



330 Townsend Street (Suite 204)
San Francisco, CA 94107-1662
info@kroogi.com

Twitter: @kroogi

Facebook: <http://facebook.com/kroogi>

Interview with Miro Sarbaev, Kroogi.com CEO

Hi, this is "Big EchoNet" and I'm your host, Sasha Belanovsky. Last week, I discussed different ways to make money on blogs, through donations. Today we'll talk about this concept more thoroughly.

WHO IS WHERE

Music industry profits declined significantly in the past few years. The main reason, according to experts, is the Internet. In most cases, those who listen to music don't pay for it. Music can be downloaded for free online, so it's not surprising that profits are falling. Last year in Germany alone 300 million tracks were downloaded illegally. And last year, 85% percent of music online was not actually purchased, but downloaded illegally instead. According to some estimates, these downloads have caused the industry to lose about 40% of profits. Musicologists are saying it's not just an economic but also a cultural catastrophe. Soon, the film and book industry could be in a similar state. But, out of this gloomy situation a new kind of relationship between the artist and listener is emerging. However, while this profitable for performers, record labels seem to be left out. **In the wake of this trend a service appeared online that allowed artists to earn money through donations from their fans. Its name? Kroogi.com. The idea is simple: the artist provides their work for free, and users can download it for however much money they want. This over-seas phenomenon is called crowd-funding.**

ABOUT THE NETWORK

Kroogi is like crowd-funding, but for musicians. Its "pay what you want" principle works well with unknown artists. (Just look at Maria Schneider, who won a Grammy after becoming popular on "ArtistShare.") But, rock giants such as Radiohead also embraced these concepts. At the international music industry conference "You Are In Control," it was revealed that Radiohead's "In Rainbows" album (distributed through a "pay what you want" system) was much more successful than their previous album. Estimates state that two days after the release it earned about 5 million pounds. "In Rainbows" was released online on October 10, 2007. Two months later, the tracks were taken offline, and a CD was released on January 1, 2008. However, it was reported that most listeners still chose to download the album for free; most Radiohead fans even downloaded it illegally through file-sharing networks.

Peter Nalitch was one of the first musicians to find a new way to reach fans by releasing his debut album for free on the Russian search-engine Yandex.

Those who wanted to pay for the album decided its value and contributed any amount they wanted to Nalitch, through Yandex. "Usually people try to sell their music, for as much as possible. We don't believe in that. It's better to give music away, if possible, and we tried to do that from the beginning," said the musician.

In the meantime, the legendary BG chose the same path when he released his "Aquarium International" albums. The album "Live at the Royal Albert Hall 2008" was released exclusively on Kroogi, a name that you may have heard before. According to Kroogi founder Miroslav Sarbaev, you can download the album absolutely free. Or, you may choose to give them financial support for their exclusive content.

That was "Big EhoNet." Sound transmission - Sergei Ignatov, author and singer - I am Sasha Belanovsky. For the text of this and previous broadcasts please visit belanovsky.livejournal.com. Until next time, goodbye.

A. Ivy: This is Alexander Ivy, and Viktor Zakharchenko, our Internet researcher. Good evening. Joining us also is Miroslav Sarbaev, founder of social network Kroogi.ru. Fans of Boris Borisovich Grebenshchikov are probably familiar with the site. Others might be less familiar with it. Miroslav, good evening.

M. Sarbaev: Hello.

A. Ivy: We are here today to discuss the legal distribution of music. At the beginning of the program "Punto" we had a theme - the illegal distribution of music, and, in fact, the music on your network. Now, let's talk about the legal side. It started with various Western artists, notably Radiohead, and now, it is here. But we assumed that no one would pay, especially if they didn't have to. They prefer to download illegally, without paying. Discuss.

M. Sarbaev: At first I thought only a few people would choose to pay. Meaning, I thought maybe one out of thirty or fifty would. But our users have disproven this.

A. Ivy: Give us some statistics.

M. Sarbaev: On average one in 5 or 6 people pay.

A. Ivy: They're Americans, I suppose. Do Russians pay?

M. Sarbaev: You know, the Russians pay more often than Americans. Around 1 in 10 Americans pay, and about 1 out of 4 Russians pay.

A. Ivy: I see. On average, how much do people pay?

M. Sarbaev: Americans are paying from five to ten dollars, and Russians are paying about a dollar.

A. Ivy: and you can pay less than a dollar, correct?

M. Sarbaev: You can pay nothing, or even one cent.

A. Ivy: I thought you had to pay two dollars, or in multiples of hundredths.

M. Sarbaev: If people pay via SMS, you can only pay in multiples through some network providers. It depends on the provider.

V. Zakharchenko: SMS - it's a tool mainly for our own, post-Soviet audience. Most Americans don't use it, correct?

M. Sarbaev: Yes.

V. Zakharchenko: I get the feeling that people who visit Kroogi.com may think the site is interesting, but I fear the more people that use the site, the more that will say, "Yeah, it's free, so why should I pay?"

M. Sarbaev: You know, I believe in humanity.

A. Ivy: You believe in humanity? Why?

M. Sarbaev: Yes, I believe in humanity. I think there's a lot of people who don't just want free stuff. In principle, if someone creates something good and lets you have it for free, the right thing to do is to thank them. We all say thank you for good deeds. And giving money is a way to say thank you through the Internet. So why wouldn't you want to do that?

V. Zakharchenko: I have another question. Sasha asked how much an average user pays. I'm wondering about the second part, that is, how much the musicians earn. I have doubts that it's not much more than a small addition to their regular income.

A. Ivy: In short - can musicians actually benefit from the service?

V. Zakharchenko: Yes, exactly. The amount of money they make is too small for them to consider it an alternative to traditional distribution.

A. Ivy: Well, we all know about Radiohead. They managed it.

V. Zakharchenko: But they were famous. They had a large audience, so millions of listeners came and bought the music, because they're Radiohead. How does a small, new band that wants to break free from the music industry earn money?

M. Sarbaev: I have a few answers. The first is - Ladies and gentlemen, listeners, everyone, please join Kroogi. The more people we have who are willing to participate in this project, the faster we'll get, and the better we'll get them, opportunities for musicians, and when they're just starting out they won't have to wait tables to survive. They can do what they want to do, and we want them to do that. The more people that participate, the more opportunities that are made for creative people. That's the first answer. Yes, you're right - while it's small, it's still a nice additional income for large musicians. But for beginners, this is a way for them to find new ways to share their work.

V. Zakharchenko: In one interview, I got the opinion - I don't know yours - that a service such as Kroogi may be of interest to record labels that will find good musicians on Kroogi, steal them away, and sell their work on CDs.

M. Sarbaev: Actually, we are already working with labels...

V. Zakharchenko: There is no hatred of them?

M. Sarbaev: I haven't noticed any.

V. Zakharchenko: What do they think of you, now that you're taking away their income?

M. Sarbaev: I don't know. Maybe somewhere, someone disapproves, but no one has directly approached me and said, "Don't do it." No, we went to the labels, we work with them, and they're very interested in statistics on unknown musicians. Labels, just like us, know that when an album is released, five minutes later it'll be on the Internet for free. And unlike others, we give people the chance to download it legally, and clear their conscience, so to say.

A. Ivy: Yes, thank you. Do musicians on Kroogi.com, and in general, if they have the opportunity - make their work available only for money?

M. Sarbaev: Usually they do, but our system is configured so that it's impossible to upload

content for free. We tried to persuade people not to do so, because it goes against to the original idea of the project.

V. Zakharchenko: But you had to persuade them?

M. Sarbaev: Actually, no. Persuade - perhaps that's the wrong word. We said, "Guys, let's not sell it, let's let people pay voluntarily." In fact, this happened recently - In San Francisco, an organization helps the poor by giving them printed materials, which they sell themselves. One of these people came up to me and said, "Sir, I'm very luck today, I have a newspaper." Until then I was in a bad mood, thinking about some problem of my own. I gave him two dollars for it. A regular newspaper would've cost a dollar.

A. Ivy: On the other hand, here's another question - are there musicians who don't want money for their work?

V. Zakharchenko: Yes, those that don't accept donations.

A. Ivy: Are any famous?

M. Sarbaev: Umka & Br, a famous hippie band from Moscow.

A. Ivy: They simply don't take the money?

M. Sarbaev: Yes.

A. Ivy: You mean, all the money goes to the musicians?

M. Sarbaev: All the money goes to musicians, except for internet transaction fees, which we don't take ourselves...

A. Ivy: Then what is your interest in the company?

M. Sarbaev: Firstly - to advance this idea, and secondly, of creating a project that will support itself. So, we try to make money through advertising. At some point, we will have paid accounts, which will include additional features for those who pay to use the site.

V. Zakharchenko: What are the user statistics of Kroogi.com - how many musicians, how many visitors, so we can understand what stage the project is at now.

M. Sarbaev: Right now we have about 600-700 musicians who have posted their music, and about 20,000 users.

V. Zakharchenko: And is the growth of musicians a stable figure?

M. Sarbaev: It is growing. I can't tell you the exact figures, but both the growth of users and musicians are steadily increasing.

A. Ivy: How can Kroogi prove they don't take any of the money? What control is there?

M. Sarbaev: Ask the recipients.

V. Zakharchenko: So there's a direct transaction from the user's wallet to the musician's?

M. Sarbaev: They know that when a person donates via SMS, the mobile network takes a 40-

60% commission.

A. Ivy: Gentlemen, we are entering the phone call portion of our program. The first caller is Sonya Sokolova, founder of Sound Key (<http://soundkey.ru>). She was, in fact, the chief editor of Zvukov.ru. Sonia, good evening.

S. Sokolova: Good evening, Sasha. Hello, Miroslav.

A. Ivy: Hello, hello. I've been watching Sound Key a long time, and it seems to me your "pay what you want" model of selling music is different than Kroogi's. How so?

S. Sokolova: I'll start with the similarities - my network and Miroslav's are pursuing the same goal, to give musicians control over how they share their music. Therefore, I can only welcome a model such as Miroslav's. Sound Key is a response to musicians that put free music on Sounds and expressed their desire to also sell it as well. I felt at the time that the people who download music for free and those that paid for it were two completely different audiences, so I separated them on two different websites. But by and large, they're one and the same - the musicians decide what and how they will sell their music, and they make the rules.

A. Ivy: So this means that Kroogi is your direct competitor.

S. Sokolova: I wouldn't say that. Firstly, they're more of a partner, because, I enjoy what they do and our audience and musicians overlap. On the other hand, I am convinced that these are two systems that can coexist perfectly well together. And, in many ways, complement each other. Because obviously, the time will come when musicians on Kroogi will wonder how they can make money on other websites.

A. Ivy: I'm a bit upset, because Miroslav is reminding of an enthusiastic fan of Aquarium - he said that all good people like him would pay for their music, and everyone should pay. He was from overseas. I said, "You're in Russia now. You shouldn't be so smug." Do you think this model is the future of the music industry?

S. Sokolova: Yes, I think it is. But what kind of future?

A. Ivy: And people will pay voluntarily?

S. Sokolova: I'll explain. There are two different types of musicians. On one hand, there's well known musicians, like Radiohead, and Aquarium, who are already successful and live on the money they collect through traditional ways of distribution. They use these new networks as an additional public relations promotion, to come across as progressive, intelligent, in touch with the times, and so on. On the other hand, there's this new group. Their behavior in these networks is a transition between giving how much they can and not at all to new performers.

A. Ivy: I honestly did not see much future in what you said, quite frankly.

S. Sokolova: I think that musicians need a better way, because they either naively declare the price of music that they want to sell, or come up with some spiritually-minded free-of-charge model. These are probably not the best choices for them. And, being a part of a new trend can be useful to them.

A. Ivy: Thank you very much, Sonya Sokolova. If it's all right with you, Sonya, I will cut our time short, as it's getting late. Thank you very much for contributing to our discussion. Gentleman, at this time, we're accepting calls from listeners who buy music online - why they do it, where they did it. But before we take any calls, I want to ask one more question, Miroslav. Will you have

more well-known musicians soon who we can download music from for free, or for a penny?

M. Sarbaev: There will be, and quite a lot of them. We have a lot of interest from well-known musicians we work with, who for superstitious reasons do not want their names mentioned...

A. Ivy: Give us a few, at least.

M. Sarbaev: Well, for example, my beloved group "Volga." It's Alexei Borisov's (from "Night Avenue") electronic project. Today he registered on Kroogi, and is about to distribute their content just like Aquarium did. On that note, Aquarium just released an album called "Welcome to the Club." And there will be many, many others. Very soon we'll have somewhere around 10 new projects in a variety of styles of music.

A. Ivy: Let's turn to our listeners. If you've paid for music online, tell us how you did it, why you did, and how much you paid. Hello?

Listener: Hello. This is Oleg, from Moscow. I've paid for music, of course, many times. And I think that's normal.

A. Ivy: I think most people would think, and I'm just trying to start a conversation when I say this, that you're a fool.

Listener: In a sense it's foolish. I even bought the latest Aquarium record on CD. But why do you think it's strange?

A. Ivy: I think it's unusual. How much did you pay for your last download? We want to know how much, where, and why.

Listener: The last record I downloaded was from "Cold Play." I downloaded it on the internet, but I didn't buy it, and I don't remember where I got it. I think it might have been illegal...

V. Zakharchenko: Oleg, if I may ask such a question, do you have music that you didn't purchase, but received from a friend?

Listener: Of course, I'm no saint. My iTunes music comes from a lot of different sources. But, by the way, I'm familiar with musicians' concerns, and their question is not whether or not they can earn money from downloads. They earn money from concerts, and they get practically nothing from selling CDs. Therefore Kroogi might be the only way for them to earn a reasonable income.

A. Ivy: I wouldn't say Kroogi, but its concept, because as we already know, there is more than one service that uses it. Thank you.

B. Zakharchenko: I have a question for Miroslav. You tell musicians, "Here's a tool you can use to get some extra money." But just like record labels, people can download Kroogi's music and offer it for free on the Internet. People will always have choices - on Kroogi Aquarium costs whatever you want, but on the torrents, it costs nothing. Won't you still be competing with pirated music?

M. Sarbaev: We already have a tool that looks for illegally content, and alerts the moderator if we find it.

V. Zakharchenko: Content on Kroogi?

M. Sarbaev: Yes.

V. Zakharchenko: What if a young, popular singer came to Kroogi, uploaded his content and received donations, but then suddenly got famous. If his label wanted to find users who downloaded his work for free and prosecute them, do you have a plan to deal with this?

M. Sarbaev: We have no such plans. This does not mean that we won't, but our task is to create the infrastructure to sustain the life of the Kroogi community. Perhaps in the online community there is a movement of people, the users themselves, who will deal with such things. But we just created the infrastructure.

V. Zakharchenko: Another issue. Yes, you have Aquarium, you talk about other popular artists. But they're from Russia. Kroogi, as I understand, is an international project. What is being done in other countries? Have you talked to Radiohead?

M. Sarbaev: We haven't talked with Radiohead. Yes, Kroogi is an international, multilingual project. We focus mainly on Russia now because most of our team works in Russia, and we know Russian musicians, but our next plan is to launch similar campaigns in Europe and America. That is the beginning of promoting ourselves.

V. Zakharchenko: In Russia, yes, Kroogi is one of the few who started this trend. In the West, you are still one of many. As I understand, you're not the first to do this.

M. Sarbaev: No, we're not the first. That's why we started with Russia, because our influence is stronger there.

B. Zakharchenko: It's a paradoxical situation - you're trying to build an outpost in Russia, where the idea is newer, and then bring the idea to the West.

M. Sarbaev: I don't think that's paradoxical. First, it means that the idea is developed enough so it works well, and secondly, yes, we are building a system that will work everywhere. But we need to start somewhere, and we decided to start with Russia.

A. Ivy: Will "Aquarium" be the next album you release?

M. Sarbaev: I think we would have to ask Aquarium that.

A. Ivy: Did you talk to them about it? Did they like their experience?

M. Sarbaev: I think they liked it.

A. Ivy: But there's been no press yet?

M. Sarbaev: The thing is, I can't speak for Aquarium as well as they can for themselves. So it's really better you ask them.

A. Ivy: Fair enough. Anyways - Listeners, please Call 36336 59 if you ever paid for music online, and tell us what you paid for it.

M. Sarbaev: By the way, a few days ago, "Aquarium" put one of their tracks on Kroogi for users to remix, and have started a movement in the network.

A. Ivy: This is a new idea, as I understand?

M. Sarbaev: Yes. A person can download the track "Blow" from their new album, and it can be

cut, hacked, altered, and added to. Many remixes are appearing already.

A. Ivy: Good evening. You're on the air.

Listener: Hello. I'm against paying for music on the Internet.

A. Ivy: What's your name?

Listener: Egor.

A. Ivy: Egor, have you ever paid to download music? Ever?

Listener: No, I have never paid. Because first of all, I pay for the Internet. I pay 600 rubles a month, and why should I pay more for music or anything else?

A. Ivy: I think that's a great approach, actually - "I'm paying for the internet" and everything. So, the rest should be free. Right? Everything on the Internet should be yours.

Listener: Well, yes, but music - it is still art ...

A. Ivy: And we should cancel the entrance fee to the Tretyakov Gallery. I always say - art should belong to the people. Right?

M. Sarbaev: What's interesting is that our model supports this view, because people don't have to pay for the music, unless they want to. And it's not like you're buying it, you're supporting the musician.

V. Zakharchenko: Egor, I apologize for this question - but have you ever thrown musicians who play on the street a coin, to show them your appreciation?

Listener: Yes, I have.

V. Zakharchenko: So you won't pay if you have to, but would you give money to a new group, or your favorite artist, if you had the option, online?

Listener: If it's a new artist, why would I want download their work? I don't know who they are. But for certain groups ...

V. Zakharchenko: It's the same situation - then why give money to a musician on the street? A new musician, when he starts, isn't making any money. He needs to start somewhere, and every ruble that you give him tells him that he's talented. Then why not do the same online?

Listener: Well ...

A. Ivy: Because he already pays for the Internet, so he doesn't think he has to! Do you understand?

Listener: Yes.

A. Ivy: That's right. He paid 600 rubles for the Internet - so this way of thinking does makes some sense.

V. Zakharchenko: This idea is being discussed... some local service providers in Moscow allow you to pay for the Internet, and also access more content for free.

A. Ivy: This broadcast, featuring Vitya Zakharchenko and Miroslav Sarbaev, is completely free.

V. Zakharchenko: But if people had the opportunity, I think someone would have tossed a coin.

M. Sarbaev: I just thought that all we needed was to supply the opportunity.

A. Ivy: Really, why? I don't think so.

M. Sarbaev: Art should be free.

A. Ivy: I still don't think so. Hello.

Listener: Hello. I'm Sergey, from St. Petersburg. I wanted to say something about paying for music. I'm a beginning DJ, and all my friends who DJ use the resource Recordings.Ru.

A. Ivy: And they paid, incidentally.

Listener: Yes, they paid. But only because there's no alternative for those of us in St. Petersburg. There's nothing else. It used to be pretty rare to find anything free on the Internet. You could only download things by paying for them. But now, if you don't have to, what's the point? It's people like me you don't like. I understand the absurdity of the situation, but it's impossible not to think, why pay for something if I can get it for free?

V. Zakharchenko: Are you planning to expand your donations model to MySpace, Facebook or other social networks?

M. Sarbaev: We already have.

B. Zakharchenko: You've already planned it, or you've already done it?

M. Sarbaev: We've planned it.

B. Zakharchenko: Thank you.

A. Ivy: Here is another topic that's interesting, but it's not about music. I'm still interested in other industries, like animation. This could be extremely important for it. Are you going to get involved in this industry?

M. Sarbaev: We already have a wonderful man by the name of Ivan Maximov on Kroogi.

A. Ivy: Oh, Ivan Maximov. I didn't know that, excuse me.

M. Sarbaev: And we'll be expanding that area.

B. Zakharchenko: So, any art in digital form ...

M. Sarbaev: Actually, on Kroogi is a small, little-known project called "Civilization for Dummies", which isn't related to music or animation. These people are trying to write a book, which could be used to rebuild a civilization if you were trapped on a desert island.

V. Zakharchenko: I see. I've always wondered - if I was on a desert island, where would I get the knowledge of chemistry and physics to start a modern society?

M. Sarbaev: Exactly. That's why they started this book.

V. Zakharchenko: Miroslav, one question - what does a beginning musician who wants to join Kroogi have to do?

M. Sarbaev: He needs to go to Kroogi.com and set up an account ...

A. Ivy: How do you verify their identity? Maybe it's really me, pretending to be RadioHead and putting their music online.

M. Sarbaev: We have ways to identify the musicians. If someone sets up a payment system, we can see who the money goes to.

A. Ivy: Thank you very much. That was Miroslav Sarbaev, founder of Kroogi.com. What an interesting project. We'll be sure to keep an eye on it. Also with you today was Victor Zakharchenko, our Internet researcher. And of course me, Alexander Plyushchev. That's all for this week's show.

M. Sarbaev: Thank you.

V. Zakharchenko: Goodbye.