SoundCloud a Case Study

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Introduction: A two-day party

At a talk in May 2010 at The Stockholm School of Entrepreneurship¹ a towering and over-caffeinated Eric Wahlforss, co-founder and CTO of SoundCloud, recounts the bootstrapping beginnings of SoundCloud in Stockholm in 2007. Eric, a musician and recent graduate from KTH (Royal Institute of Technology, Stockholm) partnered with his friend Alexander Ljung, a sound designer and current CEO of SoundCloud. The two of them, with an obvious interest in music wanted to build something that involved music and the web. Something was in the air in Stockholm at that time. Just a year ahead of Eric and Alex in the same town was another music-based startup formed by Daniel Ek and Martin Lorentzon called Spotify. Spotify had an ambitious and daunting goal; to overturn the dominating iTunes paradigm and replace it with a hybrid subscription model.

Eric and Alex had to find a different point of entry. They set their sights on independent musicians and DJs, a segment that had yet to enter the big music online distribution dialogue. A community-based sharing model made a lot of sense. They quickly set out by forming SoundCloud, in concept, as a format extension of Flickr, the popular photo sharing site, for music and sound. SoundCloud would essentially be a one to one port of the Flickr model including their embrace of the Creative Commons licensing framework. SoundCloud was envisioned as a means for musicians and DJs to share their own tracks with each other with various levels of use management; some tracks could be downloaded for free while others would be listen-only. This was meant as a publishing platform for content producers who didn't have one or who wanted direct control over how their content was distributed.

Eric and Alex had little money, just enough for a rickety and poorly furnished office space in downtown Stockholm. Struggling to find solid investors they came up with an idea about how they could boost their presence and raise support for their fledgling startup. One of the few perks of their office space was a great rooftop. They decided to fly a few of the more interesting artists they knew to Sweden and throw a party on top of their office. The party
went on for two days; unsuccessfully dispersed by the Stockholm police twice. Afterwards, their office was destroyed and left smelling like a two-day party. After Eric and Alex had a chance to air things out they began receiving a stream of resumes from prospective employees that had either been at the party or heard how great their company was. Now they could hand pick their team.

Launch, a dying Myspace, and serious funding

SoundCloud received initial seed money from Christophe Maire and Peter Schüpbach of Ableton AG, music production software and a few other investors. This was enough help to get things underway.

After being lured to Berlin by a thriving music scene, SoundCloud set up shop and launched their product in October 2008. They gained roughly 100,000 users over the next 9 months. By April of 2008 MySpace had been overtaken by Facebook in Internet traffic and had been losing users steadily along the way. MySpace largely retained its focus as a place for musicians to distribute and promote their own music, but was beginning to see yet another challenger to its territory across the pond. Myspace’s centralized or portal model for user-generated content (music) was starting to become outdated. SoundCloud was positioned to take advantage of this through its unique technical approach and promotional tools, like embeddable players that were more attractive to independent musicians. Together these factors made SoundCloud look more and more promising to investors.

In April 2009 SoundCloud received €2.5 million Series A funding from Doughty Hanson Technology Ventures, a leading European venture capital firm. A year later in 2010 SoundCloud broke the million-user barrier. In early 2011 a new round of investment came; $10 million Series B funding from Union Square Ventures and Index Ventures. SoundCloud now had the capital to expand beyond its Indie roots.

Widgets, distinctive URLs, and an API

SoundCloud’s distinctive features that set it apart included its well designed sound widget, a unique URL for each artist, imbedding and integration with other sites, and its API that SoundCloud had been developing from the very beginning.

SoundCloud’s audio widget stood out from other players by offering a graphical representation of audio tracks as a waveform. Users were given the ability to place a comment along the track’s timeline corresponding to key moments in the audio. While sequenced commenting had been implemented by sites like Nico Nico Douga a few years earlier, SoundCloud's interface tended to promote more thoughtful commentary and even engaged dialogue at times; a stark difference from Hiroyuki Nishimura's signature 2chan-style vitriol in YouTube form.
By providing a distinctive URL to each user, SoundCloud became immediately attractive to musicians and DJs wanting to easily promote themselves with a simple and readable static link. SoundCloud took this further by providing users with the ability to imbed their unique audio widget into any webpage as well as seamlessly interfacing with Twitter and Facebook. SoundCloud's ability to play nicely with others allowed it to extend its presence fully integrating across a user's media presence and extending their reach far beyond soundcloud.com.

SoundCloud's API allows it to be integrated directly with web applications and software; allowing direct uploading and downloading of audio.

**Freemium and Apps**

SoundCloud is a “freemium” service model. It offers basic functionality like posting comments, uploading, and downloading audio to anyone who registers a free account, though as with most freemium models there are restrictions and limits imposed on the free or basic level. SoundCloud offers a tiered premium pricing model for different levels of usage.
In November 2009 SoundCloud lowered their prices and introduced an additional tier called “Lite”. This, combined with the release of their mobile apps helped them hit the million user mark 6 months later, though to this day no one actually knows how many paying users SoundCloud has.

SoundCloud does not take a percentage of user’s track sales, in fact it doesn’t even facilitate the sales of music or audio tracks directly. Instead they allow sales through external sites or services like TuneCore that acts as a distributor; for a fee TuneCore will make your music available on iTunes, Amazon, Spotify and other sites. SoundCloud also allows users to profit from their uploaded content via “tip jar” services like Flattr.

SoundCloud offers mobile apps for the iPhone, Android, and possibly Symbian in the near future. The apps debuted in 2009 and originally were $0.99 but with a major update in December 2010 the apps went free.

SoundCloud also promotes third party apps enabled by their API to allow users to create tracks with the app, such as Korg’s iMS-20 synth app, and post directly to SoundCloud.

**Growing Pains: Hello Copyrights, Goodbye DJs?**

DJs were well represented among SoundCloud’s early users and they are still a substantial if not dominant contingent. DJs enjoyed the hour+ long track length that SoundCloud offered which was great for mixed DJ sets.

Testimony to SoundCloud’s value to DJs:

"I know DJs who play sets now completely comprised of stuff they find on SoundCloud because it’s so underground," says DJ and Fool’s Gold label cofounder Nick Catchdubs.  

The problem with DJs, legally speaking, is that they often play/remix other peoples music. Though they typically alter the music to some degree, Brian Burton’s (DJ Danger Mouse) "Grey Album" proves how gray that territory can be.

It's unclear whether complaints from copyright holders came first or if SoundCloud’s actions were preemptive. It’s possible that SoundCloud began worrying that 1 million users would start to draw too much attention to continue their laissez-faire attitude toward questionable content, but by December 2010 complaints by DJs started to surface on Twitter about their mixes disappearing on SoundCloud. It was later confirmed that SoundCloud had employed copyright protection software by Audible Magic a provider of music copyright management services.

A number of DJs began to leave SoundCloud for services like Mixcrate and Mixcloud that offered similar services but with a lower profile.
A Change in Strategy

By June 2011 SoundCloud reported 5 million active users and announced additional investments from Ashton Kutcher and Guy Oseary's A-Grade Fund. SoundCloud has since shifted focus toward the US market and has begun expanding their service from music to include voice memos, and other forms of audio documentation. To accomplish this SoundCloud added a feature that lets users record directly to the site via a browser and the computer's microphone. This was implemented further with standalone desktop apps that record directly to a user's SoundCloud account and mobile apps that enable users to record audio directly to SoundCloud wherever they are.8

SoundCloud’s focus on the US independent music community can be seen through its recent partnership with Headliner.fm9 a service that recommends bands to the fans of similar bands as well as its partnership with live music and event service Songkick.

Competitive Landscape

Myspace still retains a niche hold for independent music promotion, however it is in steady decline and currently reports 33 million users (August 2011), down from 66 million the previous year.10

Sites relative to SoundCloud include BandCamp and TheSixtyOne.

Alexa: SoundCloud(365), Myspace(103), BandCamp(2,477), TheSixtyOne(61,841) (alexa.com October 2, 2011)

TheSixtyOne was first launched in 2008 after receiving funding from Creative Commons CEO Joi Ito and Reid Hoffman, founder of LinkedIn. TheSixtyOne uses sourced or “group filtering” as way to organize, promote, and sell uploaded content.

BandCamp is a more conventional model that sells downloadable music from independent musicians. BandCamp takes 15% of sales from user’s content.

Future Growth and Outlook

Potential growth could come from continued development of enhanced mobile features and continued partnerships with music and events promotion services.

A hardware accessories partnership in the form of higher quality microphones for mobile devices might be a possibility. This could improve mobile recording quality and usage.

A potential segment that SoundCloud could capitalize on might be education. The SoundCloud widget could prove to be a unique tool for reviewing and annotating university level lectures by multiple students in a class.
As SoundCloud ventures further into audio memos, recorded interviews, and conversations, as target content, a possible partnership enabling efficient and accurate voice recognition and transcription could be a possibility. Possible players might include Google and other leaders in speech to text.

Increasing legal risks could be on the horizon as a growing number of SoundCloud users begin recording and uploading protected content such as private conversations and live music performances which SoundCloud’s Audible Magic system would not be able to catch.

**Closing Remarks**

SoundCloud set out originally to provide a fast and easy way for musicians to share tracks with each other, but in doing so went further to offer an alternative music publishing platform and a socially engaging way to experience new music for musicians and fans alike.

With SoundCloud’s current momentum and expansion into classifiably non-musical audio, they stand to dominate the user-generated audio sphere in much the way that YouTube and Vimeo did with video.

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