-funding: the new Eldorado?

For musicians, signing a contract with an independent or major label is often seen as a stepping stone to success. Record labels provide a number of services, one of which is to provide financial support to record and promote albums. Over the last decade technological innovation has allowed artists to tap into new sources of finance, one of which is the use of fan-funding websites. Although academic research about this phenomenon is growing, it is still scarce and little attention has been paid to the dynamics behind the success or failure of campaigns. This paper will explore how musicians use fan-funding platforms to promote and finance their projects by presenting five case studies of bands on the French platform MyMajorCompany.

This study will start by giving a brief description of MyMajorCompany and will examine its business model within the larger context of the French music industry. We will then present the results of our cases studies which take into consideration quantitative and qualitative data. This paper seeks to shed light on the question of how and why more and more musicians are reverting to fan-funding sites. How do artists manage and experience fan-funding campaigns? What are the relationships between the musicians, the fan-funding platform, and the funders? What factors influence the results of the campaigns?

## **Fan funding**

Fan-funding or crowd funding is based on the theory of the “wisdom of the crowd”, where the collective opinion of a group of individuals is considered to be better than the opinion of a few experts. In the music industry it consists of asking your fans help to raise funds for a new project, an album or a tour for example. Although the model is not new it is gaining steam. More and more fundraising websites have been popping up. Although there are a lot of similarities between the business models used there are also differences

In the music sector, two models can be commonly found: Keep it all and All or nothing. In the Keep it All model all of the funds collected are received by the project initiator whether or not the project goal is met. In the All or Nothing model, which the majority of fan funding platforms use, project initiators only receive the funds if the goal has been met over a defined period of time. If the goal has not been met, project initiators get nothing.

## **MyMajorCompany**

MyMajorCompany was created in France in 2007. Its business model has changed over time. Up to 2012, it functioned more like a traditional label but with the help of crowd funding. Before an album was released an artist had to raise 100 000 euros through the platform. Fans that chose to invest in the project were basically buying shares in the project and would receive a part of the revenue generated by the project.

On this model MyMajorCompany launched a number of acts, one of the most successful being the French singer Grégoire who has sold more than 1 million copies of his debut album. Fans who initially invested in him saw a return of around 20 times their initial investment.<sup>1</sup>

The business model developed by MyMajorCompany seemed to be successful and expanded its model to the UK in 2010 by launching MyMajorCompany UK and the first band to reach the £100 000 target, Ivyrise did so in 4 days.<sup>2</sup> However, their model soon revealed to be unprofitable. The UK branch was closed in 2012 and the MMC changed their model to a more traditional All or Nothing model the same year.

Today MMC proclaims themselves as the leader of the market. They have diversified their activities to include projects other than music and have collected 15.5 million euros since 2007. Apart from a press release MMC publishes it is difficult to get more figures about the company. I monitored MMC's website over a three month period from February to March 2014 to compile some basic data about the bands. A total of 48 projects were assessed.

First of all, the success rate of music projects on MMC is 48%. Compared to the two other major crowdfunding platforms present in the French market, Kisskissbankbank and Ulule, MMC's success rate is quite lower. Kisskissbankbank's success rate in the music sector is 67% and Ulule's rate is a little higher at 70%.

A comparative analysis of why the success rate of MMC is lower than the rate of its main competitors in France is beyond the scope of this paper and generally speaking research on the dynamics behind the success or failure of crowd-funding projects in the music sector is scarce. In a study carried out on US-based projects on Kickstarter, Ethan Mollick, explored

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<sup>1</sup> <http://www.crowdsourcing.org/document/my-major-company-mixes-traditional-record-label-ar-with-crowdfunding/1940>

<sup>2</sup> <http://eu.techcrunch.com/2010/12/08/my-major-company-mixes-traditional-record-label-ar-with-crowdfunding/>

some of the factors underlying these dynamics. <sup>3</sup> One of the factors he looks at is the “quality” of the project.

From this perspective the idea is that fans behave like venture capitalists and evaluate the quality of the product and the likelihood of success. (Gorman and Sahlman, 1989<sup>4</sup>; MacMillan, 1986<sup>5</sup>). In the context of entrepreneurial ventures, researchers have identified quality signals that investors take into consideration. One important signal is the quality of the preparation of the venture. (Chen et al., 2009<sup>6</sup>). To evaluate the role of quality, Mollick looked at the degree of preparedness of the project. Three standards were used, two of which Kickstarter itself suggests project initiators to use.

First of all, producing a video which is seen to be the minimum bands can do. The second recommendation of Kickstarter is to provide updates to projects soon after launching them. As an additional signal of quality, Mollick also took into consideration spelling errors in project pitches, as previous research on online auctions show that spelling errors can decrease the value of auctions. The results of the analysis of Mollick’s study do show a positive relationship between the quality of the project and the chances of success. Not including a video decreases the probability of success by 26 %, a lack of frequent updates and spelling errors reduces the chance of success by around 13 %. ( Mollick p.8).

Apart from quality, another factor that theory suggests should have an important role in determining the success or failure of a crowdfunding project is social network size.

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<sup>3</sup> Mollick, E., The dynamics of crowdfunding: An exploratory study, *Journal of Business Venturing* (2013), <http://dx.doi.org/10.1016/j.jbusvent.2013.06.005>

<sup>4</sup> Gorman, M., & Sahlman, W. A. (1989). What do venture capitalists do? *Journal of Business Venturing*, 4(4), 231-248.

<sup>5</sup> MacMillan, I. (1986). Criteria used by venture capitalists to evaluate new venture proposals. *Journal of Business venturing*.

<sup>6</sup> Chen, X.-P., Yao, X., & Kotha, S. (2009). ENTREPRENEUR PASSION AND PREPAREDNESS IN BUSINESS PLAN PRESENTATIONS : A PERSUASION ANALYSIS OF VENTURE CAPITALISTS ’ FUNDING DECISIONS. *Academy of Management Journal*, 52(1), 199-214. Academy of Management.

Researchers have found that the social networks of individuals looking for funds for new ventures can influence the final outcome of the project as it provides connections to potential funders. (Shane and Cable, 2002<sup>7</sup>; Stam and Elfring, 2008<sup>8</sup>). Mollick's study of Kickstarter does confirm this hypothesis. Looking at the number of Facebook friends of project initiators, he finds that the more bands have friends the higher the chances of achieving the funding goal is. (Mollock p. 8).

It is not surprising that bands get by better with a little help from their friends, what is more surprising is how they fail or succeed. Crowdfunding projects tend to fail by large amounts or succeed by small margins. Research by Mollick confirms this study. For example only 10% of failed projects raise 30% of their goal and only 3% raise 50%. Concerning successful projects, only 1 project in 9 achieves 200% of its goal. (Mollick p6.). This tendency is also inherent in our study of MMC as we will see.

All of the bands who did not succeed didn't even obtain 50% of the goal and out of the 25 projects that obtained their goal only 4 projects received more than 150% of their goal. Why failure happens by large amounts and success by small can be explained by various factors. One argument is that the all-or-nothing model might encourage project initiators to make up the difference between the amount needed and the amount obtained out of their own pockets. Contrary to other platforms like Kickstarter, MMC does not discourage self-funding. Two of the bands in our case study did in fact make a financial contribution to their project. So if a project is close to succeeding it is quite tempting for the project initiator to inject some capital to achieve the funding goal. Otherwise the band will lose out completely. Another reason

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<sup>7</sup> Shane, S., & Cable, D. (2002). Network ties, reputation, and the financing of new ventures. *Management Science*.

<sup>8</sup> Stam, W., & Elfring, T. (2008). ENTREPRENEURIAL ORIENTATION AND NEW VENTURE PERFORMANCE : THE MODERATING ROLE OF INTRA- AND EXTRAINDUSTRY SOCIAL CAPITAL. *Academy of Management Journal*, 51(1), 97-111.

could be that high-quality projects are identifiable by funders, so they receive funding, whereas low-quality projects receive little attention to potential investors. Finally, we could point out that the nature of crowdfunding itself dictates the pattern of success or failure. Once a band has reached its goal, there is little incentive for funders to invest more in a project than what is needed.

Setting a target amount is also an important factor in deterring success. Being too ambitious, a project is bound to fail. In the case of MMC, the amounts that bands ask for is quite reasonable. The average amount that project imitators ask for is 3800€, but financial needs do vary, going from 700€ up to 20 000€. That vast majority of the projects, around 70 per cent, were launched to finance a first album with four to five songs. So we can say that bands that use MMC are not well established bands, but new bands. Various reasons could explain why few bands use MMC to finance a second or third album. First of all, bands do split up often. Recording an album is a long adventure and keeping a band together is not easy. One important reason however is that the majority of contributors are in fact family and friends, a factor that comes up in our case studies that. One can understand that it is morally difficult to continuously ask family and friends for help as it could be perceived as a form of begging.

## Ciho

Ciho is not a band in the strict sense of the term, but a pianist who wanted to finance his first album of Electro music comprised of five songs. His set goal was to raise 8000€, which compared to other campaigns on MMC is quite high. His needs were broken down as follows: 800€ for MMC commission, 1500€ for mixing, 1500€ for mastering and 2000€ for equipment, 1500€ for musicians. He wanted to incorporate a string quartet in the recording and 700€ for visual communications such as photos and a website. The campaign lasted 35

days, which for MMC is quite short since the average duration is 90 days. He obtained 8575€ (107 %) five days before the end of the campaign.

### Citizen

Citizen is a French rock group composed of four members. The campaign was to finance their first album comprised of 4 songs and the duration was 80 days. The set goal was fixed at 1300€ and was reached 5 days before the end of the campaign. At the end of the campaign the band managed to raise 1527€, which was 117 % of the goal. The break down was as follows: 75 % production costs, 15% mmc's commission and 10% for other production and postal costs.

### Pattes rousse

Pattes Rousse is a French singer songwriter. He launched the campaign in order to finance his debut album that he recorded in his home studio, comprised of 12 songs. The campaign lasted 90 days and he collected 2220€ (111%) out of the 2000€ set goal. Unlike other artists he reached the set goal early in the campaign, reaching the 2000€ just 10 days after the start of the campaign. His needs were broken down as follows: 60% for the manufacturing of CDs, 20% copyright costs, 10% MMC commission, and 10% for posters.

### Sandy blanco

Sandy Blanco is a French singer songwriter. Although he had already composed and recorded a record for another artist and had also composed music for films, it was his first time launching a campaign on a crowdfunding site. The project was to finance a new album with two other musicians. His goal was to collect 5600€. 67% for studio and musicians' costs, 10% MMC commission, and 23% for mastering and manufacturing of the album. The

campaign lasted 90 days and obtain 6320€ in all (111%). He reached his goal towards the end of the campaign, about two weeks before the end.

Lily

Lily is a young French pop singer. Lily's project was to finance her first album. Her budget was broken down as follows. 825€ for recording and mixing the album, 75€ to hire an extra musician and 100€ MMC commission. Compared to other projects on MMC, Lily's results were quite surprising. First of all she reached her objective 1000€ just 5 days after launching the campaign and she also managed to raise a lot more than the target amount. She more than doubled her target, obtaining 2500€ at the end of the campaign.

Table 1. Summary of key data for the bands

Name	duration	Amount needed	Amount obtained	% of amount obtained	Number of days before funding goal reached	video	Number of contributors
MMC	80	3800			60	36%	79
Ciho	35	8000	8090	107	31	n	64
Patte Rousse	90	2000	2220	111	18	n	45
Sandy Blanco	80	5600	6320	116	62	y	112
Citizen	80	1300	1527	117	74	y	21
Lily	75	1000	2500	250	5	n	85

Source : Mymajorcompany

Table 1 summarizes the key data for the five projects. As we can notice the majority of the projects succeeded with a small margin, ranging from 7% to 17% above the target amount. Lily being the exception. This confirms the hypothesis that successful projects generally tend to succeed by small margins.

We can also notice that the use of a video to present the project was not a key factor of success. Two of the projects used a video but the other three did not use one. Generally



speaking, bands do not tend use a video to present a project on MMC platform. In our analysis only 36% of successful projects used a video.

The table also shows the number of contributors for each project. As we can see the number of contributors can vary. Citizen succeeded with only 21 contributors whereas Sand Blanco had 112 contributors. The amounts demanded varied of course. Citizen only needed 1300€ while Sandy Blanco needed 5600€. However there is no direct relationship between the amount of the project and the number of contributors. Ciho, who has the highest target, 8000€, succeed with only 64 contributors, about half of those of Sandy Blanco.

What this means is that the number of contributors is perhaps not that important in determining success and that it is better to have a few wealthy friends than many poor friends.

What our interviews with the bands also reveal, is that the vast majority of the contributors were in fact friends and family. Between 70 to 80% of financial contributions came from people band members knew.

Another interesting pattern that is worth noting is when projects succeed overtime. As we can see from the table, successful projects in MMC tend to obtain their finding goal towards the end of their campaign. On average projects succeed 20 days before the end of the campaign, and our calculations indicate that 56% succeed just one week before the end. There are exceptions of course, as we can notice in our cases studies; Patte Rousse achieved his goal less than three weeks after his project was launched and Lily obtain her target amount just five days after the beginning of her campaign.

With regards to the timeline of campaigns, research points out to three typical phases.

According to Ordanini et al. (2011),<sup>9</sup> a first phase is characterized by a substantial growth of contributions coming from family and friends. The second phase is characterized by a slow-down of people investing in the project. This is what they call, the “getting the crowd” phase and which is the most delicate as many projects fail to get beyond this stage as it implies tapping into the wider social network of the project initiators and many initiators fail to do so. As the project comes close to its deadline, a third phase is characterized by an increase in funding activity.

This can be explained by the fact that the creators tend to increase the promotion of the project to make sure that the project succeeds, a fact that was confirmed during an interview with the band, Citizen.

A last point we will look at are the motives behind the use of MMC. Apart from financial need the principal motive to use crowdfunding platforms is that they bring legitimacy to the project. Bands could use their Facebook or LinkedIn networks to launch a campaign and thus avoid commission costs taken from crowdfunding platforms. A question I asked in my case studies was why not just start a campaign using Facebook? The majority of funding comes from friends and family so why not just use Facebook and avoid the 10% fees taken by MMC? As one of the respondents said although the majority of financial contributions come from family and friends, the use of an official well-known platform legitimizes the project without which some friends would not have contributed financially to the project.

Another motive for the use of MMC is that a site such MMC company allows artists to enlarge their fan base even though in reality this is quite limited. In the future however this

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<sup>9</sup> Ordanini, A., Miceli, L., Pizzetti, M. & Parasuraman, A. (2011). Crowd-funding: Transforming customers into investors through innovative service platforms. *Journal of Service Management* 22 (4): 443. Retrieved from <http://www.scribd.com/doc/59656556/Crowdfunding-Transforming-Customers-into-Investors-through-Innovative-Service-Platforms>

factor should be on the increase. More and more bands use crowdfunding platform form to finance their projects but more and more music fans also use these platforms to discover new artists .