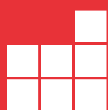

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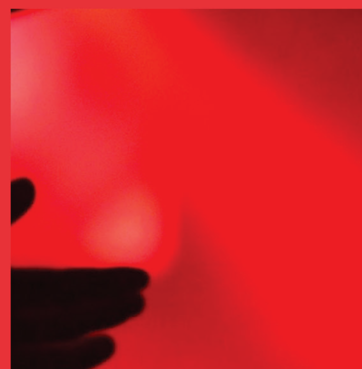

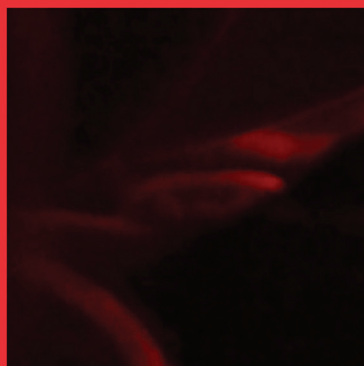

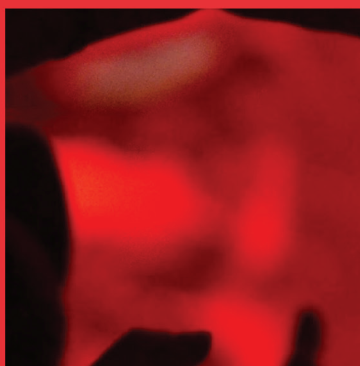

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The music industry in the dawn of the 21st century

Networking for a thriving music industry

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The music industry in the dawn of the 21st century 2017

Introduction

The “unexpected” emergence of new digital technologies since the 1990s has had a tremendous impact on the cultural world in general, and in music in particular, unleashing staggering changes in virtually all aspects of artistic life in the last couple of decades – both for creators and the so-called creative industries that have established themselves around them (Pinch & Bijsterveld, 2004; Théberge, 2004; McLeod, 2005; Anderson, 2008; Théberge & Moogk, 2008; Moreau, 2009; Cole, 2011; Lambert, 2011).

In the case of music, these technological changes – most of which go hand-in-hand with the adoption of computers, the Internet and associated tools by an ever-growing audience – have revolutionized the way music is created, produced, marketed, distributed, and consumed today. A “creative disruption” (Schumpeter, 2003) has taken place, giving rise to new products, services, business models, and even markets.

The development of digital technologies and distribution channels in the past decades led some commentators to predict that artists and consumers would have a far more direct relationship, making the multitude of existing middlemen redundant, while at the same time undermining the dominance of the major

companies in the market (see, for instance, Graham *et al*, 2004; and Benkler, 2006) or that user-generated content would take market share from professionally produced content in the shape of the "prosumer." Albeit, a closer look at the current state of the industry would suggest that this has yet to come true and probably will not anytime soon.

The music industry still requires efficient and knowledgeable intermediaries who can act as financiers, brokers, promoters, collectors, and distributors of revenues – in the end, the artist works in the center of a network of cooperating people, all of whose work is essential to the final outcome – whatever the creator does not do must be done by someone else (Becker, 1976). Moreover, disintermediation can be a very complex process since removing a middleman often implies having not only to reproduce the functionality of that intermediary's core competence, but also replicate the information, material, knowledge, and cash flow of that particular node (Shunk *et al*, 2007). In fact, as Carr (2000) suggested, far from disintermediation the Internet only seems to be leading towards "hypermediation," i.e. the involvement in every single online transaction, small as it may be, of many more intermediaries than before such as content providers, affiliate sites, search engines, portals, internet service providers, and software makers among others.

From this it is obvious that the music business, as any other business with a strong online presence or that relies on digital technologies for its advancement, has become much more complex and intricate in recent years and that there are now many more stakeholders in the music "ecosystem" than 20 or 30 years ago.

Who are these stakeholders, how do they relate to each other and how do they influence the music network? With these questions in mind this working paper aims to review the current state-of-the-art on new business models in the music industry by carrying out a structural analysis. It looks into diverse examples to illustrate how the value chain of the music business has been transforming in recent years to accommodate for (mostly technological) innovations in terms of music creation, production, distribution and market development. This leads me to propose a model of a value network for the music industry that reflects all this. A model that aims to add to the ongoing discussion regarding the reshaping of the music industry and its understanding, serving as the basis for future development of more useful models and tools for the industry and the research community.

Lastly, I also analyze the Norwegian market in its current state to try to reveal opportunities and vulnerabilities in order to suggest key areas of development for the future, including the kind of government action possible and desirable in the musical arena.

The “traditional” music industry

In this section I analyze and define the key players and stakeholders involved in the music industry until the advent of the digital era in the late 1990s.

Music has been around for thousands of years and arguably every culture that has ever existed on the planet has created music one way or another. However, the music industry is much younger. Its foundations were first laid in the fourteenth century, when musicians became salaried professionals bound to noble courts, who would buy their services to produce spectacles exclusively reserved for a limited audience, setting the ground for what is today the “live music industry.” By the 16th century, when not in the service of a master, musicians would come together to form guilds and demand, in return for taxes set by law, a monopoly over public performances in ceremonies and festivals, effectively shutting out nonprofessional musicians (Attali, 1977). According to Tschmuck (2012), the first publicly accessible opera house opened in Venice in 1637 and the first ever public concert was given by John Bannister in London in 1672. However, it wasn’t until the eighteenth century that musicians broke free from the reins of the aristocracy and the church and entered the market as free agents, with Mozart and Haydn, and later on Beethoven, being prime examples of this.

For its part, the “music publishing industry” – the second of the three main sectors comprising the music industries today as defined by Hesmondhalgh (2002) – would also see the light of day during the 16th century, when collections of printed scores, destined for customers in the courts where professional musicians were employed, started to appear (Attali, 1977). Nevertheless, music publishers remained relatively small enterprises until the nineteenth century, when they developed into industrial corporations at the core of the music business, reaching mass audiences (Tschmuck, 2012).

Despite being the industry sector that was developed last, the “record industry” is often implied to be synonymous with the “music industry” (e.g. Leyshon, 2001; Graham *et al*, 2004). This has probably to do with the fact that the music business as we knew it throughout the 20th century basically revolved around the selling of copies of recorded music, providing the record industry with lots of power. This practice began with the invention of the phonograph by Edison in 1877 and the gramophone flat discs Berliner first issued in 1894 (Library of Congress, 2016), which resulted in the hereto inconceivable possibility to listen to music without the need to be in presence of the performers, and to mass produce copies from a single master recording. Music thus became a physical good, a material object like

any other – and the record industry was born. This newborn industry developed fully throughout the 20th century, flourishing thanks to talent oversupply and “the apparent willingness of individuals to engage in creation without much reward” (Keeble & Cavanagh, 2008, p. 166), which led to exploitative contracts in some cases, establishing itself as a multi-million business quickly[1].

Music, in all its forms, had thus become a commodity, a means of producing money that could be sold and consumed – it became an industry, understood as the systematic labor to produce something of value. As Attali (1977, p. 8) put it, music and the musicians essentially became “either objects of consumption like everything else, recuperators of subversion, or meaningless noise.”

Established and operating as an industry to all effects and purposes, it makes perfect sense to analyze music as any other industry, from a business perspective – in fact, analyzing cultural products from an industrial perspective is by no means new (see, for instance, Hirsch, 1972 & 2000; Becker, 1974 & 1976; Hesmondhalgh, 1996 & 2008; Pratt, 1997 & 2007; Bakker, 2012). In this regard, the concept of the value chain seems quite appropriate to try to understand what the different players in the industry do and how they relate to each other.

The music industry value chain

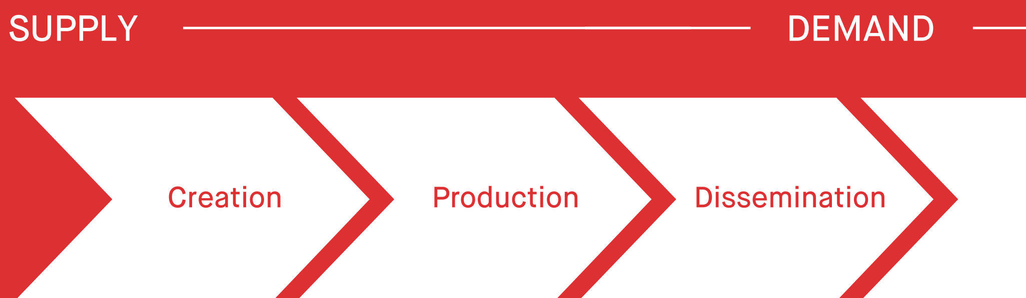
The idea of the value chain, first introduced by Michael Porter in his seminal book The Competitive Advantage: Creating and Sustaining Superior Performance (1985), is to consider an organization as a system, made up of subsystems each with inputs, transformation processes and outputs, all of which aim to add value to the product or service being offered. This involves the acquisition and consumption of all sorts of resources, like money, labor, materials, equipment, buildings, land, intellectual property, etc. In other words, a business takes some form of input and creates an output that a customer is willing to pay for, thus creating a value chain of suppliers and customers. The basic economic principle at the core of value chain analysis is competitive advantage, which entails identifying all the different stages of production and determining which steps in the chain can be eliminated or improved. These changes and improvements can result in cost savings or improved productive capacity, which translate into an increased benefit for the customers and, consequently, an improvement of the organization’s bottom line in the long run.

When it comes to cultural products, such as music, this chain starts with an initial

1 By 1904 Italian opera singer Enrico Caruso had already become the first recording artist to reach the million copy milestone (Chanan, 1995).

creative idea which is then usually, but not necessarily, combined with other inputs to produce a cultural good or service. This entails a set of distinct steps and activities which, normally, take up the form of business units, within a company, or enterprises, within an industry.

Figure 1: Basic value chain for cultural goods *(Source: Waltman, 2011)*



In the case of the music industry, music must be created, produced, manufactured, reproduced, and distributed in order to reach a consumer, thus constituting the value chain, defined as “a sequence of activities during which value is added to a new product or service as it makes its way from invention to final distribution” (Botkin & Matthews, 1992 cited in Waltman, 2011, p. 26).

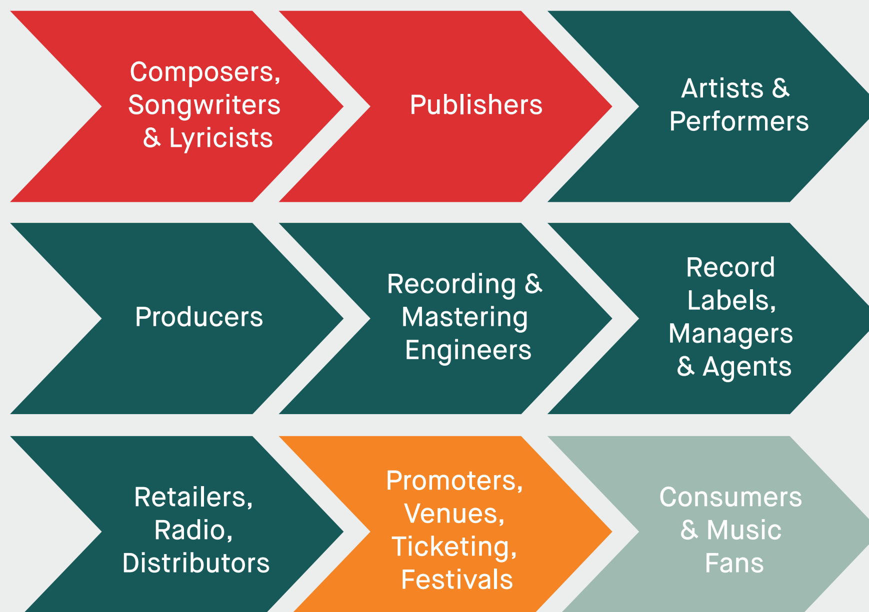
Although conceived as a tool to analyze single businesses, the value chain framework can also be applied to studying entire industries. In fact, Porter stressed the importance of linkages between the business and its suppliers and customers which gives rise to the analysis of the industry value chain or what he called the Value System.

From a sociological point of view, Becker (1976), had already applied a similar concept to the world of art a decade earlier. He stated that “works of art are produced by cooperation” within what he called “art worlds,” namely a network of suppliers of materials, distributors, fellow artists, critics, theorists, and audiences with which the artist works. The very existence of these art worlds gives artists the opportunity and means to make art.

Translated into the music world, one could say that the record labels, music publishers and the live music sector have comprised the bulk of the musician’s own “art world” and “value system” ever since the beginning of the 20th century, when the music industry as we know it today was established. It all begins with

the songwriters/composers, who write the music, the artists who perform it and is followed by all the different stakeholders involved in the production and dissemination of music, as shown in Figure 2.

Figure 2: Basic value chain of the "traditional" music industry



However, this picture is limited in the sense that it only shows the core stakeholders in the system. But behind every link in the chain there are many other players contributing value to the music industry – the broader music industry. Who are these hidden players, what do they do and what value do they actually bring into the chain? Who do they serve and who serves them? Which of their interests are most important for the industry? Are all interests balanced?

In order to find this out, we must identify any and all individuals or groups that are likely to affect or be affected by the transactions and activities within the industry, and then sort them out according to their impact on the chain and the impact the different transactions have on them, in other words we must carry out a stakeholder analysis.

But before doing that it is important to understand how the arrival of new players and business models has reshaped the music industry in the last couple of decades with the advent of the digital era.

The “modern” music industry

The following section of this study describes the current context of the music industry, taking into account the new players and business models that have emerged with the introduction of new, mostly digital technologies, from the second half of the 1990s, in order to establish how the value chain of the music business has evolved up to this day.

Disruptive innovation?

Innovation is often linked to disruption and vice versa. Bakhshi & Throsby (2010, p.12), for instance, see innovation in cultural institutions as “a response to disruptions in the ‘value chain’ that characterizes their production and distribution processes.” For their part, Balto & Lane (2015), analyzing the case of the music industry in particular, consider disruptive innovation[2] as advancements that establish new markets either by finding new customers or transforming the existing market by introducing simplicity, convenience, accessibility, and affordability. According to them, these innovations tend to eventually disrupt the market and value network effectively relegating the preceding technology.

When looking at the music industry and the digital technologies that have developed in and around it in the last 20 years, it is obvious that the entry barriers have been significantly lowered with decreasing transaction and production costs. Up to the 1990s only very few artists could dream about going into a studio to record their music and have it then promoted and distributed nationwide, let alone worldwide. Today the number of people that have access to a recording studio and global distribution channels has multiplied millionfold, since they only need a personal computer and an Internet connection to be able to record, promote and distribute their music themselves from their own home studios. The number of goods produced and available far exceeds what the consumer can and, probably, wishes to consume.

This has resulted in a much broader supply of music by many more different players, creating countless niche markets in parallel to the traditional mainstream market, a move towards decentralization, de-massification, disintermediation and personalization – a phenomenon that fueled one of the most talked-about business-theories of the last ten years, namely Chris Anderson’s Long Tail. According to his

2 “Disruptive innovation” is a term of art coined by Harvard Professor Clayton Christensen in his 1997 book The Innovator’s Dilemma.

theory, the democratization of the tools of production and distribution, combined with new tools to connect demand and supply online, result in a shift away "from a focus on a relatively small number of hits (mainstream products and markets) at the head of the demand curve, and moving toward a huge number of niches in the tail" (Anderson, 2008, p. 52), effectively disrupting existing business models.

This, however, has not been the case in many sectors of the entertainment industry, which still rely heavily on the "blockbuster strategy" (Elberse, 2013), in line with the "superstar" model developed by Rosen (1981, p. 845), which explains how "relatively small numbers of people earn enormous amounts of money and seem to dominate the fields in which they engage."

Analyzing the live music industry, Krueger (2005) found that in 2003 the top 1% of artists took in 56% of concert revenue, up from 26% in 1981. Similarly, during the course of her research of the record industry, Elberse found that "the top 100 tracks can account for as much as one-sixth of the total market, as it did in 2011. That's 0.001% of all offerings generating 15% of sales" (Elberse, 2014). Along the same lines, a report by MIDiA Consulting concluded that the music business is (still) a superstar economy where the top artists earn the lion's share of all artist recorded music income. In 2013 the top 1% earned 77% of all income, leaving only 23% to the remainder 99% of artists, compared to 71% - 29% back in 2000 (Mulligan, 2014).

In fact, taking a look at what many consider to be the present and the future of the (recorded) music industry – streaming –, a business model based on "access" (as opposed to the previous "ownership" model), which is gradually evolving into a "context-based" model that allows users to "do things" with music (Wikström, 2012), everything seems to point to the fact that streaming does not represent a disruption of business as usual. Actually, it is a business model that only seems to reinforce the position of the major players in the record industry, who once again have managed to turn a technological innovation to their advantage: In 2013 the top 1% of repertoire accounted for 84% of all streaming and subscription revenue (Mulligan, 2014). In other words, the value network of the access model is still based on the same "right to use" principle as the ownership model common to cultural products (Keeble & Cavanagh, 2008) and it does not seem to be changing anytime soon. In the end, even though the product itself may have changed (from physical to digital), the distribution channels and the division of labor within the music industry have not changed much: artists still create the music for record labels to promote and distribute it to the fans who consume it in one way or another (Graham *et al*, 2004).

Although the music industry has been facing a rapidly changing technological environment for decades, it has always managed to adapt. In fact, technological innovations have barely had an impact on the traditional value chain. By repackaging music into new formats, like the audio cassette, CD, DVD, downloads and now streaming, the (recorded) music industry has actually benefited from these innovations, selling the same music – back catalog, mainly chart-topping hits – to the same audience, but in a different container, and winning new acolytes along the way.

Notwithstanding, looking at the bigger picture, and if we were to consider all three music sectors (record labels, publishers and live music, which have completely different business models) as a single, uniform industry, as is commonly the case, it could be argued that the "music industry" has indeed experienced some sort of disruption.

The numbers seem to indicate that the money generated by all three major music sectors is spread more evenly across all of them: records, publishing and live music.

Back in 2000 the trade value of the record industry worldwide was more than four times that of the publishing industry: US$28,1 billion against US$6,46 billion, according to IFPI (2012) and CISAC (2010) respectively. However, in 2014 the publishing industry was worth more than half (US$7,94 billion) (CISAC, 2015) of what the record industry was (US$15 billion) (IFPI, 2016a), in other words, while the record industry shrunk by 47%, the publishing industry grew by 23% in the same period. This could be argued is mainly due to the fact that the benefits from the "right to use" model in the digital era are shifting from some right holders (masters' owners) to others (works' owners).

Furthermore, despite the lack of reliable and consistent data from the live music sector globally, the latter seems to also be taking a larger slice of the pie, in detriment of the record industry, supporting partially the so-called Bowie theory[3] (Krueger, 2005). In 2015, the concert industry racked up US$6,9 billion alone in the US, up from US$1,7 billion back in 2000, according to Pollstar (2016); in comparison, the retail value of the record industry in the USA, the biggest market for recorded music in the world, was US$14,32 billion in 2000 (RIAA, 2006) and US$6,85 billion in 2010 (RIAA, 2011).

3 In an interview with The New York Times singer David Bowie envisioned the possibility of the record industry diminishing in importance compared to the live music industry stating that "'Music itself is going to become like running water or electricity,' he added. 'So it's like, just take advantage of these last few years because none of this is ever going to happen again. You'd better be prepared for doing a lot of touring because that's really the only unique situation that's going to be left.'" quoted in Pareles (2002). Krueger (2005, p. 27) took the concept to develop the Bowie Theory defining it as a "technology-induced erosion of the complementarity between record sales and concert tickets."

Likewise, in the UK, one of the top five markets for music in the world, the live music industry was estimated at £1,589 million in 2009, £1418 million in 2010 and £1,624 million in 2011 (PRS For Music, 2011 & 2012), while the record industry's trade value was £1007,2 million in 2009, £917,6 in 2010, and £888,9 million in 2011 (IFPI, 2012).

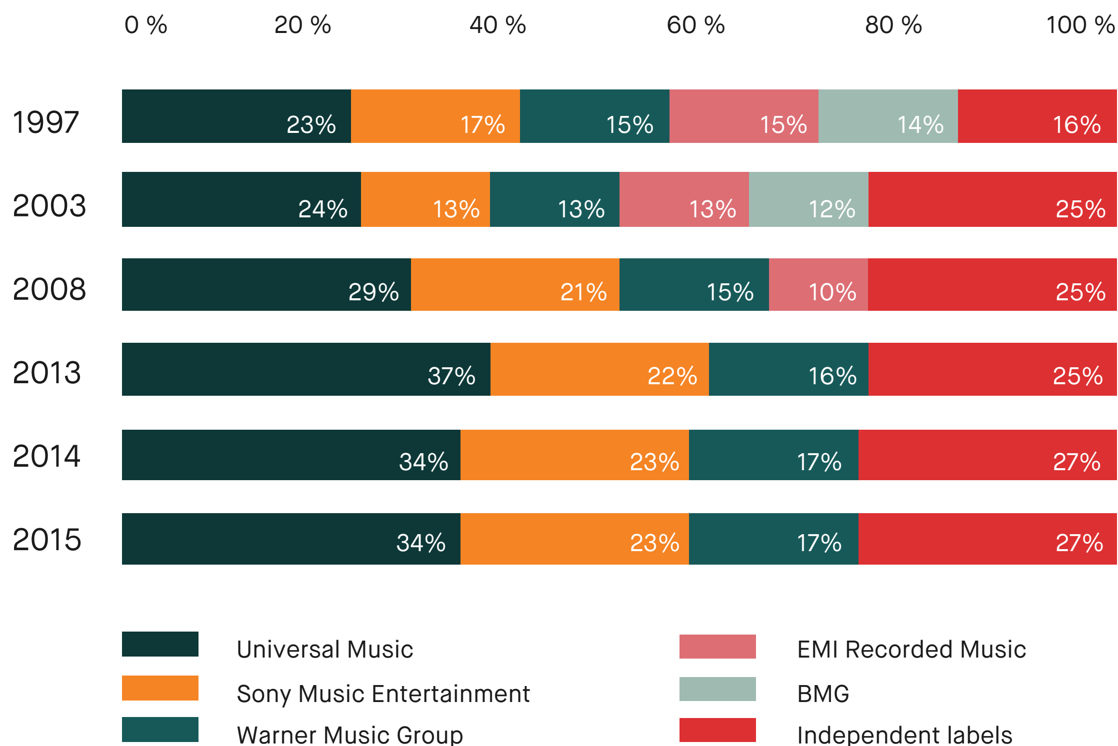
A highly concentrated industry

Music is a vertically-integrated business, in other words, the companies that have managed to incorporate other companies to integrate inputs and assemble the final product are usually the dominant forces in the chain and, thus, control the key channels and value links in the network (Graham *et al*, 2004) – the so-called "majors," which are multinational conglomerates specialized in the areas of marketing, financing and distribution and focus mainly on mainstream and international acts. Furthermore, two of the three sectors of the music industry depend on the exploitation of copyrights, and their survival depends largely on the size and range of their portfolios of exploitable products (Ryan, 1998). A logical consequence of this is that the music industry suffers from a high concentration (Leyshon, 2001).

According to Music & Copyright (2015; 2016), in 2015 the three major labels had a combined share of 73,2% worldwide. Universal Music was the biggest label in 2015 with a 33,5% share of the combined physical and digital recorded music trade revenue; Sony Music Entertainment was the second-largest music company with a market share of 22.6%, while Warner Music's share was 17,1%. For their part, the independent record companies' share of combined physical/digital revenue was 26,8% in 2015.

Figure 3: Global record industry market share

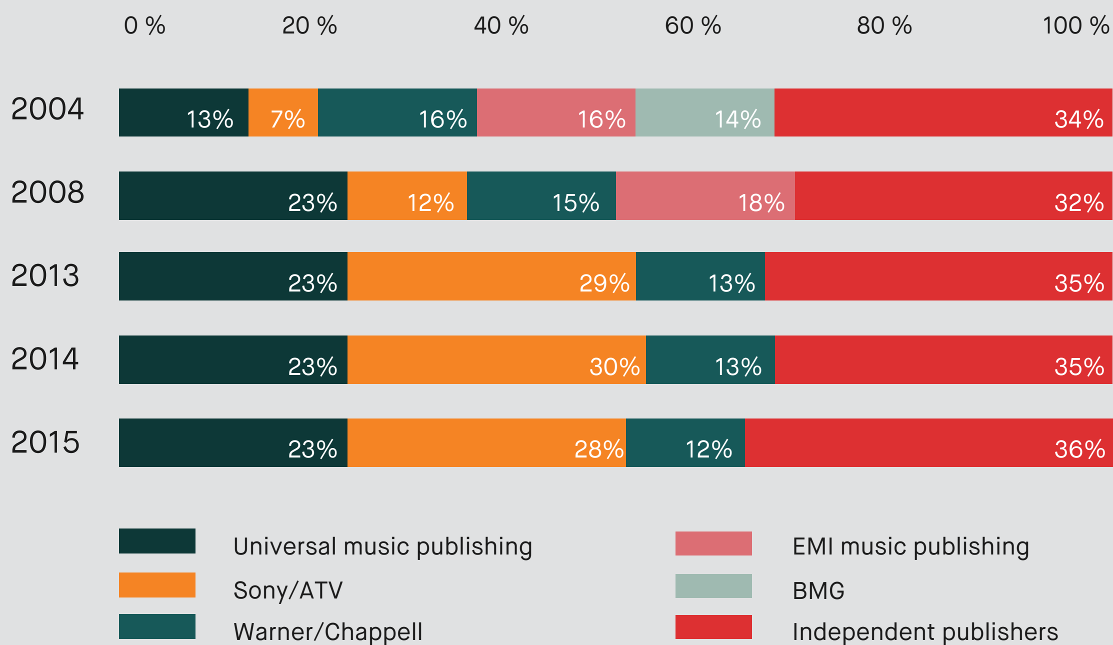
(Source: Own, with data from Tschmuck, WMG Annual Reports and Music & Copyright)



The music publishing industry is just as concentrated as the record industry. In 2015, the three major publishing companies had a combined share of 63,8%, with Sony/ATV taking the lion's share at 28,3%, while Universal Music Publishing Group and Warner-Chappell had 23,1% and 12,4%, of the market respectively. Independent publishers held 36,2% of the market in 2014 (Music & Copyright, 2015; 2016).

Figure 4: Global music publishing market share

(Source: Own, with data from WMG Annual Reports and Music & Copyright)



Both the record and publishing industries rely on different types of copyrights and, at least partially, on collecting societies, which are widely considered natural, transaction-cost minimizing monopolies (Katz, 2004; Towse, 2013). In fact, there is typically only one such society per category of right or sector in every country, most notably in Europe (Weitzmann, 2010; UK Parliament, 2012). These generally not-for-profit organizations supply rights administration services to their members and license those rights to users, usually via a blanket license which gives access to all works in the repertoire held by any given society. By entering into reciprocal agreements with collecting societies in other territories, they can effectively license

a global repertoire of musical works. Once the initial investment in the structure of licensing, fee setting and monitoring is in place, the marginal cost of offering these services to additional members is minimal, which results in the cost of licensing, both to rightsholders and users, being greatly reduced, thus becoming a natural monopoly (Andries, 2008; Towse, 2013).

In the live music industry things do not look that different, although the somewhat scarce numbers available seem to suggest that this market is not as concentrated as the previous ones. Live Nation is by far the dominant force, dwarfing all other concert promoters worldwide. According to Pollstar (2016), in 2015 Live Nation and AEG Live claimed together 42% of the 105 million concert tickets sold globally by the 100 biggest promoters. Live Nation got the lion's share with roughly 28% (29,2 million) of them, almost twice as much as AEG Live with 14% (14,7 million tickets). Next up were Feld Entertainment and OCESA with 4% and 3% of the global market share respectively.

As the numbers above show, and as Leyshon (2001) anticipated, even though software formats and Internet distribution systems have produced a proliferation of new players in and around the music industry core sectors, capital centralization and concentration has not withered. This high concentration makes it harder for new entrants to get into the market and gives a few large enterprises leverage when dealing with third parties who wish to launch new products or services related to their assets, since they are the ones who set the rules within the network. And since the former's activities and position may be uprooted or disturbed by the latter's they usually do not show any real interest in letting them in. Hence, the disruptive innovators "must ask permission to enter a market from entities that may not wish them to enter. The result is that these industries are characterized by stagnation. At best, they experience small, incremental sustaining innovation; consumers receive none of the benefits resulting from transformational advances that disruptive technologies bring about" (Balto & Lane, 2015, p.1). This can also lead to firms engaging in monopolistic practices which in turn might result in the misallocation of resources and poor economic performance, a problem exacerbated given that the products being licensed cannot be freely substituted (Balto & Lane, 2015).

This fact is crucial to understanding the dynamics within the music industry, since "value is an expression of power: whoever holds power decides what is valuable" (Castells, 2004) in the network. In other words, the gatekeepers who define value in the network and, hence, determine which products will be offered and which will not must consider something valuable to their own business models and interests to allow third parties to enter the network (Baccarne, Schuurman & Seys, 2013).

The "networked" music industry

This section aims to provide an argumentation for a network view of the music industry, in contrast to the traditional value chain framework, when analyzing the changes that have been taking place in recent years.

However useful and insightful when it was first introduced back in 1985, the value chain framework remains a linear, mechanistic view of business based on the one-way flow of the production line of the industrial era – where societies, and hence businesses, were mainly structured according to large-scale, vertical production organizations and extremely hierarchical apparatus (Castells, 2004) –, making its limited perspective evidently inadequate to understand value in the knowledge economy based on complex, uncertain, multi-stakeholder networks (Allee, 2002).

In the last couple of decades, the music industry has become a much more complex and dynamic system with too many variables that cannot be controlled. Activities within it seem to be more networked than structured in sequence, as well as more dynamic and flexible. Even if certain patterns can be predicted, the overall response of this "ecosystem" to new inputs from the outside, or even developed from within, cannot be anticipated. Consequently, when trying to analyze the current state of the music industry and all its complexities with this framework, it becomes manifest that the value chain model has become outdated (Keeble & Cavanagh, 2008; Baccarne, Schuurman & Seys, 2013). A more dynamic and comprehensive model is thus necessary, one that demonstrates more clearly the interrelationships between supply and demand, and which not only measures the economic relationships between the different links in the network, but also the feedback processes at any point within it, which in turn can inspire new value-creating goods and services. Furthermore, the intricate relationships in the network economy are giving birth to strategic alliances and creative partnerships that are challenging the once distinct boundaries of where one enterprise ends and other begins, unlike how it used to be in the "traditional" music industry, where the value chain was more static and with a limited choice of well-defined players. As Graham *et al* (2004, p. 1101) argued at the dawn of the digital era, the traditional value chain "is changing from a relatively linear and fixed structure, based on long-term relationships, to a more flexible, network structure where the partners are likely to change more frequently."

From this perspective, it would be far more productive to consider the music industry as a web of specific investments built around a critical resource (Zingales, 2000) – music in this case –, over which it has control, and analyze the complex network of interactions and processes currently taking place in the music world

from a living system mindset, one that dynamically changes and adapts to the ever-changing environment, to be able to accurately and comprehensively describe the current state of the music industry.

This reasoning leads to the so-called "value network" approach, i.e. a network that generates monetary and non-monetary value "through complex dynamic value exchanges between one or more enterprises, its customers, suppliers, strategic partners, and the community" (Allee, 2000, p. 274). A concept derived from stakeholder theory, which deals basically with how all these individuals or groups of individuals, i.e. the "stakeholders," interact to jointly create and trade value (Parmar *et al*, 2010, p. 406).

According to Keeble & Cavanagh (2008) a "functioning" value network has two components: A clear and shared understanding among stakeholders of values, prices and how to negotiate them, and a fair return, i.e. a return that is enough for players to sustain their activities in the network. Trust is a key element not only due to the fair return but also because it "can have a profound influence on economic transaction costs" (Bromiley & Harris, 2006).

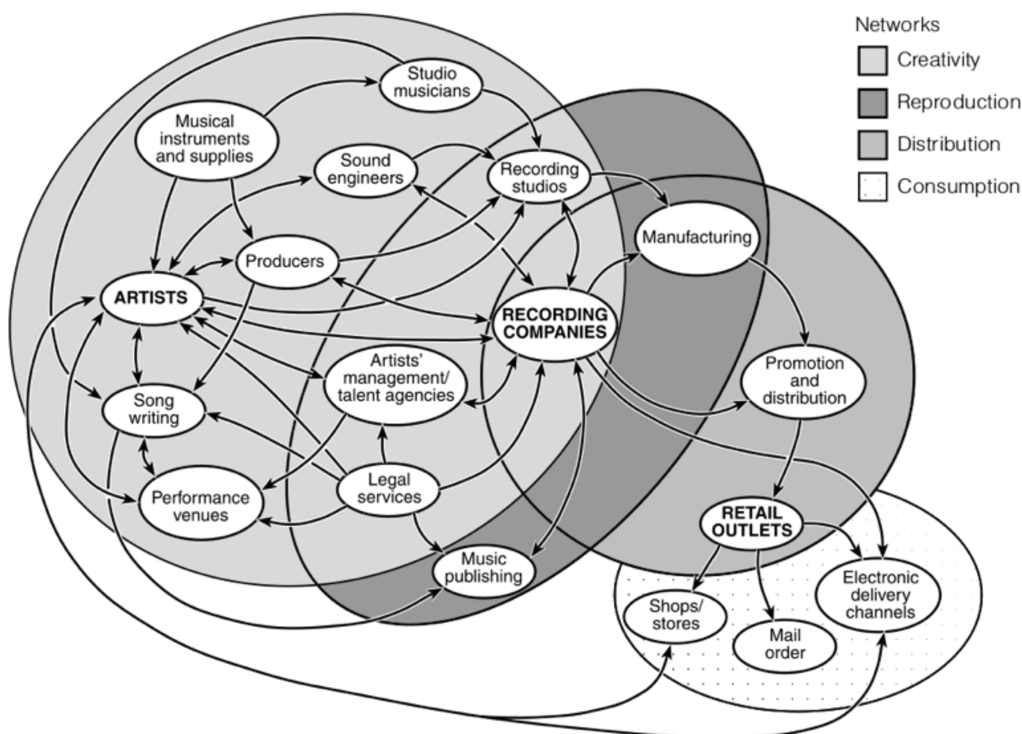
Yet another factor to consider for a network to function properly is the avoidance of "disconnects" or anomalies, such as revenue flow stopping at some point in the network without reaching other stakeholders, legally or illegally (Keeble & Cavanagh, 2008). In this regard, the ideal network would take the resources available to convert them into goods and services to create wealth or value for all its stakeholders, without exposing them to involuntary harm or loss.

The network approach to analyze the music industry is by no means new. In fact, the concept of the musical network was first developed by Jacques Attali in his 1977 book *Bruits: essai sur l'economie polilique de la musique,* where he argued that the economy of music has historically operated through four overlapping and complementary networks, each of which relates to a technology and a different level of social structuring. The first network he calls sacrificial ritual, which is "the distributive network for all of the orders, myths, and religious, social, or economic relations of symbolic societies. It is centralized on the level of ideology and decentralized on the economic level" (p. 31); music is thus part of a ceremony. The second network – representation – emerges when music becomes a spectacle taking place in specifically confined spaces, like concert halls, where entrance fees can be collected to pay the musicians and for the promoters of the spectacle to make a profit. According to Attali (p. 32), this second network "characterizes the entire economy of competitive capitalism, the primitive mode of capitalism," by directing all new surplus-value toward entertainment entrepreneurs and music publishers. The third network, repetition, takes form at the end of the 19th century as the result of the introduc-

tion of recording and mass reproduction. In this third network the consumption of music is individualized, it is no longer a form of socialization but rather the solitary relation of individuals with a material object, which allows financially sound listeners to stockpile music in large scales. The fourth and last network envisioned by Attali is that of composition, where "music is performed for the musician's own enjoyment, as self-communication, with no other goal than his own pleasure, as something fundamentally outside all communication, as self-transcendence, a solitary, egotistical, noncommercial act" (p. 32).

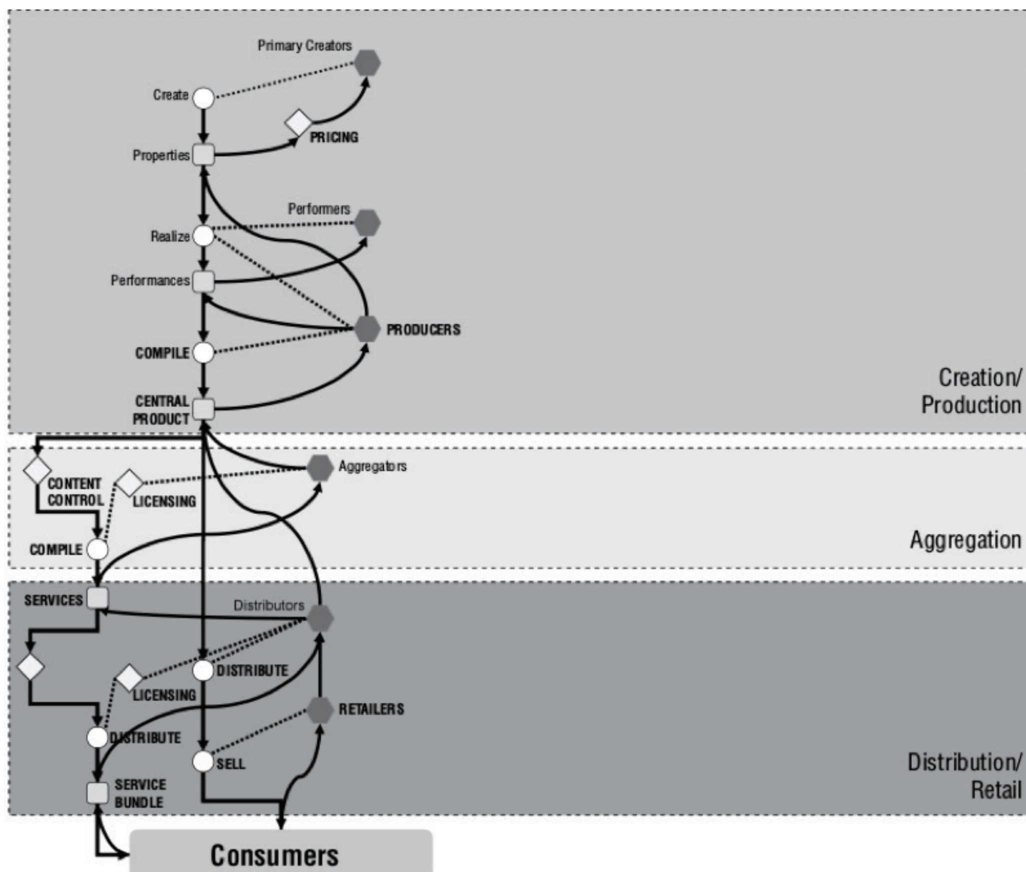
Building on Attali's concept of the network of music, but focused on a narrower scope, Leyshon (2001) developed a model that consists of four distinct networks with overlapping functions (see Figure 5), temporalities and geographies. The first network envisioned by Leyshon, combining Attali's networks of composition and representation, is the network of creativity, where music is created through "acts of performance," such as songwriting, performing, producing, etc. Next is the network of reproduction (inspired by Attali's own repetition network), revolving around the licensing of audio recordings and manufacturing of copies. The third network is that of distribution which bridges the networks of creativity and reproduction with the fourth network of consumption where music is listened to, read about, purchased, and collected.

Figure 5: Musical networks *(Leyshon 2001, p.61)*



More recently, Keeble & Cavanagh (2008) also used the concept of value network to analyze changes in the cultural industries in Canada. Their conceptual framework is based on five fundamental concepts: products, functions, players, roles, and technologies. These concepts are all intertwined in the value network where players are enabled by technologies to perform functions according to their roles in order to create products (see Figure 6). In this generic model, functions relate to the actions performed by players on products, the different forms in which players are compensated and the intervention of government agencies in stakeholder relationships (not as end users themselves); players are grouped into three roles: creation/ production, distribution/retail and aggregation (in networks where it is necessary to aggregate products into packages, such as in subscription business models); and technologies are divided into "process improvement," "new platforms," and "new products" categories. Process improvements enable existing functions to be carried out differently (faster, cheaper and/or with higher quality) and do not alter the value network to a great extent. In contrast, new platforms defined as the combination of new users of cultural products and the distribution systems that supply products to these users, do inflict profound changes on the network, contributing to disintermediation and reintermediation. Lastly, "new products" are the result of the use of new platforms in the creation process.

Figure 6: Generic cultural value network, grouped according to their roles *(Keeble & Cavanagh, 2008, p.164)*



A dynamic music industry value network

However different, all these models have one thing in common: the implicit understanding that depicting the complex interchanges between stakeholders in the music industry in order to create value is no easy task. And even less so considering the dynamic changes taking place all the time, especially with the advent of digital technologies.

Expanding on Leyshon's and Keeble and Cavanagh's models, I propose an interactive and dynamic music industry value network model that takes into account the most recent changes experienced by the music business.

To create such a model and try to analyze a value network (or chain, for that matter), the key question we need to deal with is the meaning of "value" within the network: Is there only one type of value or do different stakeholders perceive diverse types of value? How are these distinct types of value created within the network – what actually moves the production system? – and how does each stakeholder contribute to it? Furthermore, who can be considered a stakeholder within any given network?

The proper assessment of how each individual participant is providing value to other participants in the music ecosystem confronts us at the same time with the constantly evolving "problem of value creation and trade," i.e. how is value created and traded, one of the three main issues that stakeholder theory addresses[4] In this regard, it is important not to forget that value creation is not only about exchange of economic, social and cultural resources but also about complementarity. This may be especially significant in such complex networks as the music industry, for instance, where, as noted by Dyer & Singh (1998), the ability of a stakeholder to generate rents from its resources may require these resources to be used in conjunction with those of another stakeholder (like a composer working together with a performing artist and/or a publisher, for instance). This in turn may also lead to the competitive advantage of the players involved in the partnership due to the synergetic effect created when combining resources, resulting in more valuable, rare and difficult to imitate products or services that would not have been achievable by them operating individually, generating "relational rents."[5]

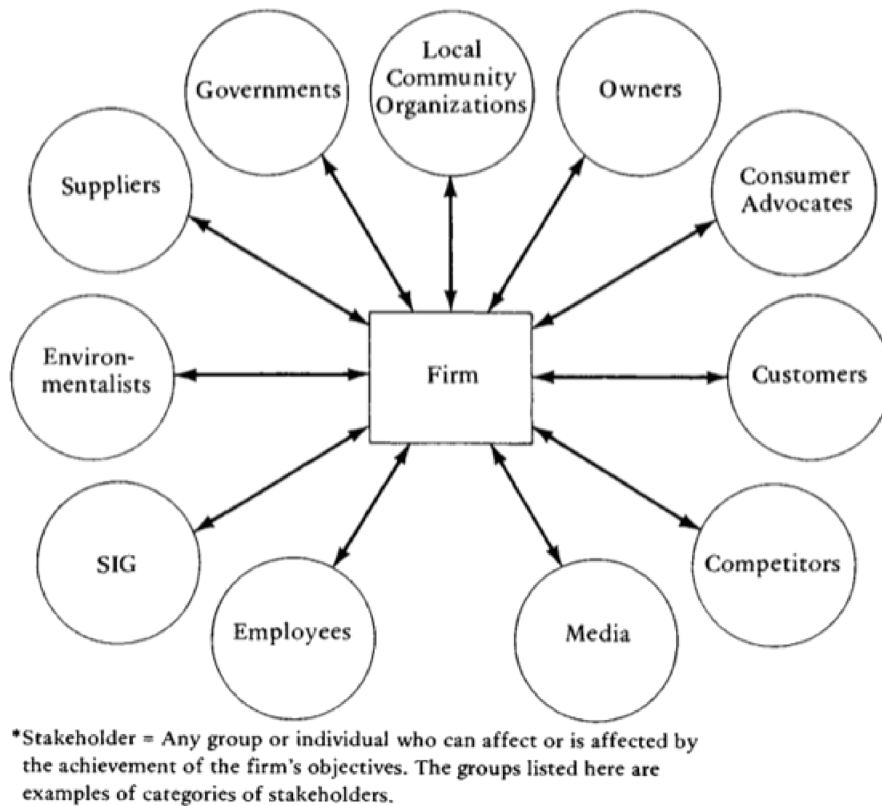
4 The other two being the "problem of the ethics of capitalism" and the "problem of managerial mindset."
5 Dyer & Singh (1998, p. 662) define a relational rent as "a supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners."

Stakeholder approach allows the development of sound strategies to better understand and manage both internal and external exchanges by identifying and addressing the ups and downs in the relationships between different players in the network to achieve its long-term viability and success. From this perspective it becomes clear that such a diverse group of stakeholders can only cooperate in the long term if, despite their differences, they share a set of core values and an understanding of the stake ("what really counts"). Hence, identifying the stake-holders to include in the model, and their definition of "value," is one of the most important parts of the process; failure to include any key stakeholders could create unexpected difficulties should that stakeholder begin exerting influence later on, especially if the idea of value differs between stakeholders. Furthermore, in such a rapidly changing environment as the music industry where the incessant emergence of new digital technologies seems to constantly threaten the status quo, the involvement of all relevant stakeholders in business model innovation helps reveal true value perceptions, thus hindering the development of crippled business models based on vague expectations or the assumptions an organization makes of the value perception by other players in the network, a logic that may very likely lead to potential value generation being lost, underestimated or overseen (Baccarne, Schuurman & Seys, 2013).

With this in mind, it is important to try to define the key dimensions of the relation-ships between stakeholders, looking, for instance, at transaction costs, interaction frequency, quality and quantity, relevance to value proposition, and generation of value creation possibilities, as well as the degree of shared values and assumptions and how they change over time (Parmar *et al,* 2010).

If we were to take Freeman's classic definition, a stakeholder – as opposed to a shareholder – is "any group or individual who can affect or is affected by the achievement of the organization's objectives" (1984, p. 46).

Figure 7: Stakeholder view of firm *(Source: Freeman, 1984)*



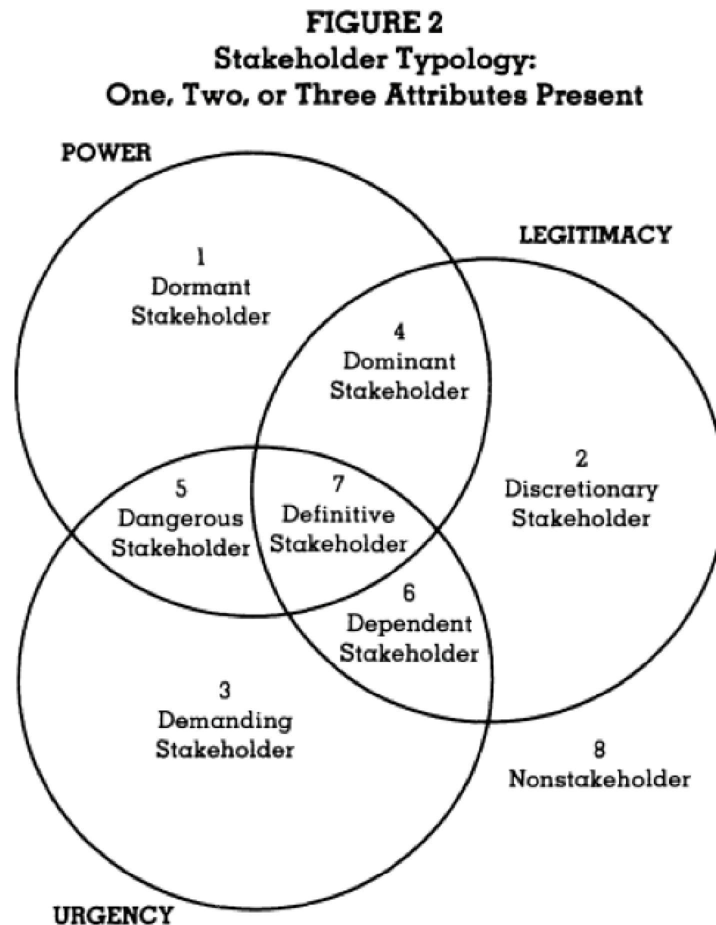
The debate around whether the number of stakeholders should be kept small or large has been ongoing ever since Freeman published his stakeholder theory in 1984. Narrow views of stakeholders generally define relevant groups in terms of their importance to the economic interests of the firm or network, and require applying some sort of justifiable criteria. On the other hand, the broad view relies on the empirical evidence that a company or network can indeed be affected by and affect almost anyone (Mitchell *et al*, 1997).

Stakeholders can be discriminated between two distinct, but not mutually excluding, groups: those who have either a legal, moral, or presumed claim ("claimants") and those who can influence the behavior, direction, process, or outcomes of the network ("influencers"). Furthermore, the different classes of stakeholders can be identified according to their possession or ascribed possession of any of three attributes: their power to influence the network, the legitimacy of

the stakeholder's relationship with the network, and the urgency of the stakeholder's claim. Power in this case can be defined as the position a stakeholder has to carry out its own will despite resistance (Weber, 1947 cited in Mitchell *et al*, p. 865). Legitimacy is the "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). And urgency is "the degree to which stakeholder claims call for immediate attention" (Mitchell *et al*, 1997, p. 867).

Mitchell *et al* (1997) define seven different types of stakeholders according to their possession and combination of these attributes: dormant, discretionary, demanding, dominant, dangerous, dependent and definitive, as shown in Figure 7.

Figure 8: Typology of stakeholders according to their attributes *(Source: Mitchell et al, 1997)*



However, it is important to take into account the dynamism of the network, in other words, how the salience of stakeholders to the rest of the network changes through time. Especially considering that their attributes are variable and socially constructed, not objective, and stakeholders may or may not be conscious, nor willing, to exercise these attributes (Mitchell *et al*, 1997, p. 868).

Considering all of this, for the purpose of this study, a middle-of-the-road approach regarding stakeholders, not too narrow but not too broad, may be a good compromise to try to analyze the current music industry. Hence, I will consider potential stakeholders as those who either have a direct or indirect influence on the music network's activities, receive direct or indirect benefits from these activities, or possess a significant, legitimate interest in the network's activities.

To do this we need to take into account the value, both monetary and non-monetary, that every link along the network adds to the product or service through a value creation analysis and a value accounting system. In other words we should assess whether a stakeholder can actually provide and output greater value in the form of products and services whenever it receives an input – a cost-benefit analysis with a focus on how assets are being used and exploited (Allee, 2008).

Allee (2008, p. 14) considers three key questions when addressing value creation analysis:

- How well are assets being used to create a value output?
- What value features or enhancements are provided with the output?
- What is the benefit to the business providing the output?

And she considers five dimensions of value creation (Allee, 2008, p. 14-16):

- Asset utilization: how efficiently is the stakeholder managing its assets, both financial and non-financial, to output value?
- Value conversion: how is an input converted into another kind of value as an output?
- Value enhancement: what value is the stakeholder creating or adding to the output to make it unique?
- Perceived value: how highly are the outputs of a given stakeholder valued by its recipients?
- Social value: what is the value of the outputs for the industry as a whole, for society and for the environment?

This assessment ought to be done for every link in the network to get a faithful industry-wide picture. However, in reality, this proves to be something highly unrealistic and unfeasible for the music industry in its current state, especially considering that the conditions vary for every single stakeholder depending on the legal, social and economic framework of the country or market where the stakeholder is active, as well as its size and position within the industry. With this in mind, this study proposes a generic value network of the music industry, which nevertheless aims to be customizable for any stakeholder.

Mapping the "new" music industry

This section will propose a generic value network model, according to the arguments exposed in the preceding sections.

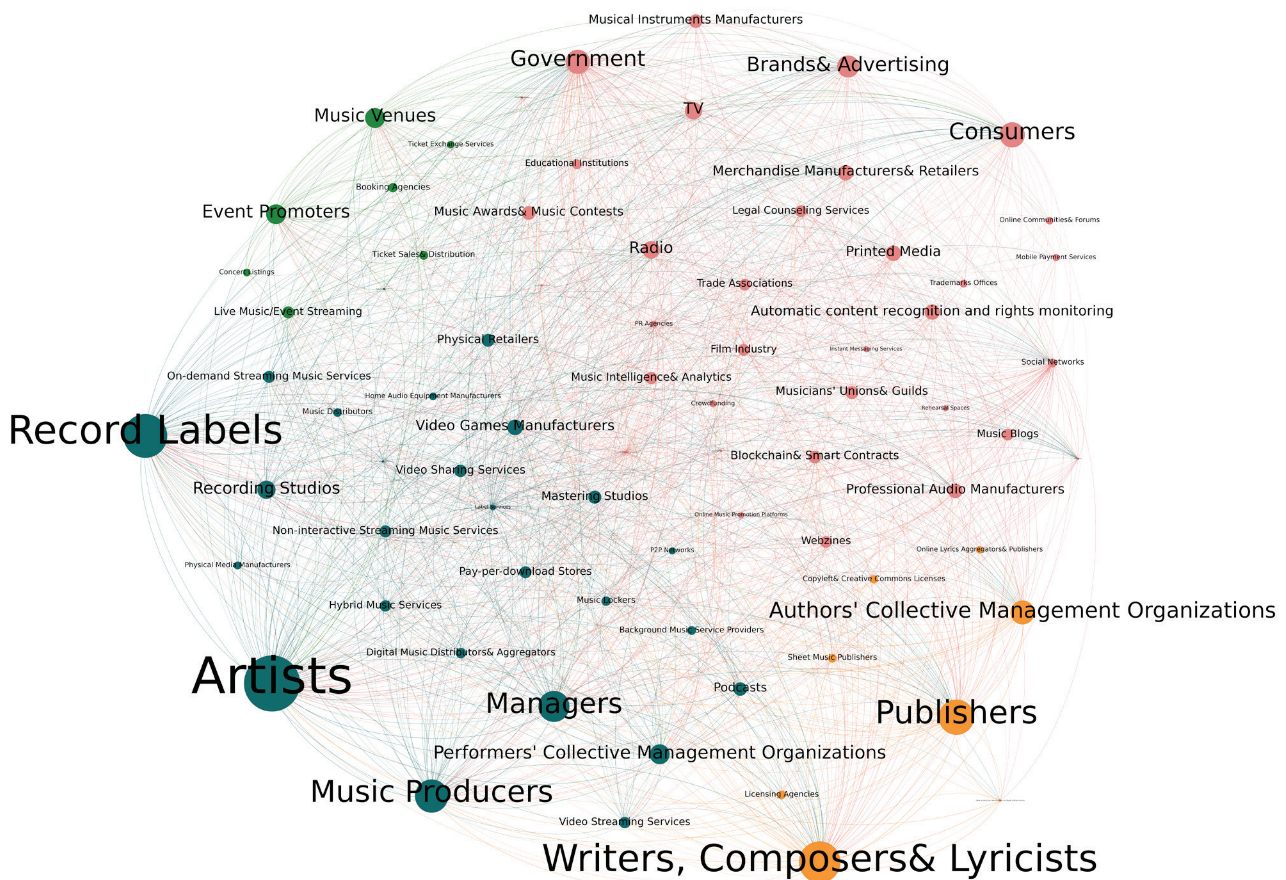
The idea to look at the music industry from a value network perspective with the model presented here – one that is meant to be perfected – not only intends to make it easier to understand what is happening in the industry, how it actually works presently and where it might be headed, but also to start a discussion about whether the industry should start thinking as a network, an ecosystem, where every link in the chain is as important as the next one and fair returns are the standard. As a recent report by Music Canada (2016, p. 54) put it: "Experience has proven that the most successful music jurisdictions in the world – among them Austin, Texas, Melbourne, Australia and, more recently, the Province of Ontario – employ unified music strategies. A broad-based strategy has the greatest potential to advance the music economy and thereby support economic diversification, garner support from music and business stakeholders and the general public, and generate positive attention in the music world far beyond" its own borders.

The model of the music industry value network proposed in this section takes into account the results of a basic stakeholder analysis as described in the previous sections, bearing in mind that it cannot, and does not intend to, reflect a particular ecosystem around an existing stakeholder – after all, it is a generic example. This, as explained before, has to do with the fact that the network for each stakeholder and how value is created and perceived by the different stakeholders may differ depending on many circumstances and it may change over time.

To create the network I considered both tangible and intangible value exchanges taking place between stakeholders. Tangible transactions involve the exchange of physical goods, services, intellectual property, proposals, and payments among others, which are usually bound by contract. For their part, intangible benefits are advantages or favors that can be passed on from one stakeholder to another, and which often reveal the real motive for people to engage in relationships and activities (Allee, 2002), such as the expertise, creativity, prestige, credibility, or recognition that one stakeholder can gain from entering into a relationship with another. Intangible exchanges support the core product and service, but are not actually contractual. These include things like planning and process knowledge, technical and legal know-how, and strategic information among others.

The model presented here aims to describe the way the value network creates and captures value for and from all actors in it. It is divided into three overlapping "clusters" representing the three different core music industries: publishing, live music and recording industry, plus the stakeholders revolving around them. The model also considers the role each player has in the ecosystem, as well as the assumed importance of the exchanges between stakeholders.

Figure 9: Generic music industry value network



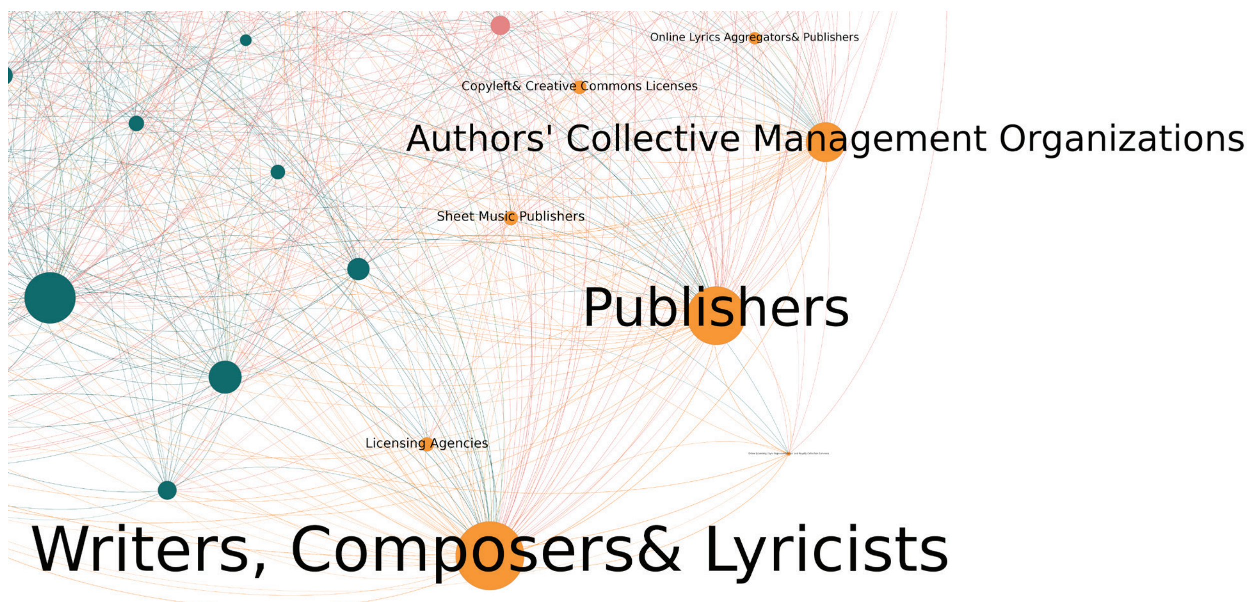
In order to create this network, almost 80 different stakeholders from the traditional and the "new" music industry were considered and sorted according to their relevance to the three main music sectors: publishing, recording and live music, as listed below. It is important to point out the generic nature of this model stressing the fact that not all these stakeholders exist in every stakeholder's own network, since many of the value-creating functions carried out by some of these stakeholders are actually incorporated in-house by some players, especially by large companies which have abundant resources.

The publishing industry

Music publishing involves the acquisition of rights to, and licensing of, musical compositions from songwriters, composers or other rightsholders. It is the sector of the music industry that is arguably less known, even among other stakeholders in the industry, and less talked about when considering the "music business." The stakeholders related to the publishing industry considered for this model are:

- Composers, Songwriters and Lyricists
- Music Publishers
- Authors' Collective Management Organizations
- Licensing Agencies & Sync Representatives
- Sheet Music Publishers
- Online Licensing (Sync Representatives) and Royalty Collection Services
- Copyleft & Creative Commons Licenses
- Online Lyrics Aggregators and Publishers

Figure 10: Publishing industry stakeholders of a generic music industry value network



The recording industry

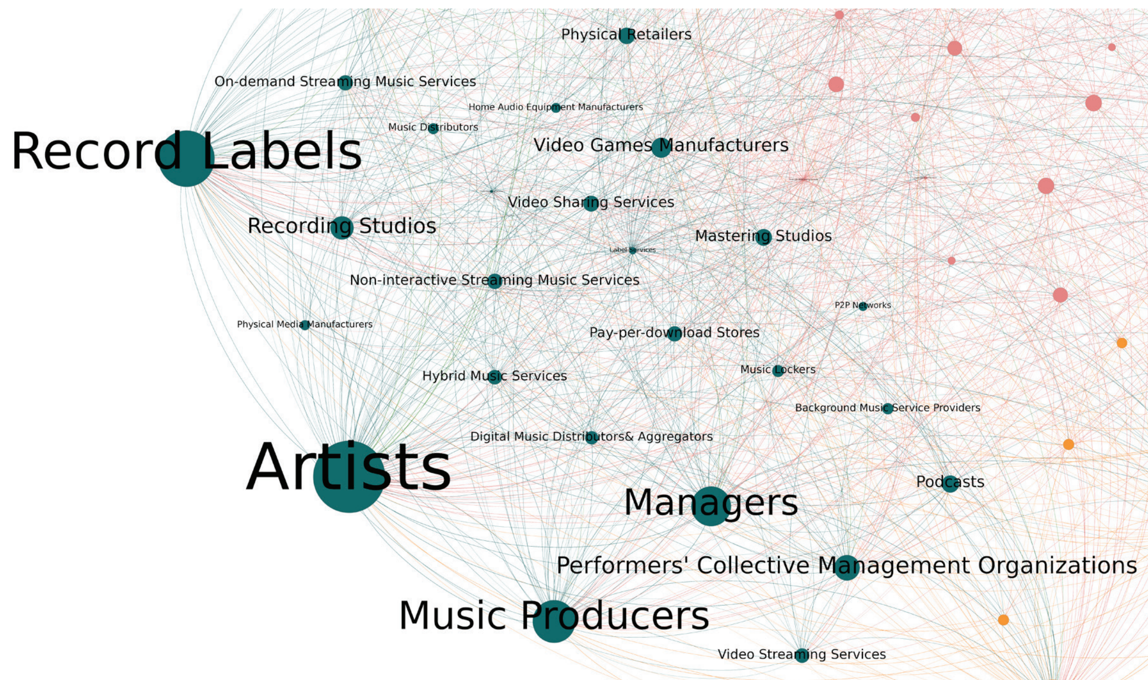
The record industry has played a crucial role in the music value chain since the early 20th century, from discovering and developing talent to producing albums and promoting artists and their recordings. It has been historically characterized by high market entry costs, associated to the sunk costs in A&R, recording, manufacturing and marketing, and a scarcity in the distribution channels (Graham *et al*, 2004).

The stakeholders considered part of the recording industry for this model are:

- Performers
- Performers' Collective Management Organizations
- Managers
- Music Producers
- Recording Studios
- Mastering Studios
- Record Labels
- Physical Media Manufacturers
- Music Distributors
- Physical Retailers
- Digital Music Distributors and Aggregators
- Non-interactive Streaming Music Services (Ad-based and Subscription-based)
- On-demand or à la carte Streaming Music Services (Ad-based and Subscription-based)
- Pay-per-download Stores
- Music Lockers
- Hybrid Music Services
- Video Streaming Services
- Video Sharing Services
- Video Games Manufacturers

- Background Music Service Providers
- Label Services
- Online Music Databases
- Podcasts
- Ringtones
- P2P Networks
- Home Audio Equipment Manufacturers

Figure 11: Record industry stakeholders of a generic music industry value network

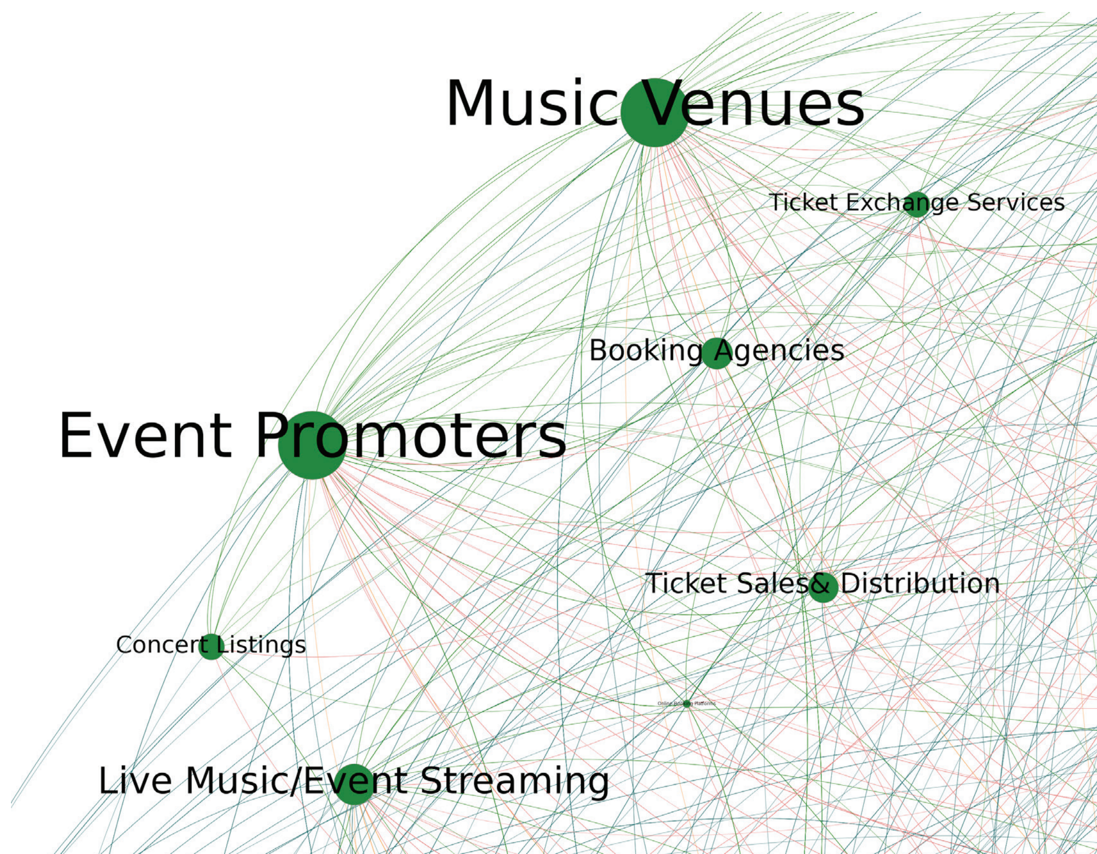


The live music industry

The live music industry includes everything related to concert promotion and production. The stakeholders related to the live music industry considered for this model are:

- Booking Agencies
- Event Promoters
- Festivals
- Ticket Sales and Distribution Companies
- Music Venues
- Live Music/Event Streaming
- Concert Listings
- Online Ticket Sellers and Resellers/Ticket Exchange

Figure 12: Live music industry stakeholders of a generic music industry value network



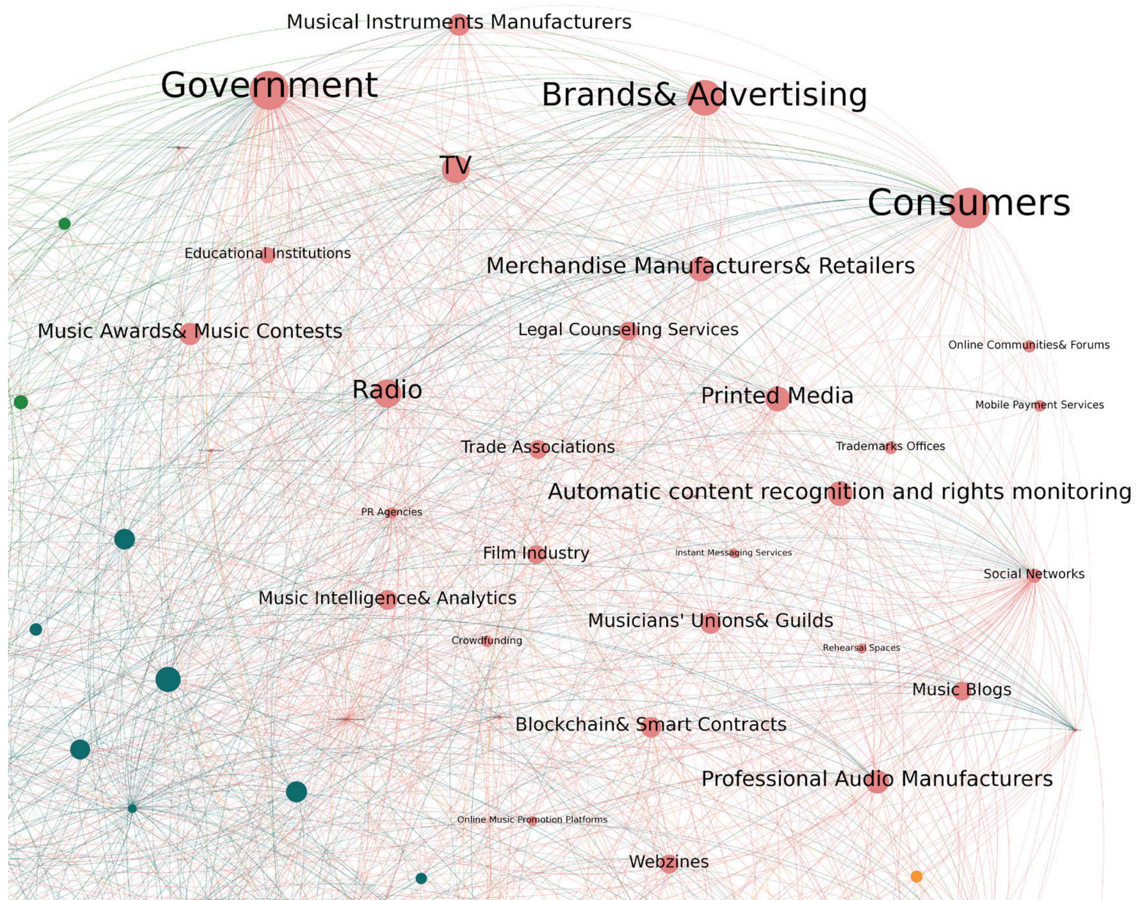
Other stakeholders

Apart from these, there are many other players that cannot be directly associated to any of the three main music industries, but rather have exchanges with them all at different instances and in different capacities to produce value. This does not imply that they are less important to the network, they simply provide value common to all three sectors. The ancillary stakeholders considered for this model are:

- Automatic Content Recognition and Rights Monitoring
- Automatic Identification and Data Capture (AIDC) Technology
- Blockchain Technology
    - Cryptocurrencies
    - Smart Contracts
- Brands & Advertising
- Consumers
- Cross-media Platforms
- Crowdfunding Platforms
- Educational Institutions
- Film Industry
- Financial and Bookkeeping Services
- Government Agencies
- Instant Messaging Services
- Legal Counseling Services
- Merchandise Manufacturers & Retailers
- Musical Instruments Manufacturers
- Music Awards & Music Contests
- Music Blogs
- Music Charts

- Musicians' Unions & Guilds
- Music Intelligence and Analytics
- Music Promotion Platforms
- Online Communities & Forums
- Online, Mobile & P2P Payment Services
- PR Agencies
- Printed Media
    - Specialized magazines
    - Fanzines
- Professional Audio Manufacturers
- Prosumers
    - Net Labels
    - Online Mastering Services
- Radio
- Rehearsal Spaces
- Review Aggregators
- Social Networks
- Trade Fairs & Conferences
- Trade Associations
- Trademark Offices
- TV
- Webzines
- Dancers & Coreographers

Figure 13: Other stakeholders of a generic music industry value network



The graphic model presented here is accompanied by an interactive one which will be made available online in an effort to try to map and capture the dynamics of the current music industry value network including all relevant stakeholders, and providing the possibility to visualize more clearly how each stakeholder interacts with the rest of the network.

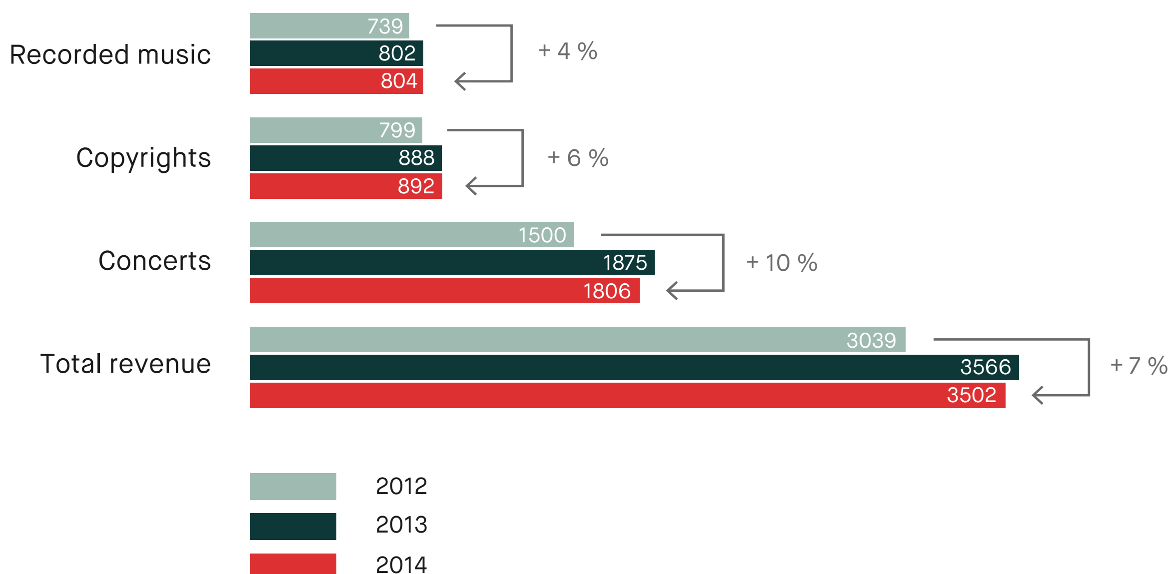
The Norwegian case

Building on the analysis of the previous sections and based on data gathered through interviews with a panel of diverse stakeholders in the Norwegian music industries, as well as from industry reports, this section will try to depict the current state of the music industries in Norway, considering the new business models reshaping the current musical landscape, and propose a couple of policy recommendations to foster innovation and long-term development of the broader music industry in the Norwegian music market.

Overview

The total value of the Norwegian music industries in 2014, including sales of recorded music, concert revenue (ticket sales) and copyright income, but excluding revenue related to merchandise or public/private grants, as well as other externalities, amounted to NOK 3.502 million, a 2% decrease from the previous year (Kavli & Sjøvold, 2015).

Figure 14: Norwegian music industry revenue from 2012 to 2014 *(Source: Kavli & Sjøvold, 2015)*



In line with the redistribution of income derived from the decline of recorded music sales, live music has consistently gotten the lion's share of the industry in recent years, with more than half of the income since 2012 stemming from concerts, even though it suffered a slight decrease year-on-year in 2014, from NOK 1875 million in 2013 to NOK 1806 million. Currently, copyright is the second biggest source of income for the Norwegian industry, followed by recorded music (Kavli & Sjøvold, 2015).

TONO, the Norwegian collection society/performing rights organization for composers, songwriters, lyricists and music publishers, reported record high revenues in 2015 (NOK 588 million), with a year-on-year growth of 17,63 per cent.

In 2015, Norway was the 20th biggest market for recorded music in the world with a trade value of US$105,9 million (NOK 855 million), an increase of 2,6% year on year. It boasts one of the highest rates for digital music worldwide: 64 per cent of total revenue for the record industry came from digital sources (77,4% of which was due to streaming), compared to 13% physical; the remaining 23 per cent corresponded to performing rights (Buflaten, 2016a). At the same time, last year Norway had the second highest spending per capita on recorded music in the world (US$20,3), just barely behind the UK by only 0,8 dollars (Buflaten, 2016b).

It is no surprise then that Norway is constantly portrayed as a digital success story worldwide. However, the Polaris Nordic Digital Music Survey (2016) carried out in Finland, Denmark, Sweden, and Norway seems to imply there is still a lot of room for growth. According to the survey, only 23% of the Nordic population aged 15-65 years actually paid for music in digital format in 2015, even though 77 per cent of the total population had used digital music services in the previous 12 months. The survey also showed that 40% of respondents still resort to radio as their main source of music discovery, while only 26% use online sources (including YouTube, music streaming services, social media, and other Internet sites) to discover new music – it is important to note, though, that among youngsters (12-17 years old) the numbers look completely different, with 46 per cent of them resorting to some sort of online source, and only 12% using radio to discover new music, while 25% trust their friends for music recommendation (compared to 9 per cent among the general population).

Also noteworthy is the fact that only 2% of respondents discover music at concerts (1 per cent among youngsters), which says a lot about the power of the "traditional" music industry, with the record labels at the driver's seat, to break or bury new acts in the Nordic countries.

Music exports

Power & Hallencreutz (2002) argue that, for small music markets, international competitiveness and export of local musical products are more important than in larger economies where domestic demand is large enough to support a profitable and fully functioning music industry. Furthermore, while the quality of the creative scene in a city or region is crucial when it comes to commercial success, so are the links "between the local production system and the international circuits of capital, distribution, and effective property rights" (Power & Hallencreutz, 2002, p. 1833).

In Norway, which could be considered a relatively small market, exports only account for 6 per cent of the business (excluding revenue from Norwegian artists, songwriters or producers employed by a foreign firm or Norwegian artists who are affiliated with foreign copyright societies/companies) (Rambøll, 2014). And once again it is the live music industry that consistently gets the better part. In 2014, concert-related revenue amounted to NOK 117 million, followed by copyrights collected abroad with NOK 68 million and only NOK 38 million belonging to recorded music (Kavli & Sjøvold, 2015).

Figure 15: Percentage of overall domestic vs export market 2012-2014 *(Source: Kavli & Sjøvold, 2015)*

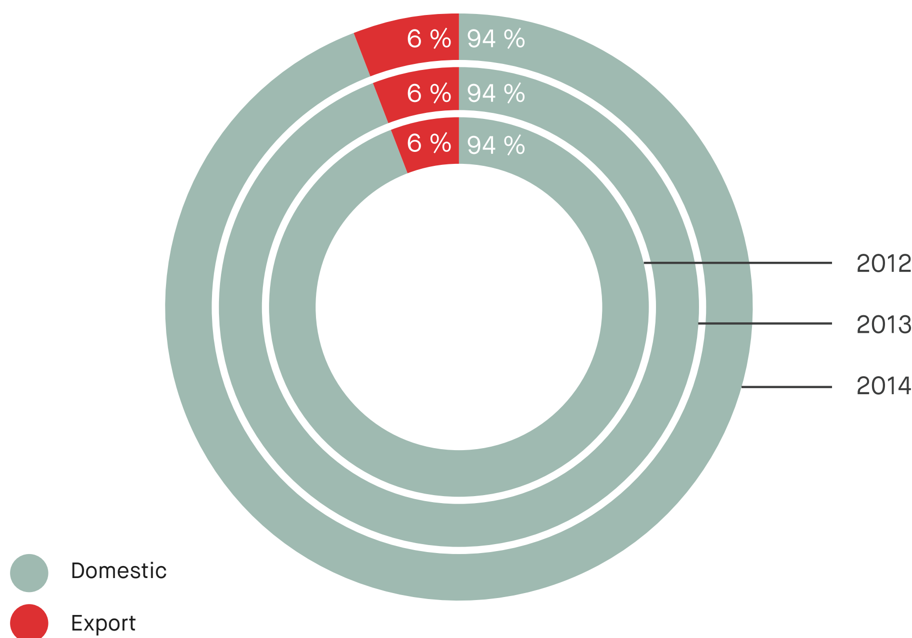
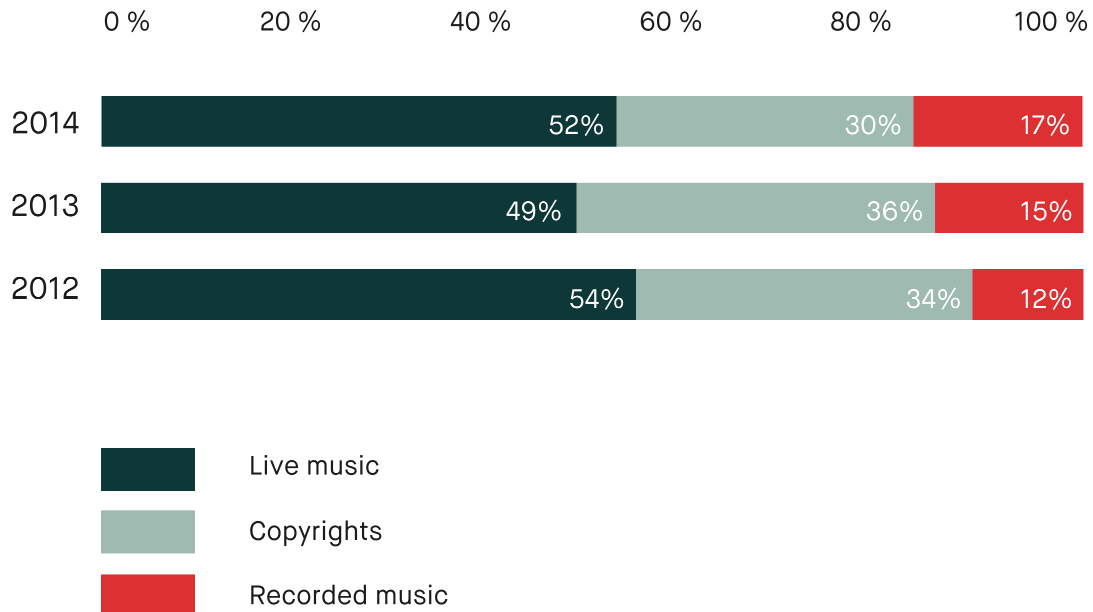


Figure 16: Percentage of export revenues by type, 2015

(Source: Own with data from Kavli & Sjøvold, 2015)



At the same time, and even though there is no consensus on what is considered "Norwegian" music (Kavli & Sjøvold, 2015), international repertoire accounted for 79% of the local market in 2014 (Music Norway, 2016a) and 77 per cent in 2015 (IFPI Norway, 2016). In line with most other countries where the record industry is dominated by the major labels, which represent roughly three quarters of the market worldwide.

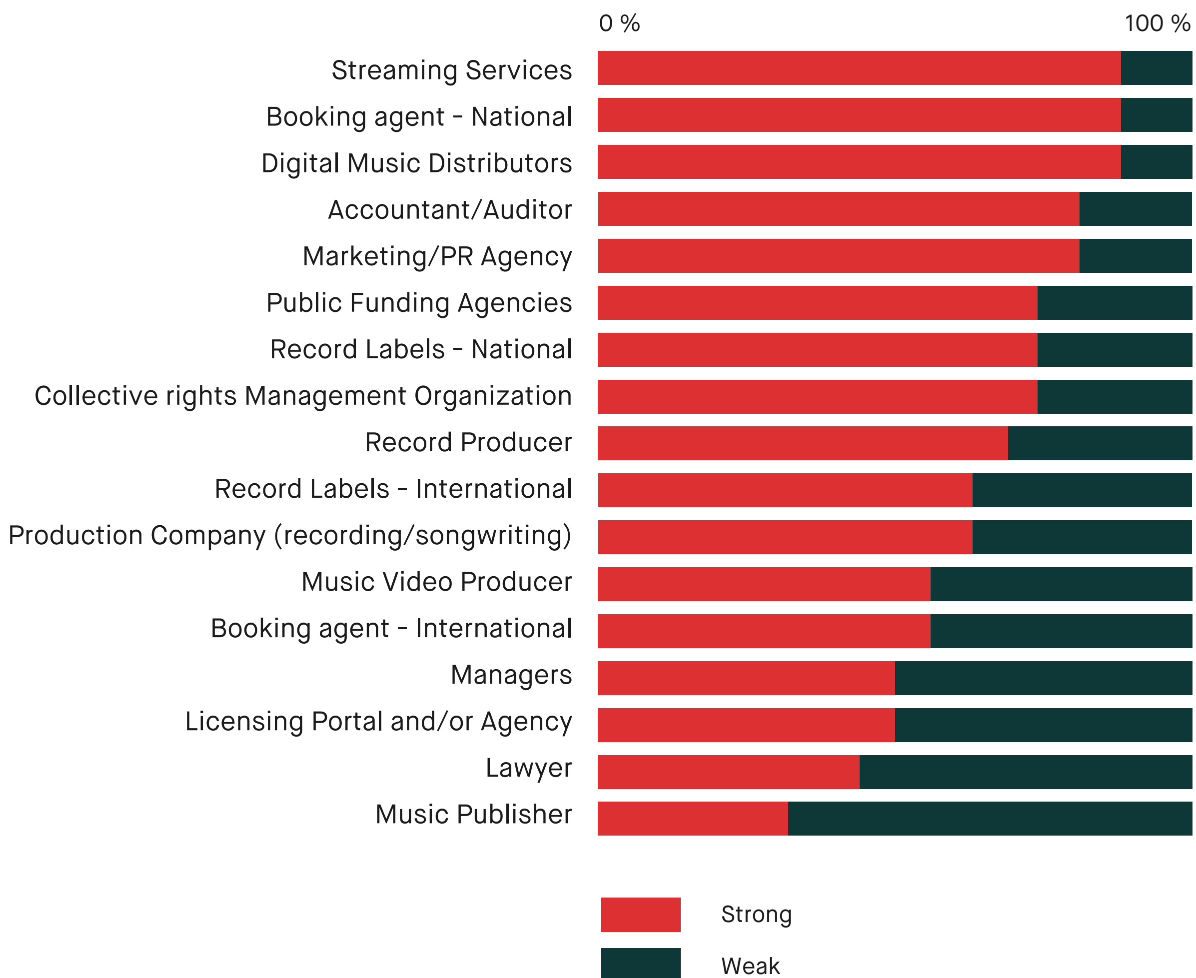
Insiders' View

A focus group consisting of 20 individuals and organizations taking part in a research project mapping policy tools and instruments for the Norwegian music industry was created in order to get a more detailed and accurate view of the local industry. Selection was based on companies and individuals having been granted Music Norway's Export program past and present or taking part in the joint competence building FRAM program delivered by Music Norway in collaboration with Innovation Norway. The group was intended to be a representative sample of

professional music businesses, although some participants argued that more music publishers should have been invited to take part for that to happen. Thus, according to their own view and opinion, the group's view and comments are biased in relation to their relative role and position in the industry.

All participants were asked to individually answer several questions related to the value network. The results presented here are based on aggregate responses.

Figure 17: Relevance to the operation of other stakeholders in the past 5-10 years



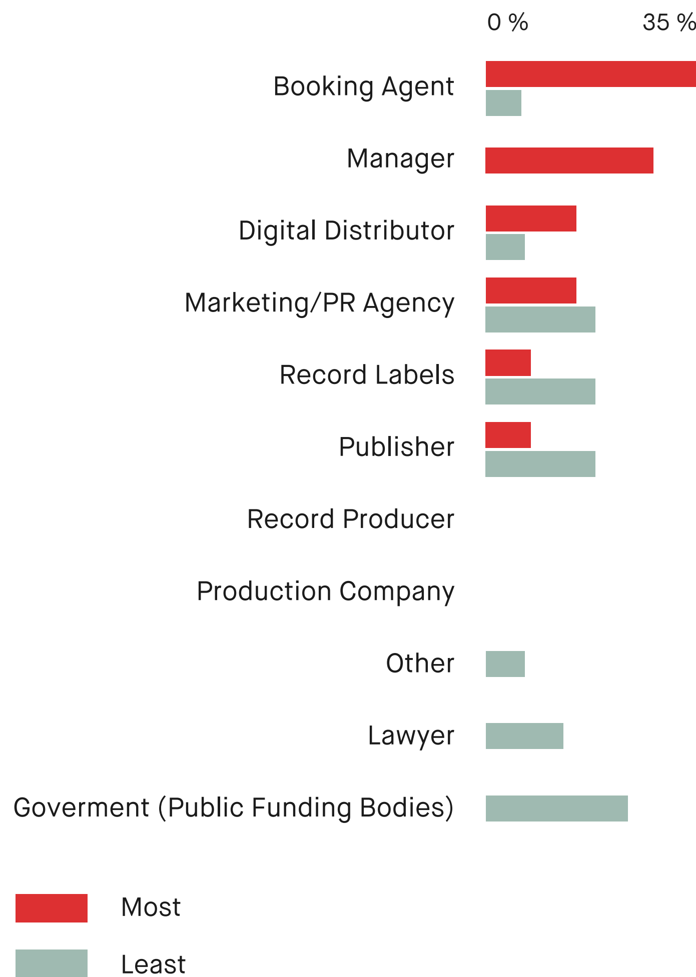
To the question of how important had different players and/or services been to the operation and development of their businesses over the past five to ten years, the most relevant stakeholders (chosen from a closed list of options) turned out to be Streaming Services, unsurprisingly, given the success of these services in the country, and Funding Agencies, again unsurprisingly considering the large subsidies and grants the Norwegian government allocates to music and culture in general[6]. Likewise considered salient were National and International Booking Agents, in coherence with the importance of the live music sector as shown by the figures above, Digital Music Distributors (tightly linked to streaming services), Major Record Labels and PR/Marketing Agencies.

Least relevant were Production Companies, as somewhat of a surprise given the major international success of production teams hailing from Norway, such as Stargate, Espionage, Element, and Electric, which probably indicates the weak links between major and minor actors in the industry, but also between the different stakeholders involved in the production side of the business. National Record Labels were also considered not too relevant, which points to what might be one of the weaknesses of the Norwegian (and most other countries') music industry, namely the dominance of the major record labels (and their interests) in detriment of local players, as the share of domestic/foreign music in the Norwegian market shows.

When asked who were the stakeholders with whom they currently interact the most, it is clear that the live music industry plays a very important role in the day-to-day of the Norwegian music economy, with Managers and Booking Agents, together with Marketing/PR Agents, being the stakeholders most cited.

6 In 2014, the total allocation from Arts Council Norway (Kulturrådet) alone to the Norwegian cultural sector amounted to 140 million euros (although it decreased to 132 million in 2016 (Kulturrådet, 2016)), of which 21,2 million were used for music-related activities through the "Cultural Fund," in addition to grants awarded to artists to develop artistic projects and funds allocated to promote the production and dissemination of recorded sound and film (Kulturrådet, 2014).

Figure 18: Who are the stakeholders with whom you currently interact the most/least?

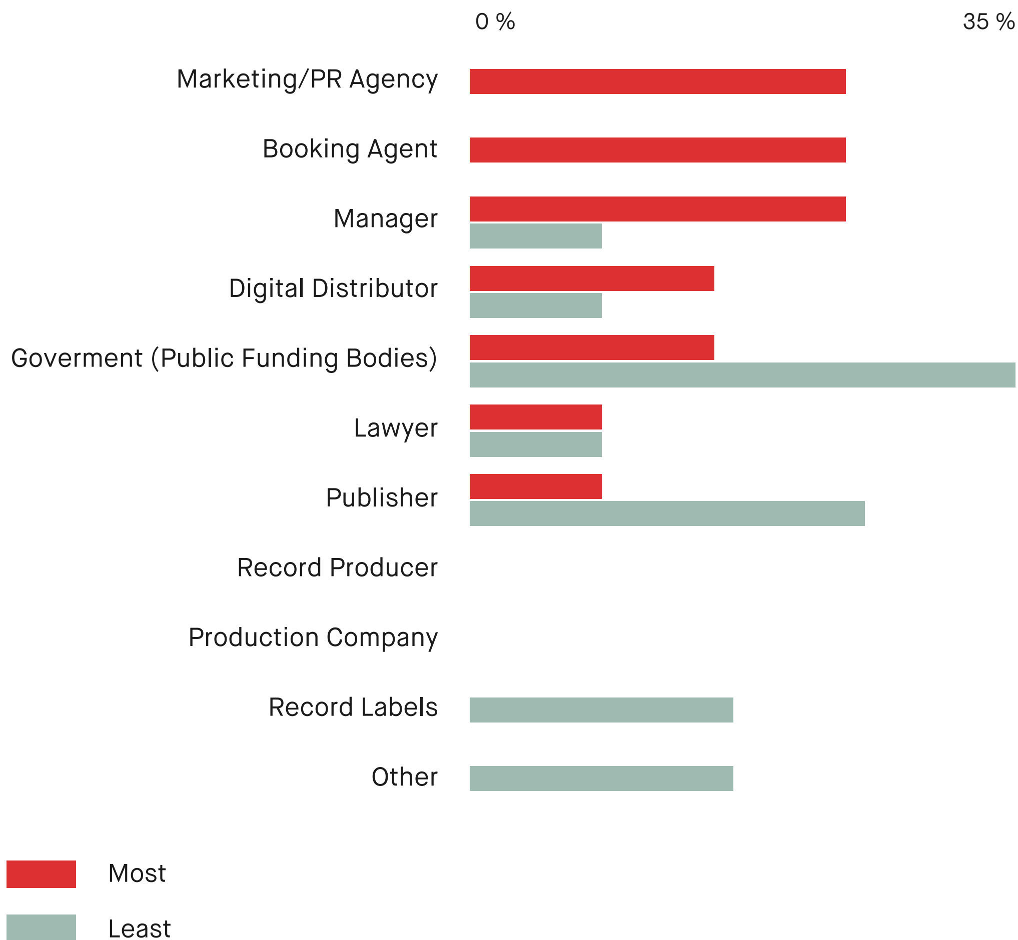


On the other hand, Government (Public Funding Bodies) and Publishers were the stakeholders that seem to interact the least with the rest of the network. In the first case, and considering the salience of public funding agencies to other stakeholders stated in the previous question, it might indicate that the processes to get funds from public agencies are pretty streamlined and unbureaucratic, requiring not too much interaction.

This view does not change much when asked about the stakeholders with whom respondents expect to interact the most in the near future. Nevertheless, the relationship with Booking Agents and Managers is likely to get busier, anticipating

a focus on the live music sector. At the same time, and in an apparent paradox considering its importance to the network, the interaction with Public Funding Bodies is likely to diminish, as well as with Publishers.

Figure 19: Who are the stakeholders with whom you expect to interact the most/least in coming years?



Informants in the focus group were also asked to point out the strengths and weaknesses of their own sectors in an open-ended question. The most recurrent concern among participants seems to be funding, with some respondents advocating for more private money to flow into the industry in an attempt to help develop existing businesses and foster start-ups, something which seems to be

hampered by the abundance of public subsidies and grants that make the market unattractive, while at the same time apparently not being able to cover the needs of the industry.

A poor know-how and experience in industry-specific (specially international) business matters and unawareness that the music industry is about doing business, plus the lack of sound financial advice and funding are also important concerns to the development of the overall music industry in Norway.

More specifically, from responses to the study and informal talks with some incumbents, it seems clear that the domestic music publishing industry is under-developed and relies entirely on the major (international) players – something that links perfectly with the worry about lack of expertise stated above, given the complexity of the copyright system. And considering that copyrights are the second biggest source of income for the Norwegian music industry, this implies the need for the domestic music publishing sector to be better supported and stimulated, both financially and in terms of competences and training, for it to become more competitive.

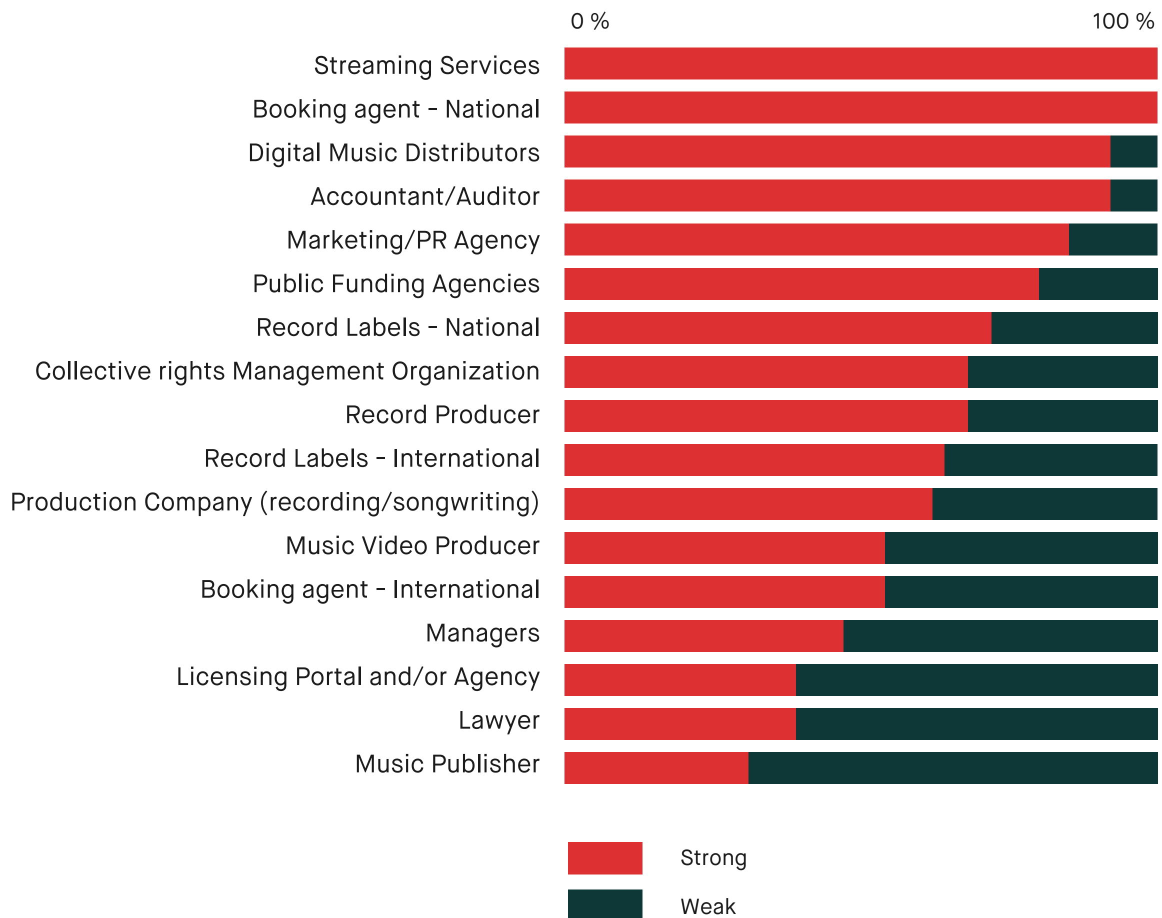
This unfavorable view of the publishing industry was confirmed when respondents were asked to name the weakest and strongest players in the industry at present: Almost 70 per cent of the participants in the study voted Music Publishers and Licensing Portals and/or Agents as the weakest stakeholders. Moreover, Lawyers, who have a strong connection with copyrights and, hence, the music publishing world, were the third worst rated players in the industry.

Further, and somewhat surprising, given the relevance of Managers for most of the network, was the fact that more than half of the respondents believed this group to be among the weakest links in the industry. An explanation could be that the “best” Norwegian managers focus more on international projects and clients, rather than on the local industry and hence do not have much interaction with other stakeholders at the national level. Nevertheless, this is something that obviously needs to be looked at in more depth since it might point to a serious problem because it implies the possibility that one of the most important stakeholder groups in the network is, at the same time, one of the weakest.

On the bright side, the responses seem to agree with the numbers in that Streaming Services, together with Digital Music Distributors, and National Booking Agents are unanimously considered the strongest players in the industry, which is clearly reflected in the strong performance of this players in recent years. Marketing/PR Agencies and Public Funding Agencies are also well-considered

by most respondents, which speaks highly of the policies being implemented by government bodies and the promotional and outreach competences of local companies.

Figure 20: Who are the strongest/weakest players in the Norwegian music industry?

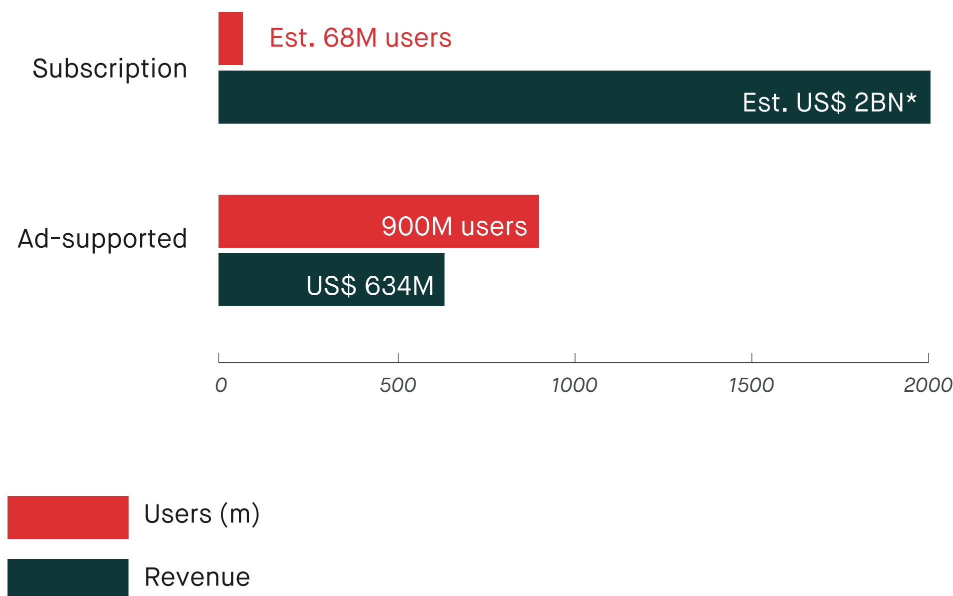


Other issues and recommendations

Value gap disconnects

Frances Moore, CEO of IFPI, recently defined the value gap as the unfair return of revenues generated by the explosion of music consumption worldwide to those who create, own and invest in music (Moore, 2016).

Figure 21: Subscription and ad-supported revenues versus users *(2015)*



This figure includes estimated paid subscription revenues only

Source · IFPI

She was making reference to Internet intermediaries who have grown massively in recent years making use of their bargaining power on the value network to get cheap musical and cultural content. More specifically, she was targeting ad-supported services which base their model on "user-uploaded content" and benefit from safe harbor provisions while being the single biggest source of recorded music in the world. Among these services is YouTube, the go-to (music) video streaming service which boasts over 1 billion users worldwide, 82 per cent of which use it for

music (IFPI, 2016b) but yet managed to pay only 4% of industry revenues globally in 2015 (Moore, 2016).

In Norway, even though 25% of the population uses YouTube every day, revenue from video streaming services, such as YouTube, dropped from NOK 4,9 million in the first half of 2015 to NOK 4,7 million in the same period of 2016, accounting for less than 2 per cent of streaming revenue. This is a tiny fraction of what competing music streaming services like Spotify, Tidal and Apple Music paid during the same period to labels and artists: NOK 278 million (Buflaten, 2016c).

This issue is affecting not only record labels but also music publishers worldwide, and Norway is no exception. Consequently it has been the topic of serious discussions in the industry and among policy makers, if only recently, all around the world. In an attempt to try to make the economy of cultural industries online sustainable, rightsholders have asked legislators to work towards rebalancing the current transfer of value in the online economy which currently favors some intermediaries in the detriment of others. In its annual report for 2015, IFPI Norway (2016) made an appeal to the Ministry of Culture on behalf of the Norwegian record industry to make the issue a priority and tackle it as soon as possible.

Related to this is the issue of the presumed undervaluation of music by streaming services and the very low revenues performing artists and songwriters get from them. According to Lalonde (2014, p. 3), “no less than 80 per cent of gross revenue from all sources would offer compensation at fair market value for the overall use of music by streaming services,” compared to the 60% to 70% currently paid out. This is exacerbated by a very low per subscriber revenue and “free” services, which increase listenership and drive share prices up for the benefit of shareholders, while in fact, it is the performing artists and songwriters who are subsidizing these increases in shareholder value receiving only a very small fraction in exchange.

In addition, the same study by Lalonde addresses yet another disconnect that is not talked about so much but is just as relevant, namely the uneven distribution of monies to rightsholders by streaming services. Currently, revenues from these services are split 94/6 between labels and publishers, and the study suggests that they ought to be split more evenly, somewhere along the lines of a 50/50 deal. However, this battle will likely prove even tougher than the previous one, especially for songwriters and independent publishers, due to the anomaly that (major) record labels tend to negotiate with third parties on behalf of all rightsholders, given their power in the network. Moreover, publishers are usually bound to pay much more to songwriters than the revenues record labels share with recording artists. And with the three major music groups – Universal, Sony and Warner – controlling a substantial share of the music publishing market through their publishing arms, the horizon does not seem too promising in this regard.

Transparency

The music industry, and more specifically the record industry has historically suffered from a severe lack of transparency, as proves the recent controversy generated by the advances paid out to (major) record labels by music streaming services, which were only acknowledged by the labels when the issue had become part of the public discussion.

A more detailed and specific account of the transactions and agreements between stakeholders in the music network makes the communication richer for common benefit. Likewise, the more individuals/organizations have access to such information, the better decisions they can make, increasing value for themselves and the rest of the network.

In the knowledge economy, information is key. Before the advent of the Internet, reaching large numbers of people with rich information was a costly and time-consuming process, however, with the available digital technologies nowadays there is no need to make a compromise between richness and reach (Graham *et al*, 2004).

Transparency requires trust. And increased trust between stakeholders leads to fewer transactions costs, by effectively "reducing the resources needed to create and enforce contracts and by eliminating the need for elaborate safeguards and contingencies that require detailed monitoring" (Parmar *et al*, 2010, p. 416).

Government intervention

Government can play different roles in the music industry but it always influences the outcome of the network, be it by commission or omission. It may either be the arbiter between players, setting the rules of the game, or act as another stakeholder, providing funds to support the production of goods or services for public benefit and, thus, reducing the risk for the actors involved.

Musicians, for instance, usually rely on their own money and labor to create and produce, since private financing is very hard to come by, making their profession a high-risk one. At the same time, creative talent is the lifeblood of the music industry and ought to be protected and promoted. From this perspective it makes perfect sense for public money to be allocated to creators in order to nurture talent. However, there must be a balance in order not to inhibit the functioning of the network: If subsidies reduce the risk altogether, creators might be less encouraged to make products that are attractive to a larger audience or market. "If the easiest way to find support is through the government, the inertia of established ways

will cause artists to look for projects they can do within the limits of what the government will support" (Becker, 1976, p. 185). With this in mind, it may be wiser to create a strategy that encourages private stakeholders to invest risk capital to strengthen the functioning of the value network (Keeble & Cavanagh, 2008).

This is not to say that public money should not be allocated to music, or any other cultural industry for that matter, on the contrary. However, government should strike a balance regarding how much public funding and regulation is necessary to keep the industry going and foster creativity and innovation, while at the same time making all sorts of music available to as many people as possible, both in terms of enjoyment and practice, without keeping it from being market-responsive.

In the end, the music business is about making money. As Paul Simon (cited in Landau, 1972) once famously put it: "The fact of the matter is that popular music is one of the industries of this country (the USA). It's all completely tied up with capitalism. It's stupid to separate it. That's an illusory separation."

In this regard, a framework for innovation similar to the one proposed by Bakhshi & Throsby (2010) with the commitment and involvement of the entire value network might prove adequate for the development of the domestic music industry and a stronger "Norwegian music" brand, stressing innovation across four dimensions:

1. Innovation in audience reach, which entails attracting larger numbers of regular participants, improving engagement with current participants and attracting new groups of consumers, both locally and abroad;

2. Innovation in the development of music as an artform and an industry, by encouraging new and experimental work by Norwegian players and within Norwegian-based structures, together with education to improve consumer understanding, as well as training and more hands-on industry experience to develop the skills and competencies of the workforce;

3. Innovation in value creation, i.e. developing new ways to measure the economic and cultural value, both tangible and intangible, stakeholders in the music network create and translate these into terms that policymakers, funding agencies, donors, private investors, and consumers can relate to;

4. Innovation in business management and governance, which calls for stakeholders to constantly review their business models and keep up to date regarding best-practices, as well as the ability to search for financing strategies that are appropriate to the ever-changing funding and economic environments.

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