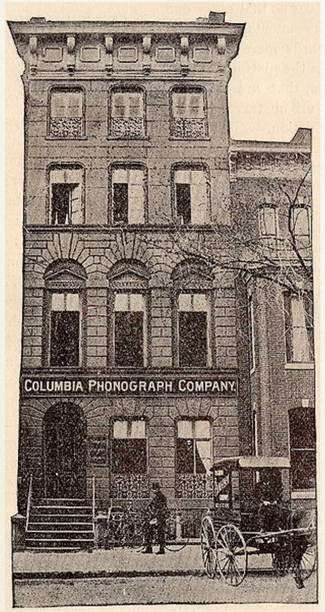
MBUS 3000

Lecture 11 Review for Midterm I

Lecture 1
Who am I?
Music Business as Oldest Idea Business

warner | music | group

1878



1889

1975

Google

1998

2004

Early Polyphonic Spree photo?
Staff of East Atlanta micro distillery?
Staff of Urban Outfitters Portland OR?
Microsoft!!

Shared Characteristics

- High failure to success ratio.
- Scalable businesses models.
- Highly concentrated profits.
- A few “giants” lots of “dwarves.”
- Talent is overrated.
- Luck. Random or unpredictable outcomes.
- Wild as opposed to normal revenue variation
- Most successful individuals and companies are “long volatility”.

Success to Failure Ratio

Opening new franchise
Expectations?
Risk?

Funding new startup
Expectations?
Risk?

Scalability

Non-Scalable Business Model

Opera Singer
1850

Must perform opera again
for additional revenue

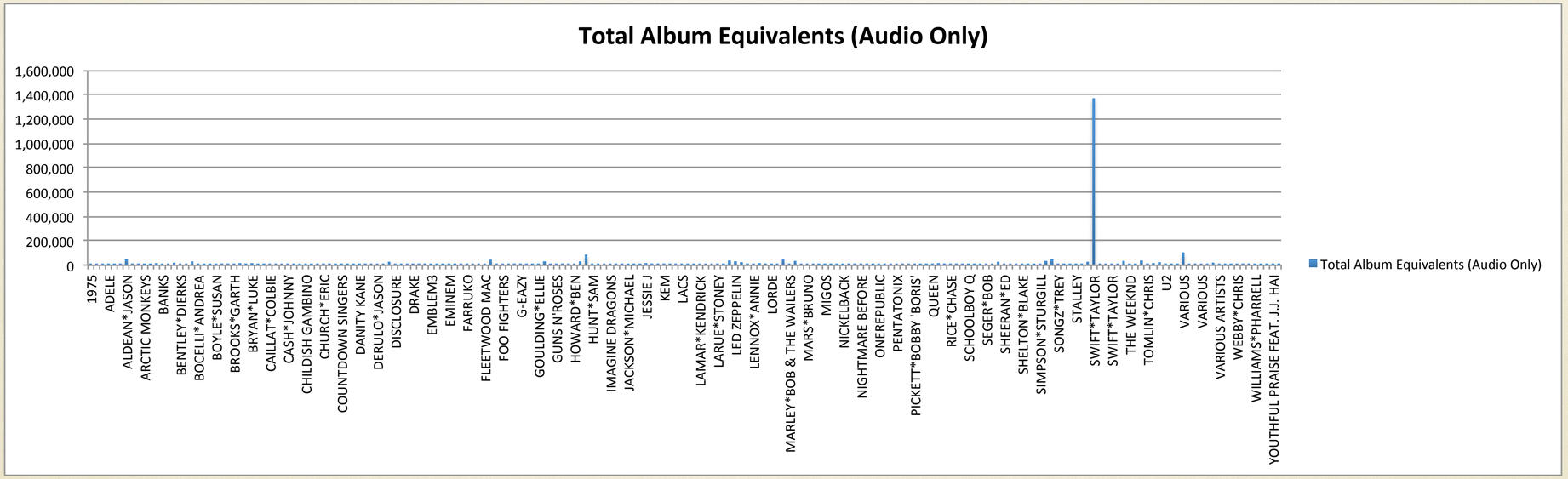
Scalable Business Model

Opera Singer
2020

Records opera once, copies
generate additional revenue

Highly concentrated profits

Top 50 albums Oct 27th 2014



Taylor Swift's 1989 crushes the competition

Highly Concentrated Profits

AbbVie's Humira Remains the Top-Selling Prescription for 2018

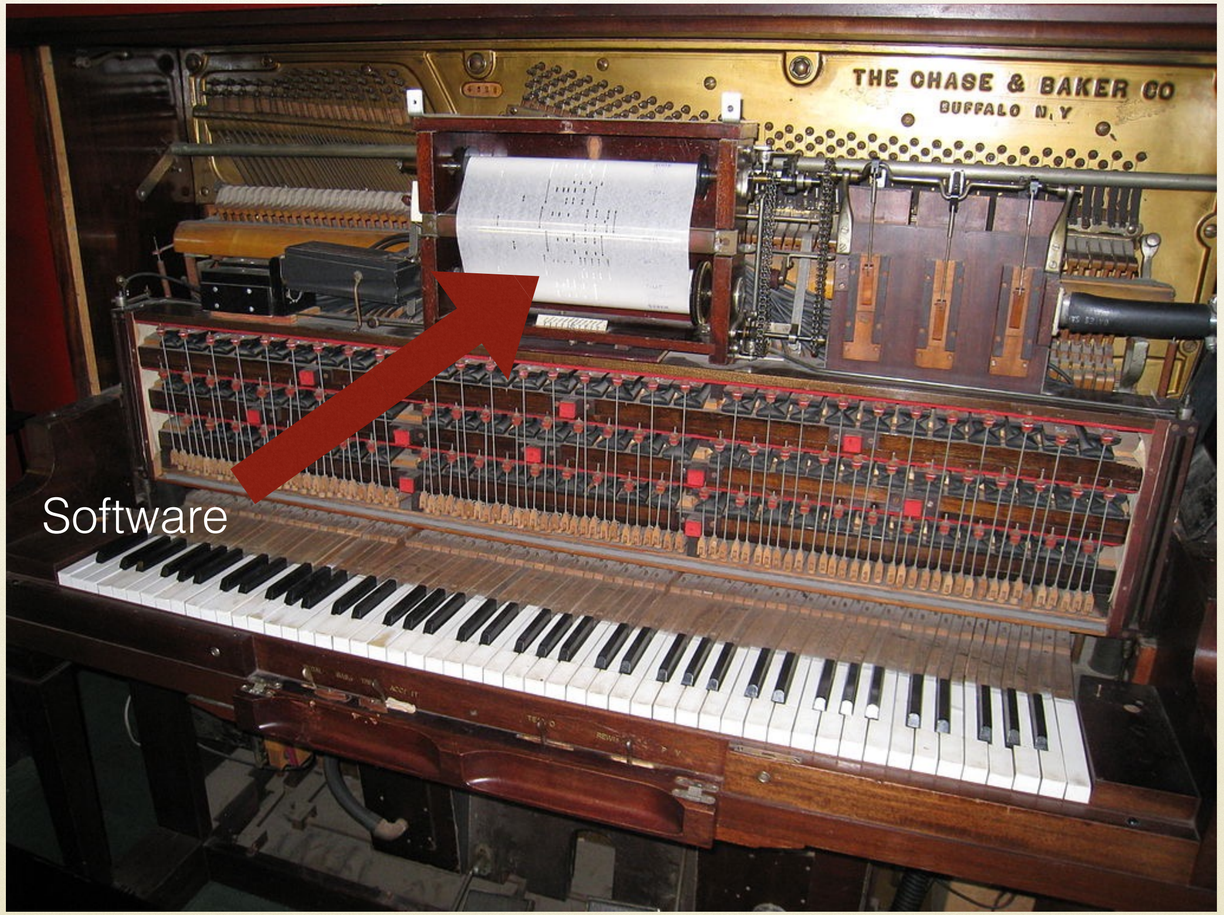
Published: Mar 13, 2019 | By Alex Keown

AbbVie's Humira has been the top-selling drug for several years. The medication brought the Illinois-based company nearly $20 billion in revenue in 2018.

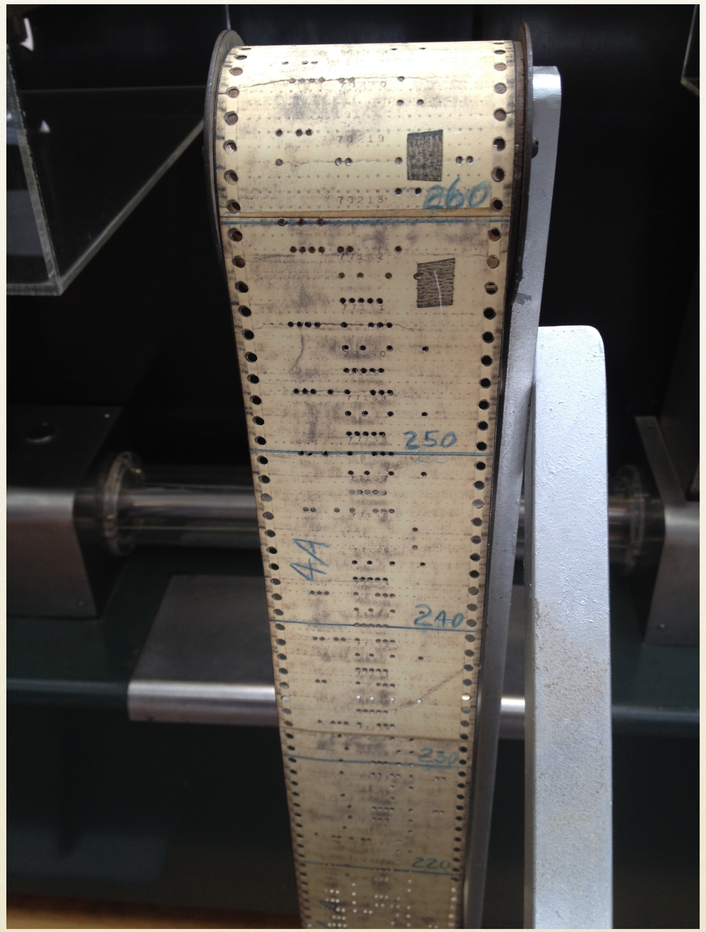
$20 Billion in sales 2018

Humira™ is the Taylor Swift of Prescription Drugs

Music Business 1885



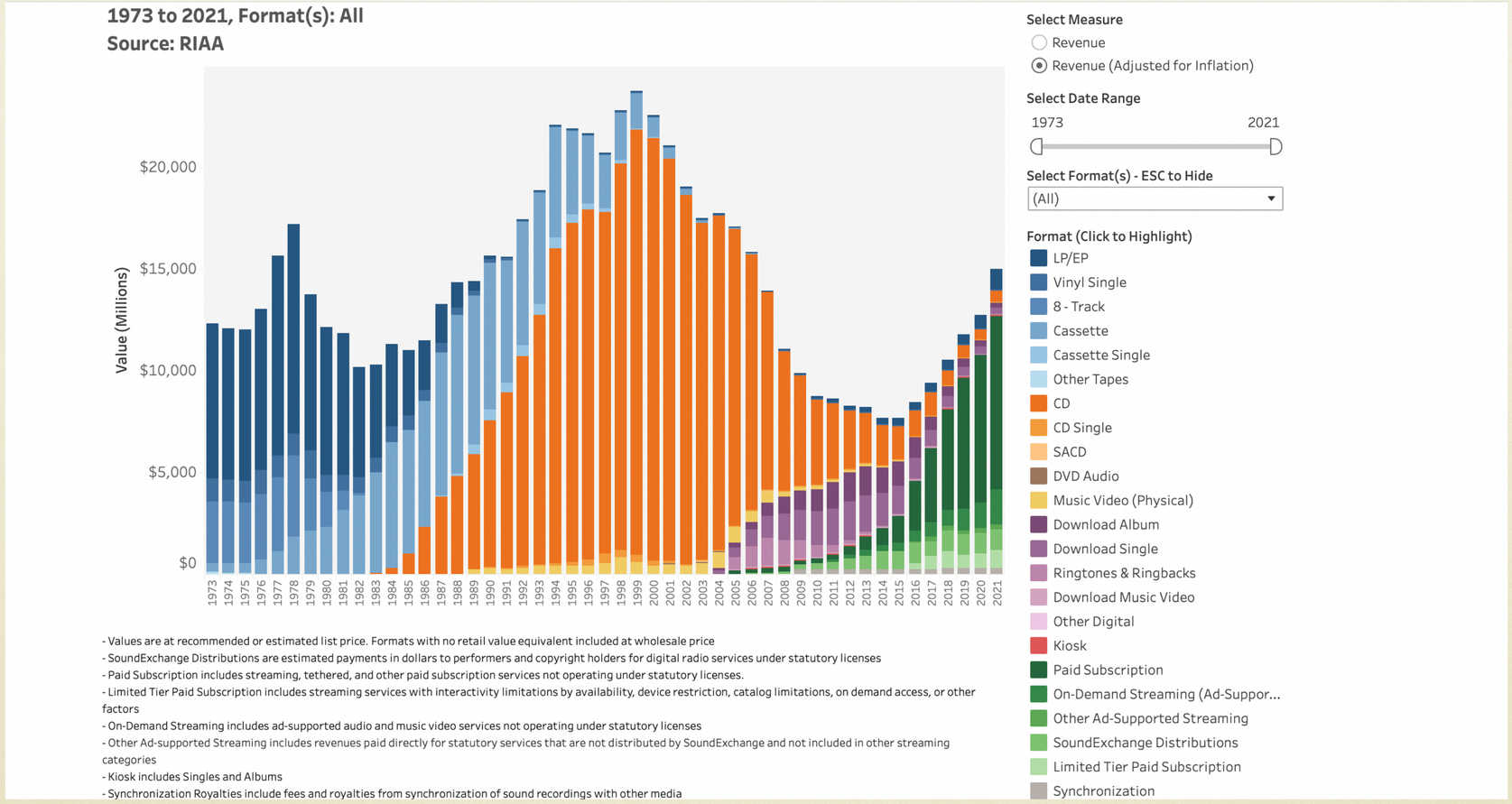
Computer Business 1970s



Programming Code

Lecture 2
Decline of the recorded music business

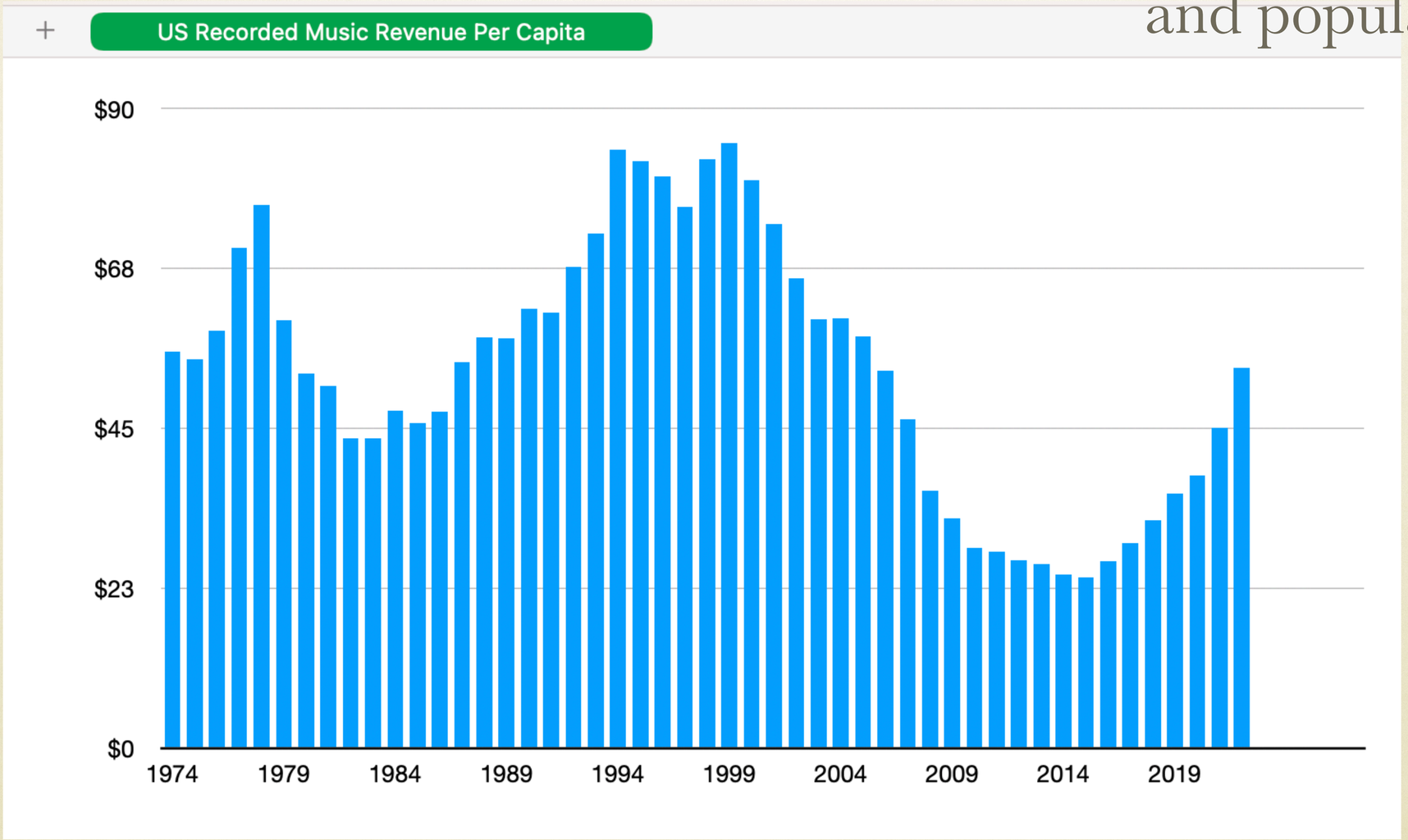
DEATH OF THE RECORDED MUSIC INDUSTRY



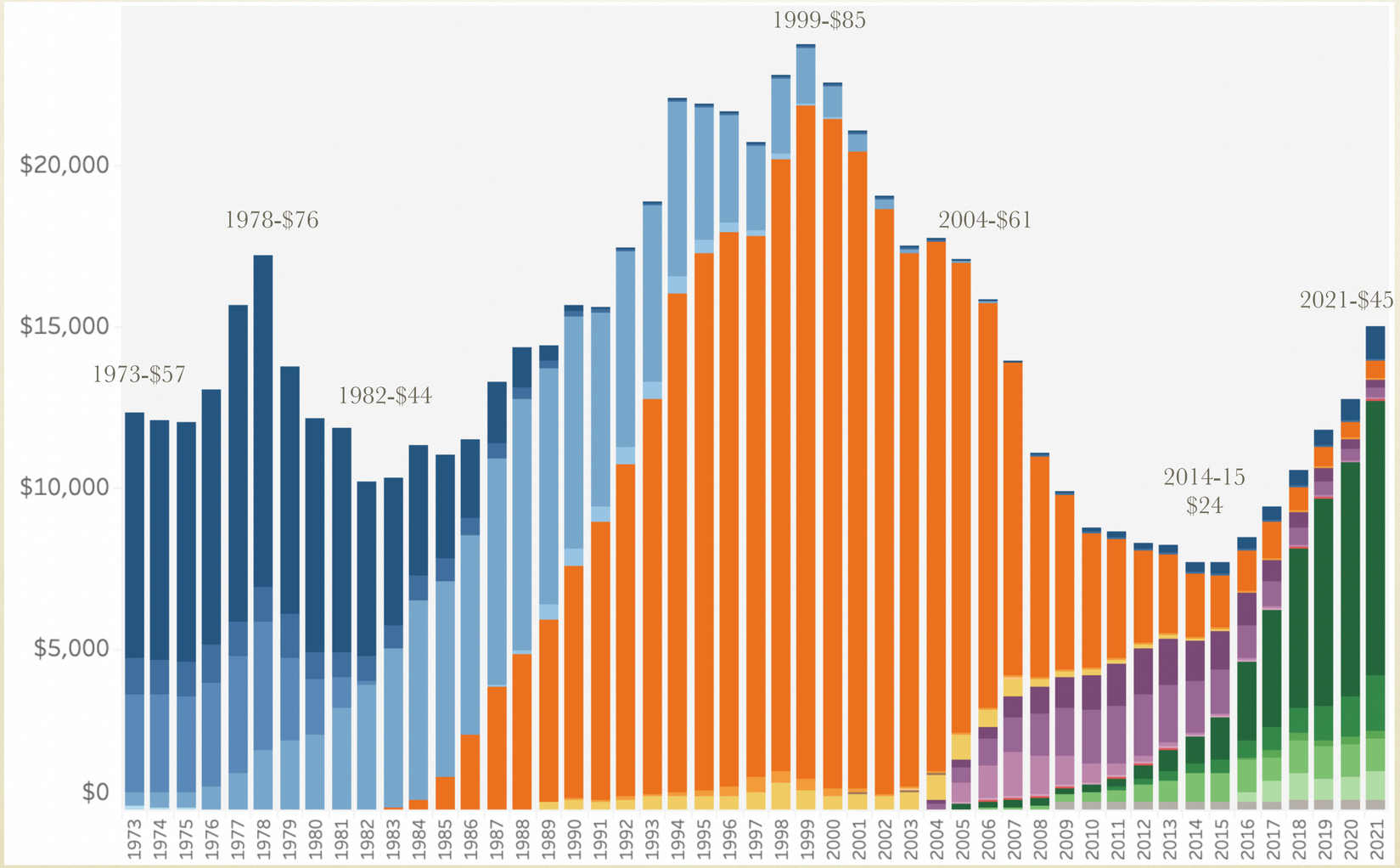
Adjusted for inflation

DEATH OF THE RECORDED MUSIC INDUSTRY

Adjusted inflation and population growth



DEATH OF THE RECORDED MUSIC INDUSTRY



Adjusted for population growth and inflation

revenue per capita 2021 dollars

Death of the Recorded Music Industry

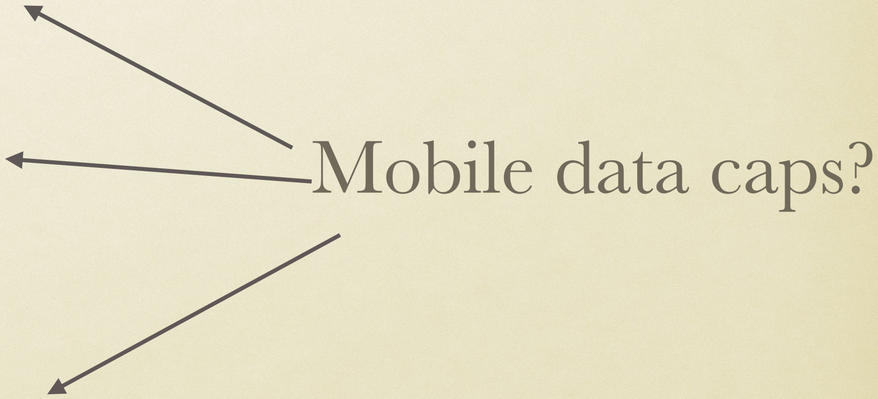
Per Capita
US Recorded Music Sales Adjusted for Inflation and Population

1973 $57
1979 $76
1982 $44
1999 $85
2004 $61
2014-2015 $24
2021 $45

2021 - 48% off CD peak
2021 - 41% off vinyl peak
2021 - 20% off pre cd average (73-86)

Death of the Recorded Music Industry

Year	Population	Gross revenue	Per Capita Inflation adjusted	
2022	334,805,269			
2021	332,915,073	15,000,000,000	45	
2020	331,002,651	12,700,000,000	38	
2019	329,064,917	11,800,000,000	36	
2018	327,096,265	10,500,000,000	32	
2017	325,084,756	9,400,000,000	29	
2016	323,015,995	8,500,000,000	26	
2015	320,878,310	7,700,000,000	24	
2014	318,673,411	7,800,000,000	24	
2013	316,400,538	8,200,000,000	26	
2012	314,043,885	8,300,000,000	26	
2011	311,584,047	8,600,000,000	28	
2010	309,011,475	8,700,000,000	28	



Death of the Recorded Music Industry

Hyperbole (recorded music not dead)

What killed the recorded music industry?

- ~~A. Bad Music~~
- B. Mp3s and digital piracy
- C. The single

Death Of The Recorded Music Industry

Crucial Dates: Technology and Services

Napster
June 1999 - July 2001

iTunes
Jan 9th 2001

iPod
late 2001

iTunes store
2003

YouTube
2005

Spotify USA
2011 (2006 Sweden)

*2001 Rhapsody first US Streaming service

Death of the Recorded Music Industry

Streaming services relative share of consumer streams

- YouTube + YouTube Music 53%
- Spotify 22%
- Apple Music 6%
- Amazon Unlimited + Music 2%

Death of the Recorded Music Industry

Streaming services relative share of revenue to rights holders

- Spotify 44%
- Apple Music 25%
- YouTube + YouTube Music + Red 9%
- Amazon Unlimited + Music 7%

*Rights holders: labels, distributors, artists, producers etc excludes songwriters and publishers

Death of the Recorded music industry

	DSP / STORE	PER STREAM	STREAMS PER SONG	STREAMS PER ALBUM	MKT SHR BY STREAMS	MKT SHR BY REVENUE	MKT SHR BY STREAMS	MKT SHR BY REVENUE
1	Spotify	$0.00348	175	1,752	22.09%	44.33%		
2	Apple Music	$0.00675	90	902	6.36%	24.79%		
3	YouTube Content ID	$0.00022	2,794	27,940	51.00%	6.42%		
4	Amazon Unlimited	$0.01123	54	542	0.83%	5.35%		
5	Deezer	$0.00562	108	1,084	0.80%	2.58%		
6	Google Play	$0.00554	110	1,099	0.79%	2.54%		
7	Pandora	$0.00203	299	2,993	1.91%	2.24%		
8	YouTube	$0.00154	395	3,947	1.90%	1.70%		
9	Amazon Music	$0.00426	143	1,431	0.65%	1.60%		
10	Facebook	$0.05705	11	107	0.05%	1.56%	86.38%	93.12%
11	YouTube Red	$0.01009	60	604	0.23%	1.37%		
12	Peloton	$0.03107	20	196	0.07%	1.28%		
13	Taihe Music Group	$0.00044	1,386	13,862	4.92%	1.25%		
14	Yandex LLC	$0.00109	559	5,585	0.93%	0.58%		
15	TIDAL	$0.00876	70	695	0.11%	0.58%		
16	Napster	$0.00916	66	665	0.07%	0.37%		
17	TDC Play	$0.00994	61	612	0.06%	0.37%		
18	LOEN	$0.00235	259	2,594	0.13%	0.18%		
19	UMA	$0.00022	2,779	27,794	1.17%	0.15%		
20	Play Network	$0.00032	1,916	19,157	0.67%	0.12%	8.37%	6.24%
21	Telecom Italia S.p.A	$0.01693	36	360	0.01%	0.09%		
22	KKBOX	$0.00408	149	1,492	0.04%	0.09%		
23	VEVO	$0.00083	737	7,374	0.13%	0.06%		
24	Slacker	$0.00713	85	854	0.01%	0.06%		
25	iHeartRadio	$0.01798	34	339	0.01%	0.05%		
26	Line	$0.00970	63	628	0.01%	0.05%		
27	iMusica	$0.02247	27	271	0.00%	0.05%		
28	Bugs Corporation	$0.00427	143	1,426	0.01%	0.03%		
29	Reliance Jio	$0.00176	346	3,463	0.02%	0.02%		
30	Gaana	$0.00133	457	4,575	0.02%	0.01%	0.26%	0.51%
	Total Aggregate / Average :	$0.00173	352	3,516				

Death of the Recorded Music Business

Label Response:

- Cut staff
- Cut artist advances
- Consolidation and mergers
- Shifted to digital
- Cut support for retail

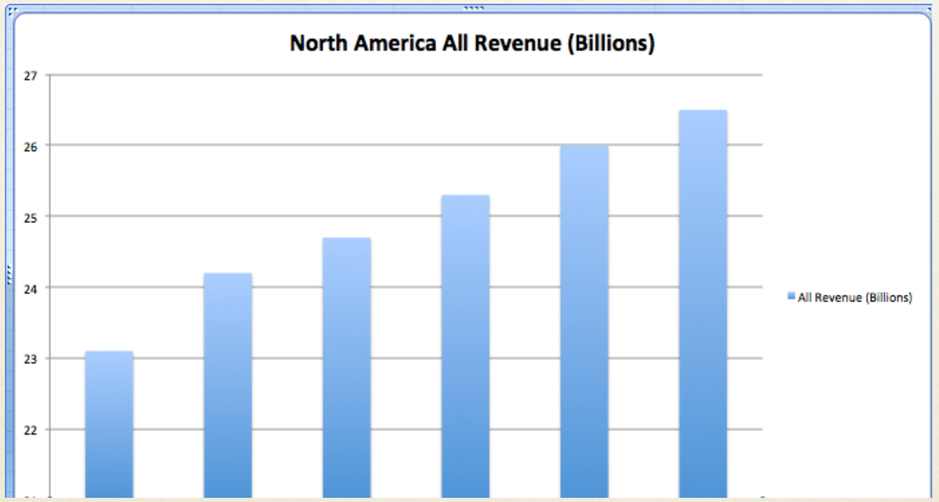
Death of Recorded Music Industry

Records stores have been romanticized

- Ship 12, stores pay for 10 sold
- Consignment
- Labels pay for shipping and returns
- Co-op advertising; labels pay for advertising
- Free goods for “end racking”
- Pay for in-store play

DEATH OF THE RECORDED MUSIC INDUSTRY

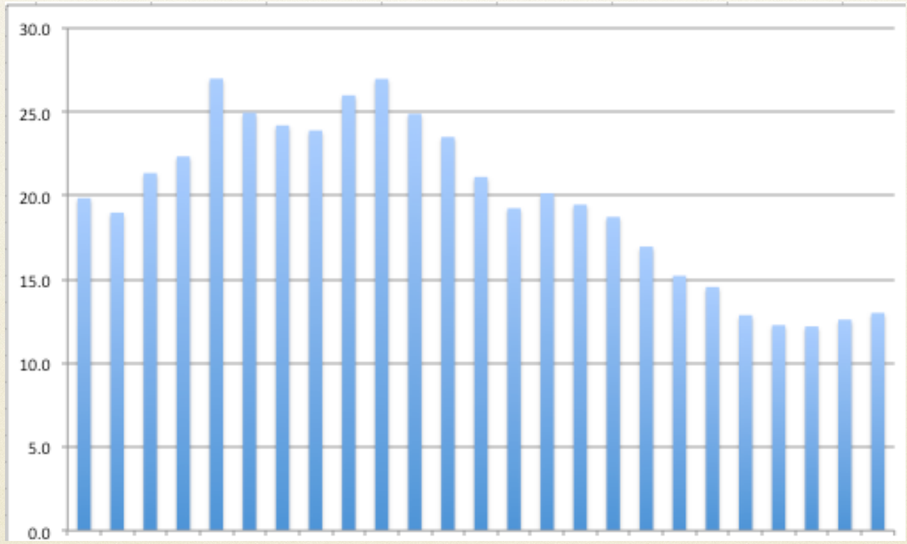
Artist response: Touring



Strongest growth 2006-2011

Death of the Recorded Music Industry

Live and recorded music combined US



1990-2014

Decline not as pronounced

Lecture 3
Performer income sources and Intellectual Property

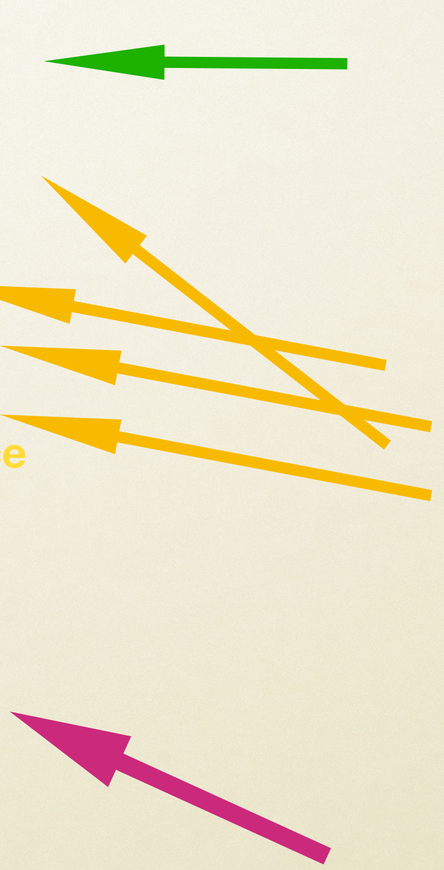
Performer Revenue Sources

Performers

Live
Performance Fees
Merchandise Sales*

Recorded music
Sales
Streaming
Licensing
Radio/TV Performance

Misc
Licensed Products*
Endorsements*
Branding*
Etc

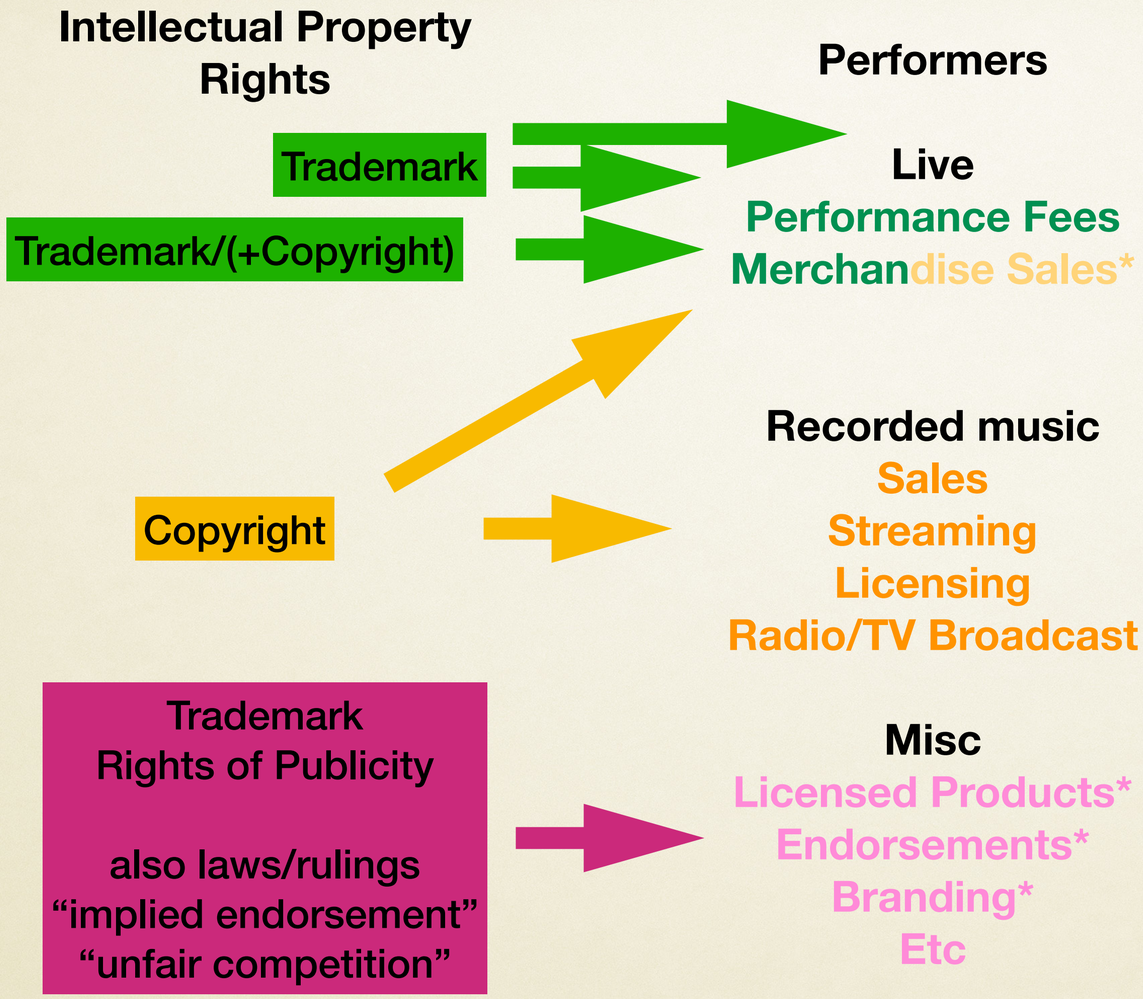


Fees for services

Sale/rental of products

?
Rental/Leasing
Sale of “Goodwill”?

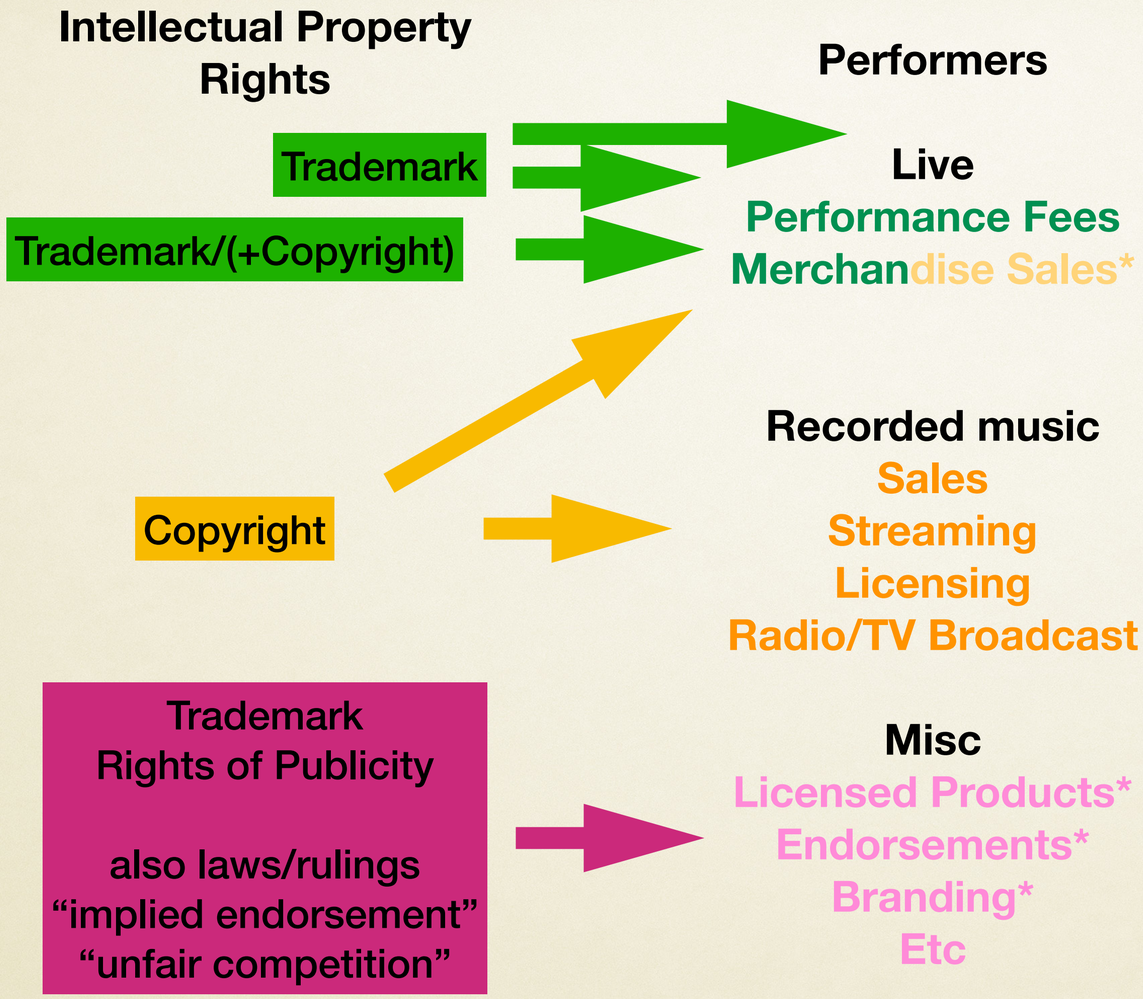
*Overrated, insignificant or rare events



Strong IP protection generally supports music industry revenues

Club Goods vs Private Goods vs Public Goods

*Overrated, insignificant or rare events



Strong IP protection generally supports music industry revenues

Club Goods vs Private Goods vs Public Goods

*Overrated, insignificant or rare events

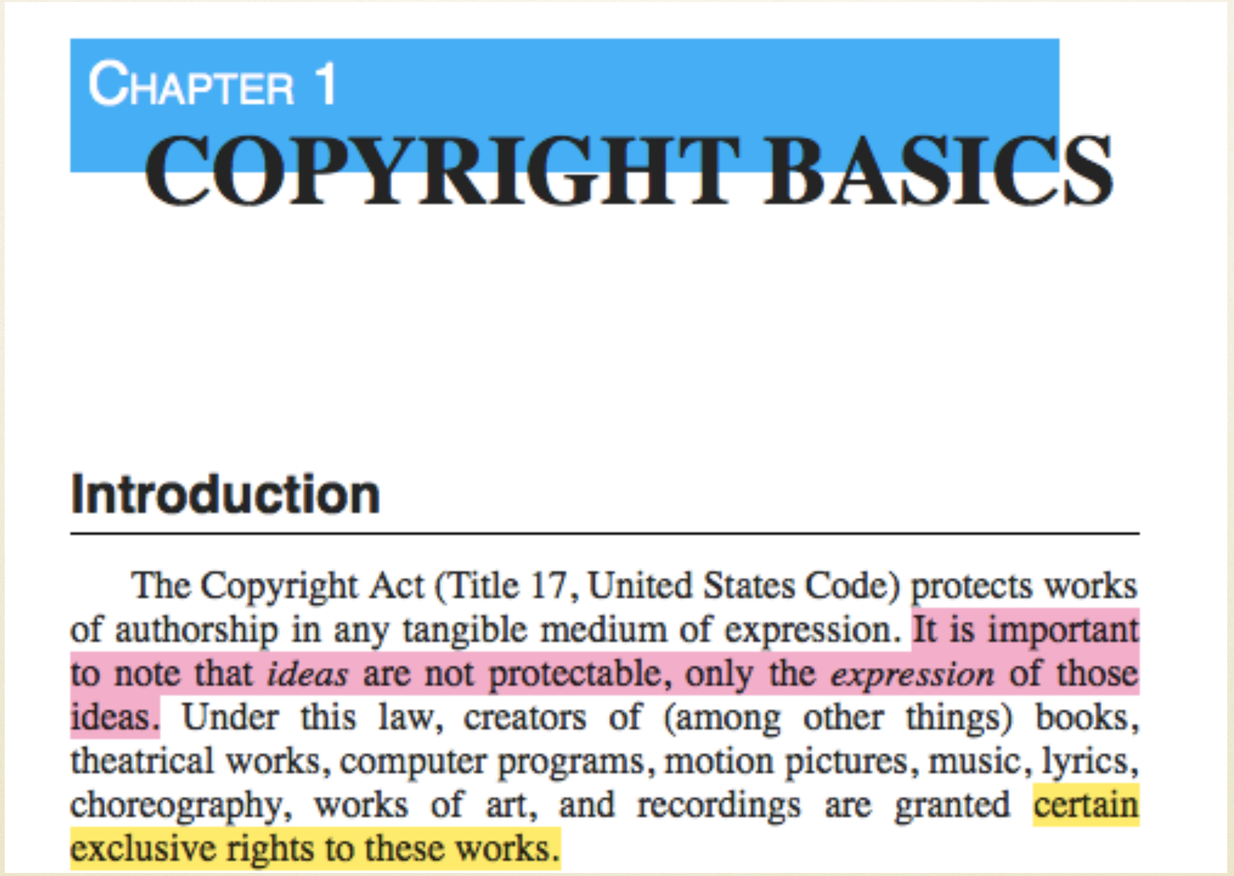
Copyright

- Individual right
- Supported by US Constitution
- US Law and regulations
- International treaties
- Trade treaties
- Human rights
- Common Law

The Congress shall have Power … To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

UNITED STATES CONSTITUTION, ARTICLE I, SECTION 8

Copyright



CHAPTER 1

COPYRIGHT BASICS

Introduction

The Copyright Act (Title 17, United States Code) protects works of authorship in any tangible medium of expression. It is important to note that *ideas* are not protectable, only the *expression* of those ideas. Under this law, creators of (among other things) books, theatrical works, computer programs, motion pictures, music, lyrics, choreography, works of art, and recordings are granted certain exclusive rights to these works.

Copyright: Unique expression + fixed in tangible medium

Copyright

"Fixed in a tangible medium"

- Sheet music
- Music script of your own design
- Recorded on magnetic tape
- Recorded into voice memo on phone
- Recorded to "cloud" server

Copyright

How many of you have a copyright?

How many of you have taken a picture with your phone?

You have a copyright

No registration or other formalities required

Trademarks

TRADEMARK, COPYRIGHT, OR PATENT

What is a trademark or service mark?

- A trademark is generally a word, phrase, symbol, or design, or a combination thereof, that identifies and distinguishes the source of the goods of one party from those of others.
- A service mark is the same as a trademark, except that it identifies and distinguishes the source of a service rather than goods. Throughout this booklet, the terms "trademark" and "mark" refer to both trademarks and service marks.

Do trademarks, copyrights, and patents protect the same things?

No. Trademarks, copyrights, and patents protect different types of intellectual property. A trademark typically protects brand names and logos used on goods and services. A copyright protects an original artistic or literary work. A patent protects an invention. For example, if you invent a new kind of vacuum cleaner, you would apply for a patent to protect the invention itself. You would apply to register a trademark to protect the brand name of the vacuum cleaner. And you might register a copyright for the TV commercial that you use to market the product.

For copyright information, go to copyright.gov[10]. For patent information, go to uspto.gov/patents[11].

To help evaluate your overall awareness of intellectual property knowledge and to provide access to additional educational materials based on the assessment results, please use the Intellectual Property Awareness Assessment tool[12].

Trademark

- Other performers can't use your name without permission
- Charlatans vs Charlatans UK
- David Matthews Band vs The Dave Matthews Cover Band
- Concert "after parties" often get permission
- Merchandise with band name or logo must be licensed
- Tribute band workarounds "Hayseed Dixie"

Lecture 4
Theory of Public Goods

Theory of Public Goods

One way of looking at Goods

Economic Good: a commodity or service that can be utilized to satisfy human wants and that has exchange value.

Traditionally economic goods were generally assumed to be physical or somehow "scarce" like a concert ticket, or dentist appointments.

In contrast "Free Goods"are those goods whose supply is practically unlimited and that require neither payment nor effort to acquire (like air). No exchange value

Theory of Public Goods

However things like street lighting, clean air, public safety, fire departments, national security etc didn't fit well into framework. Why?

- Like "free goods" these goods are free to use, more or less unlimited, not scarce etc
- Unlike "free goods" these goods have economic value, indirectly have exchange value
- Example: house in low crime neighborhood vs same house in high crime neighborhood
- Thus theory of public goods expanded framework of goods.
- The concept of "club goods" emerged from this framework
- Intellectual property is a type of "club good"

Theory of Public Goods

Four types of goods per Samuelson et al

	Excludable	**Non-exludable**
Rivalrous	Private Goods	Common Goods
Non Rivalrous	Club Goods	Public Goods

Theory of Public Goods

Excludability:

The ability to prevent others from using a commodity or service.

Example: a bicycle is an excludable good. The method of exclusion may take the form of a lock on the bicycle or it could be legal statute that discourages/punishes bicycle theft.

Theory of Public Goods

- Copyright is a form of excludability
- Gives authors exclusive rights to works
- A license must be obtained from owner of copyright or it may not be used
- Example: Movie studio must get “sync license” from copyright owner to use composition and/or sound recording in a film

Theory of Public Goods

Rivalrous/Non-rivalrous

- In economics, a good is said to be *rivalrous* or *rival* if its consumption by one consumer prevents simultaneous consumption by other consumers, or if consumption by one party reduces utility/ability to use to another.

Theory of Public Goods

A donut is rivalrous. If I eat the donut you can't eat the donut.
If I eat half the donut there is only half as much donut for you.

Theory of Public Goods

- A radio broadcast is non-rivalrous. If I'm listening to a radio broadcast in my car, you can also listen to the same radio broadcast in your car.
- A Netflix show is non-rivalrous. I can watch it. We all can watch it at the same time.* Viewing the show does not "use it up."
- * within reason. HBO recently crashed.

Theory of Public Goods

	Excludable	Non-exludable
Rivalrous	**Private Goods** Donuts Food Clothing Cars Houses	**CommonGoods** Grand Banks cod fishery Timber on public lands Public grazing land Oil on public lands Local swimming hole
Non Rivalrous	**Club Goods** Netflix shows Subscription cable TV Subscription Satellite radio Songs Recordings	**Public Goods** Free over the air radio/tv Street lighting Public safety Clean air National security

Theory of Public Goods

Problems with supply of goods

overuse
when unregulated

Mostly OK. Free market/ "invisible hand"	Excludable	Non-exludable
Rivalrous	**Private Goods** Donuts Food Clothing Cars Houses	**CommonGoods** Grand Banks cod fishery Timber on public lands Public grazing land Oil on public lands Local swimming hole
Non Rivalrous	**Club Goods** Netflix shows Subscription cable TV Subscription Satellite radio Songs Recordings ©	**Public Goods** Free over the air radio/tv Street lighting Public safety Clean air National security

without excludability
tend to under production
in market economies

tend to under production
in market economies

Lecture 5
Gnucash and Fundamental Accounting Equation

Fundamental Accounting Equation

effects on the affairs of the business entity.

Basic Elements of Financial Position: The Accounting Equation

The financial condition or position of a business enterprise is represented by the relationship of assets to liabilities and capital:

Assets. Properties used in business that are owned and have monetary value, for instance, cash, inventory, buildings, and equipment.

Liabilities. Amounts owed to creditors, including all payable accounts. Liabilities may also include certain deferred items.

Owner's Equity. The interest of the owners in an enterprise.

These three basic elements are connected by a fundamental relationship called the accounting equation. This equation expresses the equality of the assets on one side with the claims of the creditors and owners on the other side:

Assets = Liabilities + Owner's Equity

Fundamental Accounting Equation

	Assets	Liabilities	Owner's Equity
(a)	$24,000	$19,000	?
(b)	$16,500	?	$12,300
(c)	?	$2,700	$14,000
(d)	$15,665	$9,406	?

Fundamental Accounting Equation

Examples of Assets

Cash

Checking account

Balance in your Venmo account

The touring van

The guitars

The amplifiers

The sound system

Office furniture

Band laptop

Sound recordings copyrights*

Song publishing copyrights*

Goodwill*

*intellectual property

Fundamental Accounting Equation

Things that are not assets

something you rent

something you use up quickly

Example

The rehearsal space or rental van

guitar strings or gaffers tape

Fundamental Accounting Equation

Liabilities

Money you borrow from the bank
Money you borrow from your parents
Expenses you put on your credit card
Money you owe suppliers
Unpaid bills
Payroll earned by employees but not yet paid

Fundamental accounting Equation

Owners can contribute equity in many ways:

- Cash
- Equipment
- Real estate
- Vehicles
- Even intangibles like the name of a business or song publishing

Lecture 6
Classified Assets and Liabilities

Classified Assets and Liabilities

Assets

Current

Fixed

Other

Liabilities

Current

Long Term

Contingent

Equity

partners equity/capital

Profit/Retained Profit

Classified Assets and Liabilities

Assets include the following:

Current Assets. Assets reasonably expected to be converted into cash or used in the current operation of the business (generally taken as one year). Examples are cash, notes receivable, accounts receivable, inventory, and prepaid expenses.

Cash
Checking
PayPal Account

Inventory
T-shirts
CDs

Classified Assets and Liabilities

Fixed Assets or Plant Assets. Long-lived assets used in the production of goods or services. These assets are used in the operation of the business rather than being held for sale, as are inventory items.

music equipment
the van
recording equipment
real estate (if you're doing really well!)

Fixed asset for one business may be current asset
for a different kind of business.
Depends on what the business is doing with the asset.

Classified Assets and Liabilities

Other assets
(sometimes other long term assets)
essentially just a misc category

outside investment
intangible assets
“Goodwill”

Classified Assets and Liabilities

Intangible Assets

Trademark

Trademark/(+Copyright)

Copyright

Trademark
Rights of Publicity

also laws/rulings
“implied endorsement”
“unfair competition”

Classified Assets and Liabilities

fixed assets, or assets to which specific captions are given. For instance, the caption Investments would be used if significant sums were invested. Often companies show a caption for intangible assets such as patents or goodwill. In other cases, there may be a separate caption for deferred charges. If, however, the amounts are not large in relation to total assets, the various items may be grouped under one caption, Other Assets.

Liabilities may be current, long-term, or contingent.

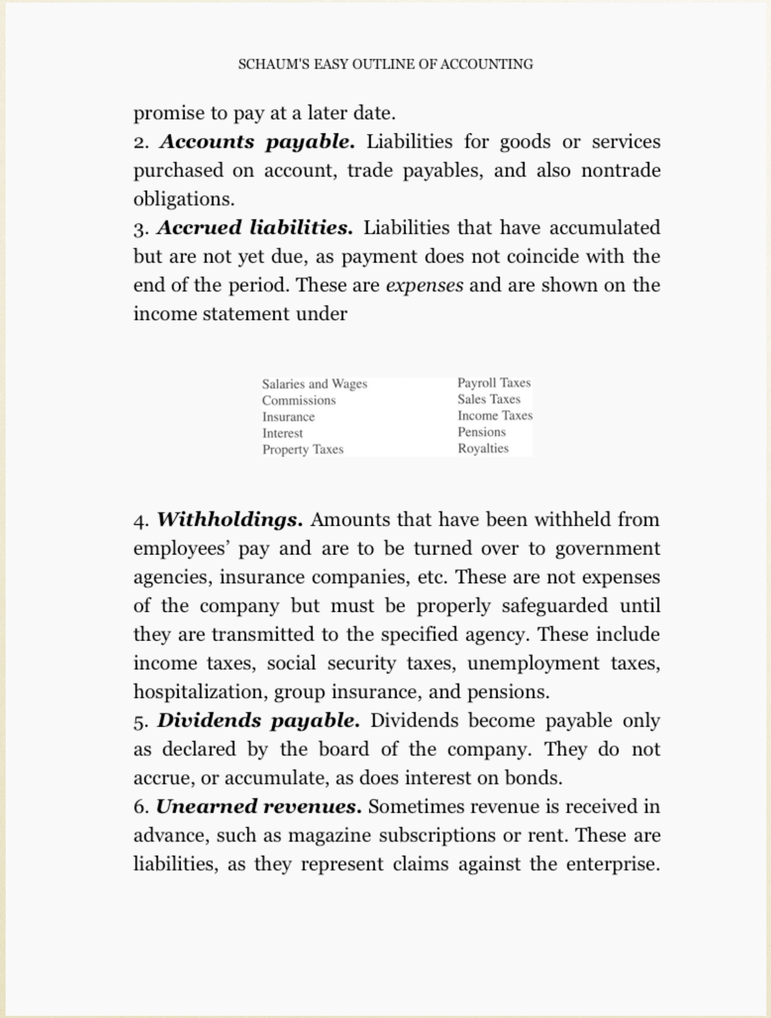
Current Liabilities. These are liabilities that are due for payment within the operating cycle or one year, whichever is longer. The settlement of a current liability usually requires the use of current assets. The ration of current assets to current liabilities, or current ratio, is a useful index of a company's debt-paying capacity.

Following are the seven principal types of current liabilities:

1. ***Notes payable.*** Liabilities evidenced by a written

short term debt
credit cards

Classified Assets and Liabilities



SCHAUM'S EASY OUTLINE OF ACCOUNTING

promise to pay at a later date.

2. ***Accounts payable.*** Liabilities for goods or services purchased on account, trade payables, and also nontrade obligations.

3. ***Accrued liabilities.*** Liabilities that have accumulated but are not yet due, as payment does not coincide with the end of the period. These are *expenses* and are shown on the income statement under

Salaries and Wages	Payroll Taxes
Commissions	Sales Taxes
Insurance	Income Taxes
Interest	Pensions
Property Taxes	Royalties

4. ***Withholdings.*** Amounts that have been withheld from employees' pay and are to be turned over to government agencies, insurance companies, etc. These are not expenses of the company but must be properly safeguarded until they are transmitted to the specified agency. These include income taxes, social security taxes, unemployment taxes, hospitalization, group insurance, and pensions.

5. ***Dividends payable.*** Dividends become payable only as declared by the board of the company. They do not accrue, or accumulate, as does interest on bonds.

6. ***Unearned revenues.*** Sometimes revenue is received in advance, such as magazine subscriptions or rent. These are liabilities, as they represent claims against the enterprise.

Accounts payable

Posters

T-shirts

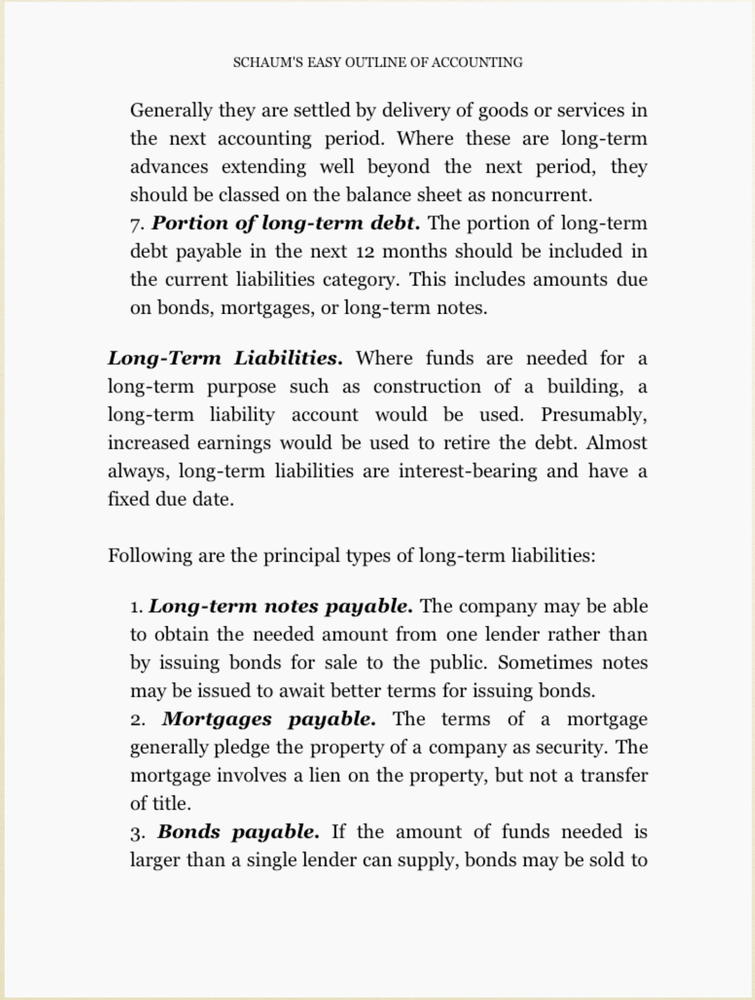
Office supplies

Other merchant accounts

Accrued salaries

Utilities

Classified Assets and Liabilities



SCHAUM'S EASY OUTLINE OF ACCOUNTING

Generally they are settled by delivery of goods or services in the next accounting period. Where these are long-term advances extending well beyond the next period, they should be classed on the balance sheet as noncurrent.

7. ***Portion of long-term debt.*** The portion of long-term debt payable in the next 12 months should be included in the current liabilities category. This includes amounts due on bonds, mortgages, or long-term notes.

Long-Term Liabilities. Where funds are needed for a long-term purpose such as construction of a building, a long-term liability account would be used. Presumably, increased earnings would be used to retire the debt. Almost always, long-term liabilities are interest-bearing and have a fixed due date.

Following are the principal types of long-term liabilities:

1. ***Long-term notes payable.*** The company may be able to obtain the needed amount from one lender rather than by issuing bonds for sale to the public. Sometimes notes may be issued to await better terms for issuing bonds.
2. ***Mortgages payable.*** The terms of a mortgage generally pledge the property of a company as security. The mortgage involves a lien on the property, but not a transfer of title.
3. ***Bonds payable.*** If the amount of funds needed is larger than a single lender can supply, bonds may be sold to

In order to look at health of business you might want to distinguish between what's due this year and what's due over a longer period.

Long term loans: more than a year
Example 5 year car loan

Classified Assets and Liabilities

the investing public, splitting the loan into thousands of units. A bond is a written promise to pay the face amount, generally $1,000, at a future date and to make interest payments semiannually at a stipulated rate of interest. Interest payments on bonds are deductible as expense for income tax purposes, but dividends paid on preferred or common stock are not. This is an important consideration in deciding whether to use stocks or bonds for long-term financing.

Contingent Liabilities. These are potential liabilities arising from past events. For example, when a note receivable is endorsed and transferred to another person, no liability is created. However, there is a possibility that a liability could exist in the future, because the maker of the note may not honor it. If that were to happen, the business that endorsed the note would be required to make payment. Some other examples of contingent liabilities are additional tax assessments, product guarantees, pending lawsuits, and litigation.

You Need to Know

A bonus contingent on something happening.

Example: artists receives additional $50,000 for top 10 chart position

Contingent liabilities difficult to carry on books

Lecture 7
Disruptive Technology

Key concepts Lecture 7

- Sustaining innovations: Things that make product superior to competition
- Only pursuing sustaining innovations risk: making products too complex, too difficult to use. Why? (see next).
- Technology companies can innovate faster than consumers lives, knowledge, and needs change.
- Sustaining innovations only strategy leaves company open to disruptive innovation.
- Disruptive innovations cheaper, inferior products, do less.
- Consumer may not care.
- May match consumer's skill set, needs, and lives better. Cheaper also.

Key Concepts - Disruptive Innovation

Disruptive innovation, a term of art coined by Clayton Christensen, describes a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves ‘up market’, eventually displacing established competitors.

Professor Christensen's 2-minute explanation of Disruptive Innovation

http://www.claytonchristensen.com/disruptive_innovation.html

The Innovators Dilemma

Because companies tend to innovate faster than their customers' lives change, most organizations eventually end up producing products or services that are too good, too expensive, and too inconvenient for many customers. By only pursuing "sustaining innovations" that perpetuate what has historically helped them succeed, companies unwittingly open the door to "disruptive innovations".

Disruptive Innovation

An innovation that is disruptive allows a whole new population of consumers access to a product or service that was historically only accessible to consumers with a lot of money or a lot of skill. Characteristics of disruptive businesses, at least in their initial stages, can include: lower gross margins, smaller target markets, and simpler products and services that may not appear as attractive as existing solutions when compared against traditional performance metrics.

2006

state of the art

$1,500

inferior

$99

Voce Hammond B3 simulator

Teac 2340 series 4 track >>>>>>>>>>>>>>>>Professional 2 inch 24 track recorders

Music business technology

What was disrupted?

Player Piano
Phonograph
Radio
Jukebox
Cassette Tapes/8 Track Tapes
(CDs ?)
MP3s
Filesharing
Streaming

Did markets expand?
Did more or less revenues result?
In what ways were these not inferior?
Convenience?

Player Piano
Phonograph
Radio
Jukebox
Cassette Tapes/8 Track Tapes
CDs
MP3s
Filesharing
Streaming

According to your instructor CDs were not a disruptive innovation. Why? Select all that apply

Answer

CDs adjusted for inflation were much cheaper than cassettes

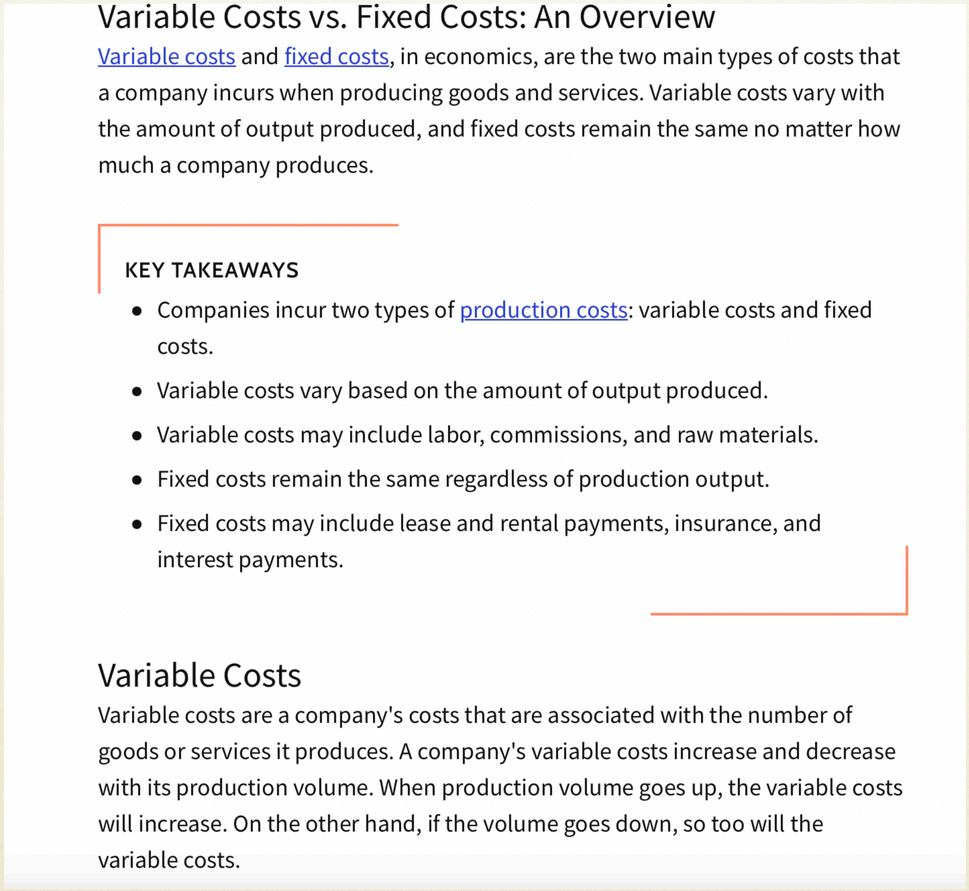
CDs, when introduced, were much more expensive than cassettes and vinyl albums

CDs provided poor quality audio when compared to vinyl albums and cassettes

CDs provide superior audio quality

Lecture 8
Fixed Costs/Variable Costs/Marginal Costs of Production
Zero Marginal Costs of Production

Fixed Costs and Variable Costs



Variable Costs vs. Fixed Costs: An Overview

Variable costs and fixed costs, in economics, are the two main types of costs that a company incurs when producing goods and services. Variable costs vary with the amount of output produced, and fixed costs remain the same no matter how much a company produces.

KEY TAKEAWAYS

- Companies incur two types of production costs: variable costs and fixed costs.
- Variable costs vary based on the amount of output produced.
- Variable costs may include labor, commissions, and raw materials.
- Fixed costs remain the same regardless of production output.
- Fixed costs may include lease and rental payments, insurance, and interest payments.

Variable Costs

Variable costs are a company's costs that are associated with the number of goods or services it produces. A company's variable costs increase and decrease with its production volume. When production volume goes up, the variable costs will increase. On the other hand, if the volume goes down, so too will the variable costs.

Fixed costs remain the same regardless of the production output

Variable Costs

Variable costs are a company's costs that are associated with the number of goods or services it produces. A company's variable costs increase and decrease with its production volume. When production volume goes up, the variable costs will increase. On the other hand, if the volume goes down, so too will the variable costs.

Variable costs are generally different between industries. Therefore, it's not useful to compare the variable costs of a car manufacturer and an appliance manufacturer, for example, because their product output isn't comparable. So it's better to compare the variable costs between two businesses that operate in the same industry, such as two car manufacturers.

You may calculate variable costs by multiplying the quantity of output by the variable cost per unit of output. This calculation is simple and does not take into account any other costs such as labor or raw materials.

Suppose company ABC produces ceramic mugs for a cost of $2 a mug. If the company produces 500 units, its variable cost will be $1,000. However, if the company does not produce any units, it will not have any variable costs for producing the mugs. Similarly, if the company produces 1000 units, the cost will rise to $2,000.

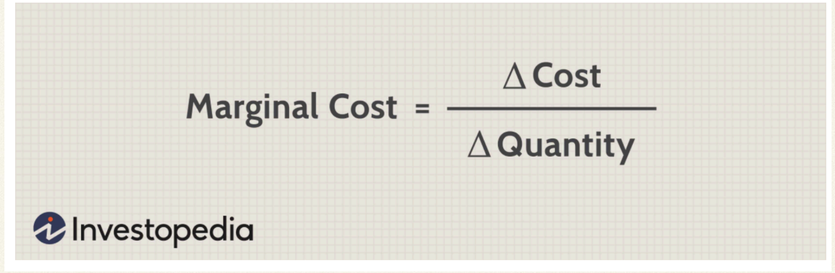
Examples of variable costs may include labor, commissions, packaging, and raw

Example: Kindercore Vinyl Manufacturing

<u>Fixed costs</u>
rent
equipment lease
insurance
salaried employees
etc

<u>Variable costs</u>
hourly employees
overtime
electricity
raw vinyl
etc

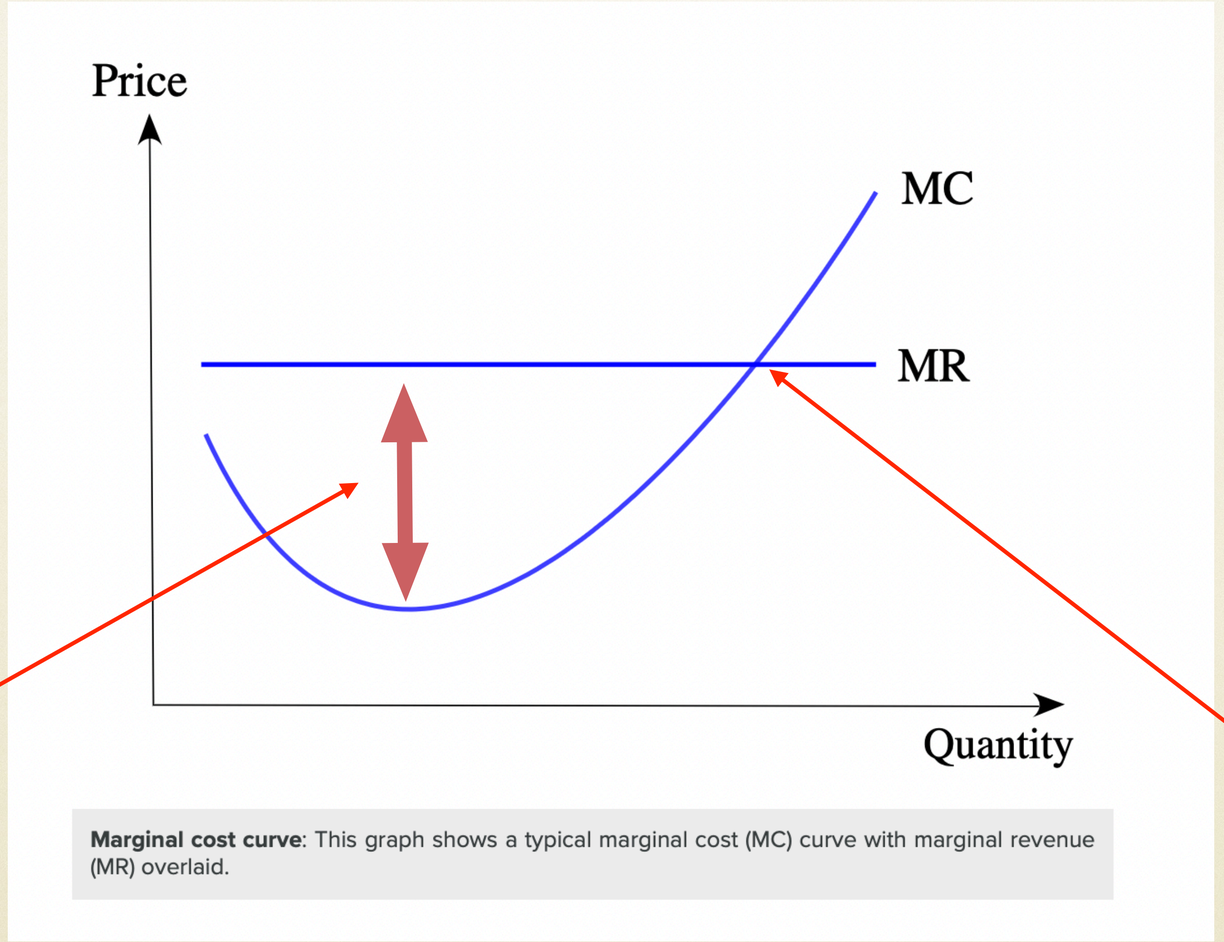
Concept: Marginal cost of production



Marginal Cost = Change in Cost/Change in Quantity
Sometimes: Cost of one additional unit
could be simply an amount: $1.50 each additional unit
Or complex formula:
1.50 for first 1000 units
1.25 for 2000-5000 units
1.00 all units over 5000

Marginal cost doesn't always go down with more units.
Consider the situation where the Kindercore must buy additional vinyl presses to manufacture higher quantities

Marginal Revenue= revenue from one additional unit



Marginal cost curve: This graph shows a typical marginal cost (MC) curve with marginal revenue (MR) overlaid.

Maximum profit margin

Maximized revenue

Why is marginal cost of production important?

Importance of the Marginal Cost of Production

After determining the relationship between the marginal cost of production and marginal revenue, it is easier for a company to plan production levels and put in place per unit pricing strategies. Knowing marginal cost enables the organization to determine and come up with an optimal revenue margin for sustaining sales and increasing profits.

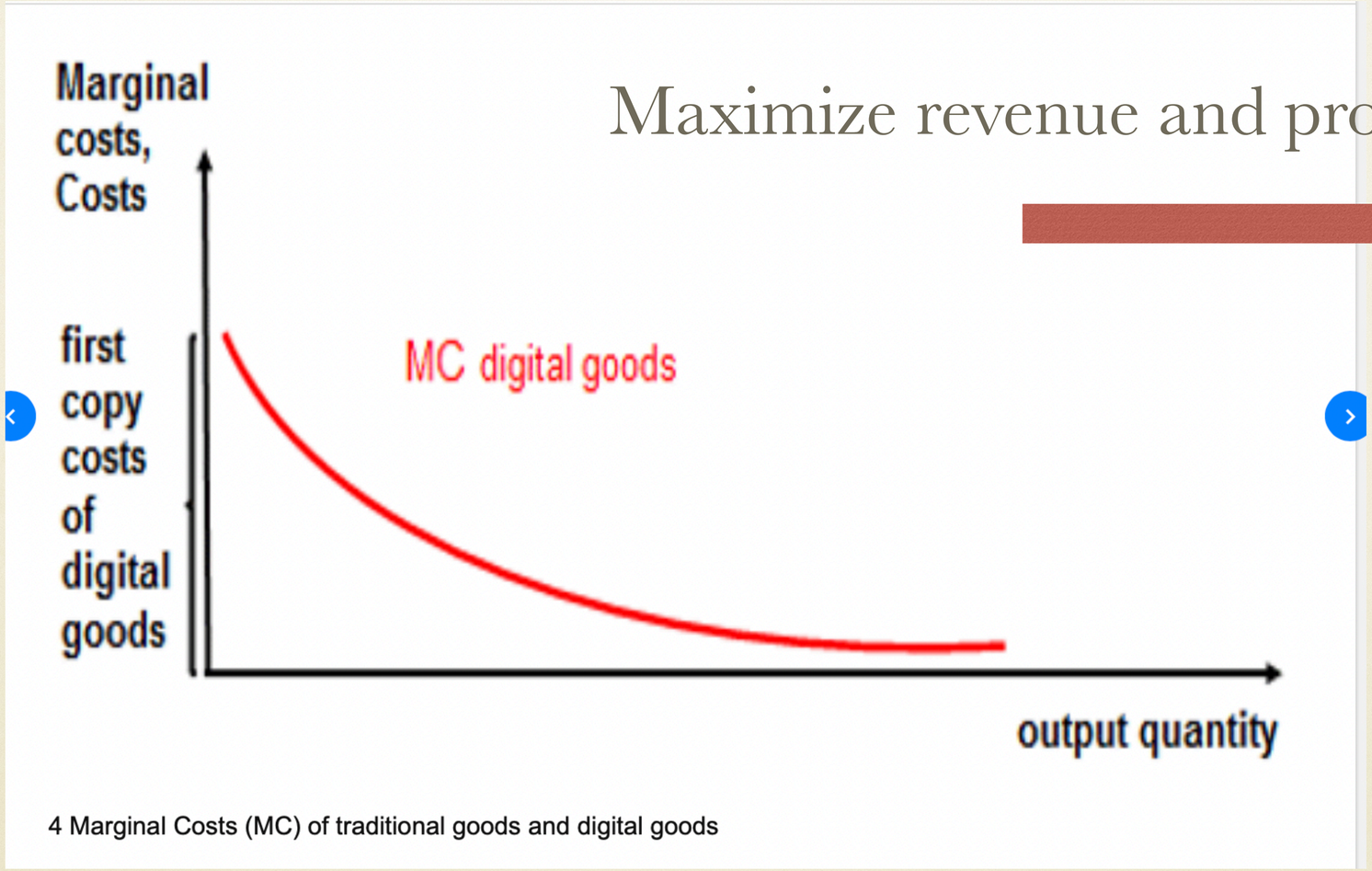
The marginal cost of production is used to measure the change in the cost of a product resulting from the production of an extra unit of output. When the company reaches the optimum production level, producing additional units will increase the cost of production per unit. For example, overproduction beyond a specific level may require overtime pay for workers and increased machinery maintenance costs.

If the marginal cost per unit is high, then increasing production capacity will be expensive. On the other hand, a low marginal cost of production may mean that a company is able to achieve economies of scale by working with lower fixed costs in some production lines.

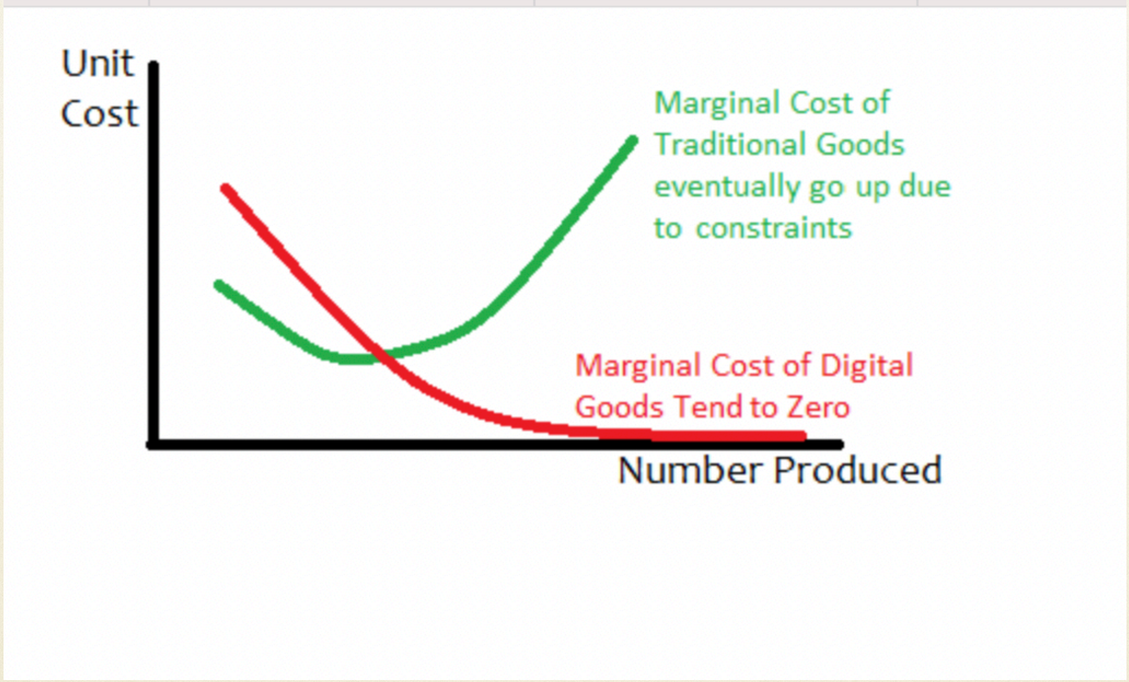
tldr: “helps companies maximize profit”

https://corporatefinanceinstitute.com/resources/knowledge/accounting/marginal-cost-of-production/

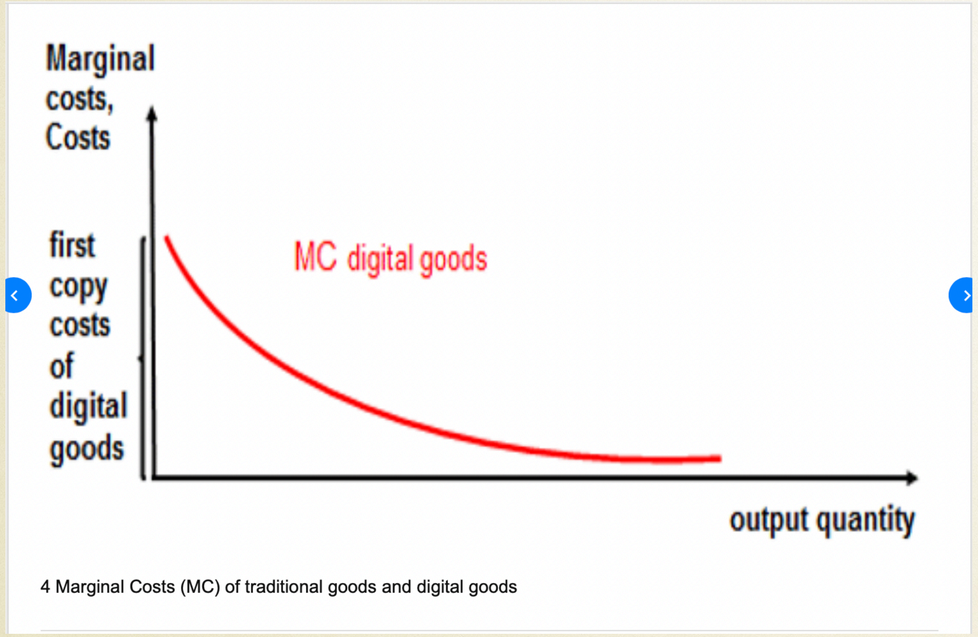
Maximize revenue and profit



4 Marginal Costs (MC) of traditional goods and digital goods


Unit
Cost
Marginal Cost of
Traditional Goods
eventually go up due
to constraints
Marginal Cost of Digital
Goods Tend to Zero
Number Produced

The conventional wisdom in much of the digital entertainment business
"marginal production costs tend to zero"



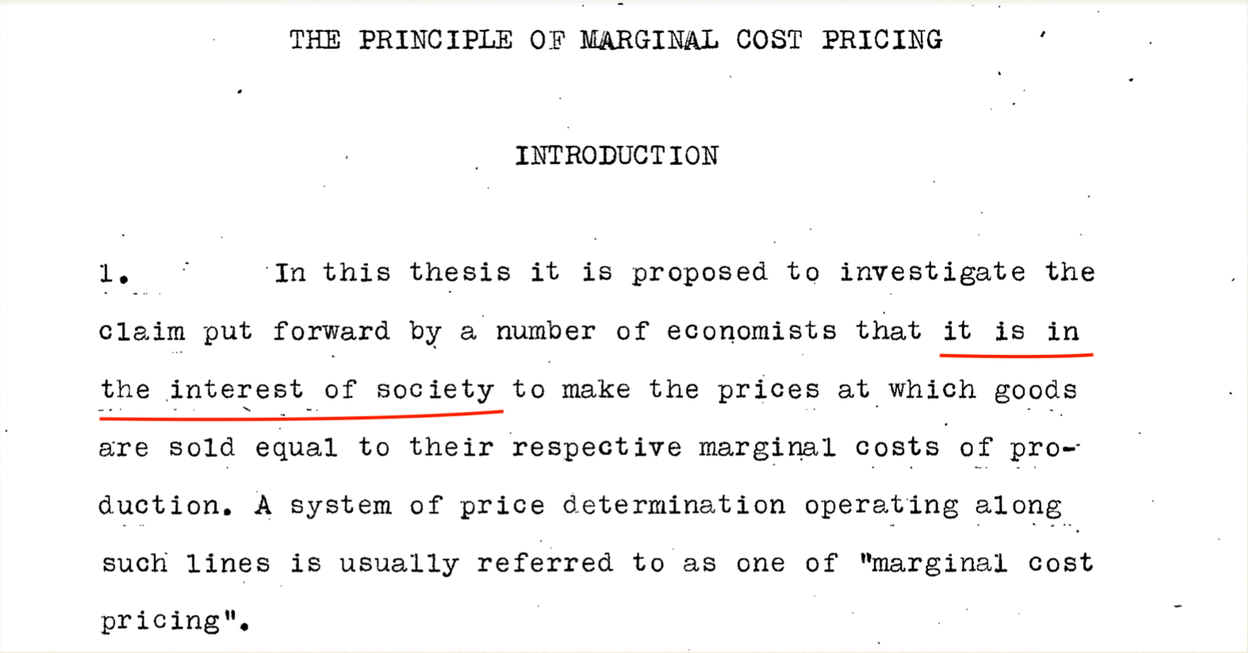
4 Marginal Costs (MC) of traditional goods and digital goods

Add this concept:

"it is in the interest of society to make the prices at which goods are sold equal to their respective marginal costs."

This leads to a number of digital strategies in entertainment business.
We will group them all together under a school of thought "Zero marginal cost economics theory"

Separately a more controversial idea emerged



THE PRINCIPLE OF MARGINAL COST PRICING

INTRODUCTION

1. In this thesis it is proposed to investigate the claim put forward by a number of economists that it is in the interest of society to make the prices at which goods are sold equal to their respective marginal costs of production. A system of price determination operating along such lines is usually referred to as one of "marginal cost pricing".

"it is in the interest of society to make the prices at which goods are sold equal to their respective marginal costs."

(Source: master thesis by Parzifal Copes 1950)

Notice a moral component has been added.

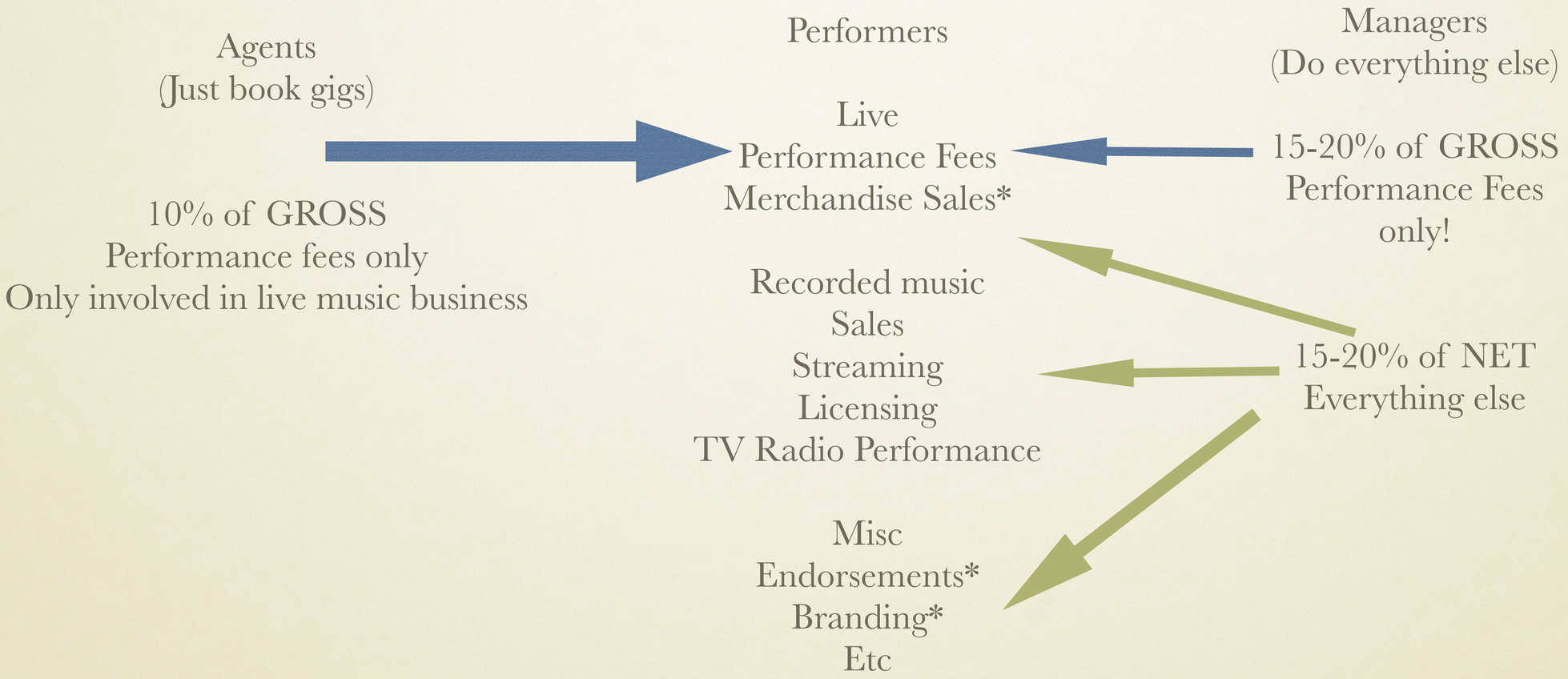
Zero marginal cost pricing theories have the following assumptions and lead to these strategies for digital goods

- The price of digital goods will tend to zero
- As a result there are only a handful of ways to (indirectly) monetize digital goods
- Give away free, advertising supported
- Give away free, as part of an ecosystem that makes money from something else (Apple, iPhone etc)
- Freemium: Give some away free, charge for premium & exclusives
- Bundling: Low monthly subscription price for bundle of movies, books, music, etc

See here: https://praxtime.com/2013/01/06/digital-economics-the-zero-marginal-cost-economy/

Lecture 9
More Gnucash
Management and Agent Commissions

Management & Agent



*Overrated, insignificant or rare events

Management & Agent

How much do managers/management companies make?

15-20% of gross live revenues
15-20% of net profit on most other things.

Example:
Band receives 1000 dollars to play a show.
management commission at 15%
$150
Even if bands expenses were $1100 for the show!

Gross!

Management & Agent

Band receives $70,000 recording advance.
They spend $48,000 recording.
The band nets $22,000 on the deal.

Management commission at 15%
means management gets 15% of $22,000
or $3300.

Manager & Agent

Agents 10% of gross live revenue only

Example concert

Artist receives $10,000 performance fee
Artist makes $2600 on merchandises sales
Artist show expenses $6,300

Agent commission on performance fee: $1,000
Agent commission on merchandise sales: $0