THE NATURE, CAUSE AND TRAJECTORY OF EMERGING BUSINESS MODELS IN THE DIGITAL MUSIC SECTOR:
OPPORTUNITIES FOR SPECIALISED MUSICIANS

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January 2010

A thesis submitted in fulfillment of the requirements for the degree of Doctor of Philosophy from the Royal Melbourne Institute of Technology
Certification

a) Except where due acknowledgement has been made, this work is that of Anna Daniel alone;

b) The work has not been submitted previously, in whole or in part, to qualify for any other academic award; and

c) The content of the thesis is the result of work, which has been carried out since the official commencement date of the approved research program.
With thanks to
Joan and Lyle Daniel.

In memory of Rufus, a 24 year epic.
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THE NATURE, CAUSE AND TRAJECTORY OF EMERGING BUSINESS MODELS IN THE
DIGITAL MUSIC SECTOR:
OPPORTUNITIES FOR SPECIALISED MUSICIANS
May and Singer analysed the impact of innovations in digital music and argued musicians “don’t stick together [and] lack ‘business savvy.’” They concluded the major labels (four dominant music companies) have “little to fear in the long run” to the volatile changes in the music system, rather they “just need to adjust to a new business model” (May & Singer 2001: 128, 129, 136). Their paper provided a starting point for this study, which explores how digitisation is changing the music sector, and specifically to examine:

1. How the music market is evolving and whether current changes are structural, cyclical or indicate a sustained demise;
2. How the major labels might respond to these changes and placing changes in the music industry in context. Disruptions that have taken place previously in the music sector and the response of the dominant market incumbents reveal themes for change and defence of market control, or competitive strategies;
3. The inclination and ability of musicians to perform business activities; and
4. Emerging business models in the music industry.

Despite reports proclaiming the ‘death’ of the music industry (Frontline 2004), a review of the music market found that demand for music continues and thrives, despite its dispersion across multiple channels. With that encouragement, the changes arising from digital innovations need to be placed in context because they are destabilising the dominant music businesses (major labels). A historical scan of disruptions in the music sector, and the response of the dominant market incumbents revealed themes for change and defence of market control, or competitive strategies. It highlighted there will always be dominant entities in the music sector while there is a mass market for ‘mainstream’ music, because a mass market requires mass market operators, whose
influence tends to dominate the market. The major labels are the current incumbents, however this may change. Their power within the sector is eroding as the market fragments, and other sector incumbents may emerge.

A literature review highlighted that musicians may not maximise their financial and experiential potential in the traditional mainstream music business system, which involves signing to a major label. For this reason the study was refined towards musicians who deliver specialist, niche music. Such musicians may attain mass-market status, however their music tends to be of a specialised style as opposed to mainstream music released by the major labels. In the current environment emerging digital services and products have been identified that may be used by specialised musicians who are not signed to major labels. By using a selection of emerging digital tools, they may enjoy sustainable careers outside of the major label system. Musicians who self-manage were identified, but this study concluded they prefer to use advisors (for example, legal, accounting and management support).

In conclusion this study finds that:
1. The market for music exists, albeit it is undergoing structural change;
2. Emerging products and services may enable musicians to sustain careers outside of the major label system; but
3. Musicians are not inclined towards self-management.

These findings indicate emerging new business models for specialised musicians.
INTRODUCTION

This study was motivated by the conclusion of a *McKinsey Quarterly* article written by Brett May and Marc Singer in 2001 titled ‘Unchained Melody’. At the time of writing the article, Brett May was employed by a company allied with major music label BMG. They argue the music sector is:

> ripe for a change [but] in reality record labels may have little to fear in the long run [and] they just need to adjust to a new business model. [Musicians] don’t stick together and are not, typically, business savvy (May & Singer 2001: 128, 129, 136).

The key points of their conclusion became the core research questions of this study:

1. What is the nature, cause and potential of emerging business models for music in the context of broadband internet and social media software?
2. Can changes in the digital environment facilitate a financially viable, sustainable business model for specialist music? and
3. If so, can musicians use this model to succeed?

This study approaches the music sector from the perspective of a consumer, in contrast to many music sector studies that are undertaken from the perspective of musicians, labels or investors. This study is based upon research undertaken up until July 2008. Because technologies are rapidly changing the study did not focus on specific technologies or companies, instead on trends. Finally, music is increasingly a global commodity, and the market for music in Australia is discussed. This serves the purpose of positioning the study within a local market that is also outside of the dominant systems in the United States and Europe.
To explore these questions a tri-part process was undertaken. The approach of this study is depicted below and is discussed in more detail in the methodology chapter. It has explored elements of the traditional value chain and emerging value chain; analysed case studies on change agents in the music sector and their impact, with an initial hypothesis that the change agents were successful; and thirdly it has tested the inclination and capability of musicians to manage their own operations.

Table 1: Outline of study approach

<table>
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<th>2. Develop</th>
<th>3. Test</th>
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<td>Exploratory research</td>
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<td>Literature review</td>
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<tr>
<td>Output</td>
<td>Description of evolving structural dynamics in the music sector</td>
<td>PEST analysis highlighting opportunities and barriers to sustained success of specialist music</td>
<td>Description of current system and potential models per value chain element</td>
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Key outlines of each research chapter will now be described.

Structural dynamics in the music sector
The music sector has experienced high volatility and rapid change in recent years. In order to explore whether the major labels have little to fear in this environment as claimed by May and Singer (2001), a market assessment is required. Confirmation that a market still exists for music was needed, in light of reported falling product revenues and increased competition from alternate entertainment options. This chapter confirms that demand for music continues to be strong, but it is increasingly difficult to
quantify as the channels and uses of music proliferate. Demand however may not translate into revenues. Barriers to entry that have protected the incumbents over the last century have fallen, resulting in market fragmentation and increasing new entrants from other sectors. As a result the dominance of the major labels is decreasing, however they still control major music catalogues. Their model has traditionally focussed on the sale of music products, which have been cannibalised by peer to peer (P2P) activities, or the free swapping of music between consumers.

Digital innovations have generated changes to the industry revenue mix - with emerging revenue sources and declining CD revenues. A second impact is that the costs of production and distribution are declining. This lessens the need for ‘advances’, loans that major labels provide to musicians to cover the cost of such activities. If these are no longer needed then questions arise about the value of the services offered by major labels, for example the ‘NSync’ band manager noted “an awful lot of established bands out there are looking at their digital strategy and looking at the record companies and saying, “Why do I need you?”” (Kover 2000b: 128).

Musicians may not maximise their financial and experiential potential in the traditional music business system. So the study was refined to consider strategies for specialist or niche musicians, who operate outside of the dominant music system of major labels, the traditional music business, and mainstream (mass market) music product. There is a revenue opportunity cost for musicians operating with a major music company. If they were to operate independently and directly they may retain a greater portion of revenues. This theme is explored in chapter five.

Case studies of change agents and control

Having demonstrated that demand for music continues to thrive, and that a market exists, the May and Singer (2001: 128) claim that “in reality record labels may have little to fear in the long run” needs to be explored. How can incumbents (major labels) and those outside of the dominant system (specialist niche musicians) compete in the emerging digital environment? In order to identify competitive strategies we need to find examples where change agents have been successful against dominant incumbents. A historical exploratory scan of the music system was undertaken to
identify examples of successful specialist music or structural changes in this chapter. The examples were chosen because they appeared to represent specialist music succeeding (to varying degrees) outside the dominant system. Strategic themes were revealed by exploring:

1. The current situation;
2. The change agent, change and effect of that change;
3. How the dominant system (the incumbents, for example, the major labels or those in political power) reacted; and
4. Whether the change agent succeeded over the longer term and any key success factors.

The analysis highlighted how political, economic, social and technological shifts may impact current and future events.

Musician self management
The prior chapters:
1. Identified that demand for music remains strong, despite revenue falls; and
2. Established there will always be dominant players in the sector (but who they are may change).

The May and Singer (2001: 136) argument that musicians lack “business savvy” was tested because many commentators suggest that opportunities within the current environment allow musicians to manage their own sustainable careers (UNCTAD 2008). However there is very little research available that suggests how this can be achieved. Secondly, if the environment is conducive, musicians may or may not wish to manage their own operations or be capable of doing so. This was analysed in two phases:
1. Decision making is a key activity of business management. A financial decision support model was developed; and
2. Musicians tested the model and provided feedback via a questionnaire on their interest in the process and ability to use the model.

The questionnaire aimed to gain insights into the ability and inclination to perform management activities. For instance they may be capable of management duties but not interested in doing them. Findings suggest musicians may be capable of
self-management, but typically are disinterested in business tasks. These tasks may be outsourced, just as any small business operator may outsource legal, accounting and strategic advice.

Value chain analysis
The claim by May and Singer (2001: 134) that the major labels just need to “adjust to new business models” warrants exploration. Value chain analysis provides a systematic way of examining key activities in a sector and how they interact, their cost, relevance and differentiators. Identifying, creating, capturing and protecting value in each element of the chain is fundamental to generating sustainable competitive advantage (Porter 1998). This chapter analyses elements of the music value chain. They were chosen as being the principle activities in the music system, in terms of time and financial resources. This value chain differs from other studies that may focus on music products or major labels. The elements are:
1. Production;
2. Publishing;
3. Distribution;
4. Performance; and
5. Promotion.

Chapter six identifies and explores activities that are traditionally undertaken in each element. It then explores emerging opportunities in each element and discusses their potential. These opportunities predominantly result from digital innovations. The results highlight functional strategies for success outside of the dominant music system for specialist niche musicians. The opportunity costs of musicians operating within the dominant system were identified, reinforcing the argument that musicians may not maximise their financial and experiential potential via the traditional model of signing with major labels. The analysis aimed to highlight which segments of the market specialist musicians offer greatest potential for sustainable careers and emerging opportunities.

Chapter seven discusses potential changes to business models arising from emerging innovations in the music value chain. It highlights opportunities for musicians who operate outside the dominant music paradigm.
In summary, the structure of this thesis is as follows:

1. Chapter one provides an overview of the research that has influenced this study. It describes business models, game theory, decision theory and risk theories. Secondly it covers academic thinking on consumer and social issues such as deviance and social change; music scenes, media, and the evolving consumer.

2. Chapter two describes the importance of this research and the contribution to existing research. It discusses methodologies used.

3. Chapter three discusses the structural dynamics in the music sector. It provides a macro-overview of changes and then focusses on two factors of importance to this study: socio-demographics and market fragmentation.

4. Chapter four provides a selection of the case studies undertaken that considered the impact of change agents on control within the music sector. Each case study tested the hypothesis that the change agent achieved sustainable success and identifies key success factors.

5. Chapter five tests a critical element of change in the music environment: whether musicians are capable and willing to manage their own operations. If so, they may achieve sustained success.

6. Chapter six outlines key elements in the traditional and emerging music value chains.

7. Chapter seven discusses the aggregate findings of this study.

8. Chapter eight presents conclusions and indicates possible future research.
1: THEORY

The fundamental nature of the new technology – the replication of digital files cheaply and easily - cannot be controlled in the same ways as the traditional music business was controlled. Trying to control these activities will have no other effect than to thwart creativity, entrepreneurialism and cultural diversity, and worst of all delay the development of new business models that work with the technology rather than against it (artist manager Peter Jenner, 2008: para. 9).

This thesis is concerned with business strategy theory as applicable to the music sector. It investigates business models, decision theory and risk, competitive strategies and elements of sociology and media studies that apply to consumers and society. These factors affect the viability of music businesses. This chapter highlights and discusses key elements of the theories that influenced this thesis.

Business models

Although business model references appear in scholarly literature back in the 1960s (Osterwalder 2004), business model theory grew in prominence when Porter (1985) described how technology could affect competitive advantage via:

1. Changing industry structures;
2. Supporting cost and differentiation strategies; and/or
3. Creating new businesses.

Essentially a business model is a framework for how a firm (or entity) can create and sustain value. Porter (1985) defines value as the financial amount that buyers are willing to pay for what a firm provides to them. It is a revenue measure. Regarding business models, more specifically Timmers (1998: 4) and Lechner and Hummel (2005:41) all believe a business model is a framework for “product, service and
information flows,” that describe the:
1. Various business actors and their roles;
2. Potential benefits for the various business actors;
3. Revenue sources.

Like Porter, Linder and Cantrell (2000: 2) define a business model as the “core logic for creating value.” They segment business models into 3 elements, being:
1. Components (or framework);
2. Operations (how the components work together); and
3. Change models.

Linder and Cantrell define change models as the core logic of how a firm will change over time to remain profitable in a dynamic environment. The definition of business models by Lechner and Hummel is similar to points one and two of Linder and Cantrell, but rather than describe change models, their definition of a business model describes only the sources of revenue. The Linder and Cantrell definition appears to be more activity based than those of Timmers and Lechner and Hummel.

Osterwalder (2004: 44) provides a more detailed overview of business models and then presents a framework consisting of nine elements with the value proposition at its core:

![Figure 1: Osterwalder business model framework](source: Osterwalder 2004: 44.)

He distinguishes the business model from strategic planning that is undertaken first, and the process of implementation planning that occurs after the business model has been created. Osterwalder believes the business model translates the strategy into a logical description of how to create revenues, and from this processes will follow.
Foss (2003) emphasises the competitive environment and its impact on value protection, or the need to protect the source of value from competitive imitation. Similarly Weill and Vitale (2001) define a business model as a description of the roles and relationships among a firm's consumers, customers, allies and suppliers. It identifies the major flows of product, information, and finance, as well as the major benefits to participants. Lechner and Hummel (2005) also define a business model as including: a framework; potential benefits for participants; and revenue sources. Magretta (2002) and Yip (2004), perhaps sensing the confusion around business models emphasised it is important to distinguish between business models as a framework and system versus competitive strategies. Magretta describes a business model as a simplified narrative, a story, set to financial metrics and she notes business models tend to fail when the story does not make sense or the financials are poorly estimated. These stories are independent of competition and focus on the firm itself. However the story would need to include some interaction between the firm and the system.

Amit and Zott (2001: 493) describe a business model as the “design of transaction content, structure, and governance so as to create value through the exploitation of business opportunities.” They focus on showing how transactions are enabled by a network of: firms; suppliers; complementors; and customers. They cite Brandenburger and Stuart’s (1996) opinion that the total value of a business model is the sum of value added (or removed) by all parties within the transaction.

From a review of literature, common themes for a successful business model were identified as:

1. A business model is a framework for operation;
2. It highlights how components (products, services) within the framework operate together as a system;
3. It must highlight a process for value creation and sustainability (sustainability may arise from competitive advantage) and this will be discussed shortly; and
4. A business model must be viewed within the context of its environment (to be described in chapter three).

Business models are idiosyncratic, each firm has a specific business model and no two
firms would share identical business models. However business models can be discussed generically because some components, or the combination of those components, may be similar.

Value chains
With regards to points 1 and 2 above, Porter (1985) developed the concept of value chain analysis to highlight how value is created. His value chain approach aims to describe the collection of activities that are undertaken to create and deliver a product or service, from initial inputs to delivery. By understanding each activity (or link) in the chain and the value it adds, elements may be merged, added or removed, in order to deliver improvements that create value. Basically, where a company is positioned within the value chain will determine how it seeks revenues and movement around the value chain, in response to industry changes may improve revenues. It could be said that value in this sense is defined as profit maximisation rather than revenue, because some efficiencies cut costs as opposed to revenue generation, for example the removal of physical distribution activities. This approach may be applied at company level or it be expanded to a general representation of an industry. It is more holistic than value stream analysis that focuses on the path to delivery of selected inputs, not the entire suite of offerings (Rother and Shook 1999). Its focus is on manufacturing and emphasizing leaner production, and so may not be the most appropriate framework for the music sector.

Value chain analysis is more structured than value net analysis, which is applicable to scenarios featuring dynamic digital supply chains, and applies in a digital environment of non-sequential flexible rapid value creation and close working partnerships between suppliers and customers (Bovet and Martha 2000). Value net analysis may be a more appropriate framework through which to assess the new media environment, because it reflects changes in distribution and other activities. However because the music sector still continues some non-digital activities (touring etc.) value chain analysis is a more appropriate approach to use at this stage.

The applicability of the value chain analysis approach to: volatile industries; the global ebusiness economy; and some service industries, has been questioned (Childress 2008; Shapiro and Varian 1998; Downes and Mui 1998). Regardless it provides a useful
platform for value creation analysis, particularly for this study because it is not focused primarily on specific technologies.

Innovation, value creation and sustainability
Schumpeter (1939) and later Drucker (1969) viewed society and business in continual cycles of creation, growth, stagnation and decline, however Drucker believed innovation might help to avoid the stagnation and decline phases (Wren 2005). Schumpeter’s (1947) theory of creative destruction refers to scientific or technical inventions that, when exploited by entrepreneurs, lead to value creation (the initial phase of the business cycle). Perez (2004b) reminds us of the distinction Schumpeter made between inventions and innovations, emphasising that innovations require an entrepreneur:

<table>
<thead>
<tr>
<th>Distinction</th>
<th>Description</th>
<th>Example</th>
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<tbody>
<tr>
<td>Invention</td>
<td>Scientific or technical - ‘techno scientific’</td>
<td>Happen regularly in laboratories, research centres, tertiary institutions etc.</td>
</tr>
<tr>
<td>Innovation</td>
<td>Commercial release to market of the invention – ‘techno economic’</td>
<td>An entrepreneur believes a market for an invention exists and launches it</td>
</tr>
<tr>
<td>Diffusion</td>
<td>Occurs if the innovation is adopted by a mass population – socio-economic phenomenon</td>
<td>Is purchased by consumers and it becomes a social norm.</td>
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Based on: Perez 2004b 219-220; Schumpeter 1939.

Schumpeter identified sources of innovation (inventions) including: new technologies, goods or production methods; new markets; new supply sources; and/or the reorganisation of industries. Entrepreneurs exploit innovations for value creation and ultimately may achieve market power. When implemented, innovations may disrupt existing markets and established companies in those markets, often in a sudden and
unexpected way. The return (or Schumpeterian rent) to entrepreneurs is initially high because they have a head start on competitors and consumers may fear switching costs. But the Schumpeterian rent diminishes as knowledge and take-up of the innovation by competitors’ increases, and the risks or uncertainties of their implementation diminish. This is represented by the fall of the long wave. Ultimately the process of creative destruction may transform markets and industries and lead to economic development. However the transformation (or rise of the wave) can be initially difficult, for example the processes or outputs of established companies may be exposed to obsolescence of industries and skills, causing unemployment and social dislocation (Freeman and Soete 1994). This is especially the case when innovations are ‘revolutionary’, or sudden and unexpected, as opposed to evolutionary (over time) so companies affected have time to adjust their business model (Schumpeter 1947). It is the revolutionary, unexpected innovations that can harm industries by necessitating rapid readjustments. The ‘long wave’ process of creative destruction can take months or years, and at each step may fail, for example, there are many inventions that are released to the market and do not sell. Similarly some innovations may take years before mass take-up is achieved, due to a variety of reasons.

So what activities do innovators undertake to lessen the lag between innovation and mass social adoption of the innovation? According to Christensen (2005: 220-221) disruptive technologies “are typically simpler, cheaper and more reliable and convenient than established technologies,” and established firms confronted by the disruption “typically viewed their primary development challenge as a technological one.”

These ‘waves’ of creative destruction may sustain economic development over decades (the duration of the wave depends upon the strength of the innovation and it’s environment). Pine and Gilmore (1998) describe how society has transitioned via long waves from economies underpinned by:

1. Commodities (undifferentiated products such as eggs); to
2. Goods (value enhanced, distinctive products such as cake mixes), to
3. Services (activities performed such as bakeries).

They believe the next wave of creative destruction will be driven by experiences, that is, consumers will pay firms that create a unique personal experience, or feeling and
sense of engagement. An example may be fast food chains that now offer birthday party services for children, and another may include co-creation of content with a content expert (Prahalad & Ramaswamy 2004). Alvin Toffler was an early predictor of the shift to an experience economy when he described the “upcoming “experiential industry”, in which people in the “future would be willing to allocate high percentages of their salaries to live amazing experiences” (Friere 2008: 6; Toffler, 1971).

Competitive strategies
Unlike Magretta (2002) and Yip (2004), Chesbrough and Rosenbloom (2002) believe that competitive strategy is a part of the business model, together with the:
1. Value proposition;
2. Market segment;
3. Value chain structure;
4. Revenue generation and margins; and
5. Position in the value network.
However they distinguish ‘competitive strategy’ with ‘strategy’ by emphasising business models:
1. Focus on value creation as opposed to capture (as do Bowman and Ambrosini (2000));
2. Focus on economic value as opposed to shareholder value (they claim the business model does not focus on financing methods); and
3. The business models assume limited environmental knowledge, as opposed to strategy that considers environmental variables in more detail.

The value chain approach has been described previously. To prepare a competitive strategy, the value chain needs to be placed in the context of the system. A system describes a “group of interacting, interrelated, or interdependent components that form a complex and unified whole” (Anderson & Johnson 1997: 2) and may be generally referred to as the environment (in which a firm operates). Systems work within larger systems, for example the music system operates within a larger economic system. The system components can include:
1. Technologies;
2. Socio-demographic and cultural shifts;
3. Political, regulatory and economic changes;
4. The rise of competing entertainment options; and
5. Other competition.

A PESTEL framework may be used to describe the political, economic, social (or socio-demographic) and technical elements of the system and their impacts. It can be used to understand the macro market forces that affect a firm. The impact and velocity of these forces varies according to each sector and PESTEL analyses assist by framing the complex forces that affect decision-making. At a level of sector analysis, the six forces framework by Michael Porter (1998) may be used to assess the components and structure of competitive rivalry within the sector, which ultimately impacts the viability of sector participants. The diagram below illustrates the six forces framework. It assesses the:

1. Likelihood of new entry (barriers to entry, innovations, customer loyalty);
2. Power of buyers (switching costs, ability to drive down price, number of buyers);
3. Power of suppliers;
4. Degree of rivalry (number of firms, differentiation, market growth or contraction, switching costs); and
5. Substitute threat (switching costs, innovations) (Gillespie 2007).

To this framework are also added macroeconomic factors, such as the degree of political intervention in the economy (competition, environmental, trade, employment legislation, and taxes); innovations in the product or technologies; and complementary products or services. The Porters forces framework is depicted below:
Critics claim the six forces framework fails to recognise collusion and interaction between market participants (or possibly co-opetition); competitive advantage is gained by creating a barrier to entry; and that market participants have time to respond to market uncertainty (Coyne and Subramaniam 1996). The addition of the ‘complementors’ force, which includes elements of game theory, addresses the issue of interactions between market participants to some extent. Game theory seeks to understand and predict the outcomes of strategic interactions between entities. It will be discussed in more detail later. The criticism concerning entry barriers is addressed in this thesis by positioning the issue within the ‘new market entrants’ force. And it is acknowledged that this model may be suboptimal in relation to volatile sectors.

For the context of this thesis a strategic goal of the music entity has been assumed as to achieve sustainability. The value chain analysis (to be discussed later) identified possible actions that can be taken to achieve that aim, and described their impacts. It was positioned by a PESTEL and six forces analysis. To some extent the value chain analysis described the expected payoffs and pitfalls of decisions made within the value chain. Arising from this analysis is the compilation of a macro road map of the sector, and it will be described in the discussion chapter.
Two emerging competitive approaches relevant to this study include long tail theory and freemium pricing. The long tail economic theory created by Chris Anderson (2008) claims that digital distribution and the internet allow online services to carry unlimited inventory (music, videos, blogs and comments, text, photographs etc.), leading to theoretically infinite consumer choice and an optimal matching of supply and demand. Long tail theories maintain that the internet and globalisation, amongst other changes in the environment have eroded digital distribution and storage costs and facilitated a business environment dominated by a mass of global niche markets, rather than a world of national mass markets (though the mass market will probably survive, but as a smaller proportion of the total market). The long tail allows scarce resources (such as the time of an expert) to command premium prices and ubiquitous resources to be priced down. The freemium (free and premium) economic theory created by Fred Wilson (2006) says businesses should make the bulk of their offering available at no cost, and charge a premium for differentiated, ‘special’ and/or rare offerings. He described it as "give your service away for free, .... acquire a lot of customers very efficiently through word of mouth, referral networks, organic search marketing, etc., then offer premium priced value added services or an enhanced version of your service to your customer base" (Wilson 2006: para.1). For example, a musician may make 10 songs on an album available for free, but charge $10 each for two longer length songs, or the cover artwork. Experiential research to ascertain how these two approaches dovetail may highlight a sustainable strategy for niche musicians.

Societal dynamics

The experience and attention economies

Experiences and attention are emerging fields of potential value in new media. Both are based on the premise that attention is a finite cognitive cost - we cannot pay attention for more than our waking hours each day. It is influenced by two growing societal trends - multitasking and filtering – in response to the ‘acceleration of our lives’. The ‘acceleration’ of our lives is driven by the increasing speed of transportation and information communications (Virilio and Parent 1996). This includes ‘always on, anywhere’ mobile data and wi-fi, ecommerce and real time online social networks, as driven by the negligible cost of digital data and intangible products. Wajcman (2008:
59) describes "time-space compression" experienced by citizens as a constant theme of everyday life in modern societies. She argues this era is experiencing rapid increases in the rates of social and cultural change (c.f. Giddens 1990; Beck 2000). The effects of 'faster lives' (Gleick 1999) include:
1. Increasingly transient and transparent social bonds (Lash 2002);
2. Hyper reality (consumers increasingly living their lives online, for example in social networks);
3. Visions of "cyborgian de-humanisation" and telecommercial hypermanic cultures (Land 1995: 131);
4. Increased velocity of ideas (Florida: 2002) within dense clusters of creative practitioners; and
5. Increasingly cursory analysis (Gleick 1999).
Lash (2002) claims this leaves little time for creative action amongst the time poor whose minds are increasing distracted and cluttered. Saul Bellow may concur, when he suggested:

I feel that art has something to do with the achievement of stillness in the midst of chaos. ... I think that art has something to do with an arrest of attention in the midst of distraction (in Singh 1993: 16).

Psychological responses to over stimulation and cognitive overload include: anxiety, a perceived lack of privacy, loss of control, detachment, negative social attitudes, and social withdrawal (Evans and Cohen 1987; McCarthy and Saegert 1978; Fleming, Baum & Weiss 1987; Jain 1987; Baum and Paulus 1987). Another consequence is "the boredom of being excited all the time" (Gleick 1999: 177) and an "unbearable state of distraction," of "pointless but intense excitement" (Bellow 1989: 59-60). The increased velocity of our lives has permeated into the creative industries (Gleick 1999). Music is downloaded instantly and the emphasis has moved away from albums to songs. Florida (2007) sees increasing social fragmentation into niche 'tribes' of interest groups. Porter (1998) believes this process of specialisation and clustering is accelerating, driven by globalisation. As a result, consumers may use filters to screen and limit the amount of stimuli they receive. These may be technical filters (such as RSS feeds) or cognitive filters (such as 'tuning out' and disengaging). They may increasingly rely information filters, including friend recommendations and 'collective intelligence'
Attention is defined by Davenport and Beck (2001: 20) as “focussed mental engagement on a particular item of information” (or music and ancillary activities) followed by a decision whether to act, and the attention economy as one where the scarcest resource is human attention. This compares with previous economic theories where labour, capital or even knowledge were key drivers. Goldhaber (1997) and Franck (1999) posited that attention transactions will be more important to economies than financial transactions however at this stage capital is still a critical driver of economies, and a challenge is to convert attention into capital. Attention is difficult to replicate, and so attention and experience theorists believe consumers are prepared to pay for unique, personalised experiences and/or feelings that will engender rich memories (Davenport and Beck 2001; Pine and Gilmore 1999). Kevin Kelly (2008: para’s 11-18) identifies the key value of intangibles within the attention economy as being:

1. Immediacy;
2. Personalisation;
3. Interpretation (providing support and guidance);
4. Authenticity;
5. Accessibility;
6. Embodiment (ancillary artefacts and experiences);
7. Patronage; and
8. Findability.

Within each of these value propositions lie opportunities and challenges for music. For example, charging for personalised attention or experiences is perhaps easier for music entities with smaller fan bases than large mainstream ones. This is because they can offer increased personalised contact between musician and fan. For instance using ‘freemium’ pricing for music, which involves staggered prices for music, from free digital downloads to premium pricing which may include music, album artwork, and dinner with the band. Secondly the fans of a band, especially a niche band, may have similar specialised interests and so be attractive as a base for niche marketing. These will be discussed in more detail in later sections.
Music scenes

It is important to understand the fundamentals of demand for music. Why do consumers listen to music? The analysis of music consumption is an established body of enquiry across musicology, creative industries, cultural, media, psychology and sociology schools of thought. Psychologists Donald Hodges and Paul Haack suggest music is a universal form of human behaviour and song is an integral part of culture. More specifically, across cultures and through the ages, music:

1. Allows emotional expression;
2. Provides aesthetic enjoyment;
3. Provides entertainment (gives communities a reason to gather);
4. Communicates;
5. Allows physical response (dancing);
6. Provides symbolic representation;
7. Validates social institutions and religious rituals;
8. Contributes to the continuity and stability of culture; and

This study acknowledges all of the above points, and focuses on the last four points, namely that music is part of social identity based around communities of interest. With regards to the symbolic representation of music, Barthes (1972) work on semiotics and signs in specific social groups and how they spread to mass culture and the construction of myths applies. With regards to the last three points, Adler (2005) discusses why the mainstream mass market will always exist due to the need of consumers to share a common culture. By contrast a great body of literature exists that studies music scenes within a dominant culture (for example, Frith 2004a and 2004b; Straw 1991; Bennett & Peterson 2004; Cohen 2007b; Hebdige 1979; Watkins 2005).

Specialist music can be defined as that which is not intended for mass sales via mainstream channels. Although not genre specific, mainstream music is typified by the mass-market popular music Top 40 music charts. To appeal to a mass audience, it tends to be formulaic (based on what has sold before) and is rarely innovative. Director of charts for Billboard magazine, Geoff Mayfield believes the major labels promote music they believe will most easily reach the most people. Furthermore mainstream radio and television entities have little interest in promoting non-mainstream music (in
Goodman 2001). This leads to “music based upon the lowest common denominator” (Green 2002: 796). The Idol television program franchise is an example of this, where music industry advisers assess and groom new talent for the Top 40 charts. However there are a few examples where specialist music has become mainstream. Specialist music may be:

1. Localised (for example using instruments or formats unique to a region);
2. Of a genre or style with limited interest groups; and
3. Innovative by using new processes or tools.

This study examines disruptive change agents and to some extent, their subversion of the dominant music culture with a view to competitive strategy and successful innovation. It has been undertaken with reference to some key theories from other disciplines that have influenced this study, including Jacques Ellul (1965) who believed media is subliminally manipulated by special interests to control society at the expense of individual expression. This may be evident in Stanley Cohen’s 1972 study of ‘Mod and Rocker’ rebels in the United Kingdom during the 1960s. It emphasised the role of broadcast media in the resulting ‘moral panic’, in that they react with sensationalism to behaviours that challenge social norms (Cohen 2002). By contrast, Hallin (1986: 116-118) notes that journalists working for established media often exclude dissenting (or revolutionary) opinions from the news, preferring to promote ideas that maintain a status quo. Hallin described a “sphere of consensus,” comprising a circle of three rings: the inner being the sphere of consensus; the mid tier a sphere of legitimate debate; and outside of this is the sphere of deviance, of opinions the media reject as being unworthy of being heard, or any opinions that challenge the consensus. The Cohen and Hallin approaches are not mutually exclusive, the moral panic as described by Cohen aimed to expose and condemn deviance, revolutionaries, subversives and rebels, whereas Hallin describes their exclusion. Both are valid strategies used by the dominant paradigm to maintain the status quo. Another approach is patronage (funding a musician’s activities without requiring financial return), which has sometimes been used to exert control over music and musicians (Volkov 1979). For example opera is costly to perform and has relied upon patronage from government, corporate sponsorship or wealthy sponsors. Withdrawal of this funding may create financial distress and close operations, especially when there is only one patron. Lebrecht (1997: 28) describes a benefactor who pledged a “fortune” to the Metropolitan Opera, provided the funds
were allocated to her favourite director only. A patron donated one million pounds to Covent Garden to be used only for “traditional” productions (ibid.). Volkov (1979) details how artists relied upon patronage and how it was abused by the state in Stalinist Russia for propaganda.

Volkov (1979) refers to music ‘subcultures’, although Gelder and Thornton (2005) later suggest ‘subculture’ implies deviance from one mass-market monoculture, with negative connotations, whereas today most societies are multicultural. Instead of the term ‘subculture’, academics today describe ‘communities’ or ‘scenes’ (Hesmondhalgh 2005). Straw (1991) distinguishes ‘communities’ from ‘scenes’ being that communities are more stable in their composition and centre on a specific physical locality, versus scenes that may include a range of dynamic musical practices. This study will use all three terms, acknowledging the slight differences.

Some analysts associate sub cultural deviance with criminal behaviour, although Albert Cohen positively believes deviance may act as a safety valve within cultures, by “preventing the excessive accumulation of discontent” where the deviant identifies situations in which “conformity to the rules will defeat” organisation (Cohen 1966: 6-11). Freilich, (in Freilich, Raybeck, & Savishinsky 1991) believes Cohen’s theory of deviance ties closely to Merton’s (1957) theory of innovation, in which innovators reject institutional behaviour but accept cultural goals. Similarly Cushman (1995: 91) suggests music provides an “active code of resistance and a template which [is] used for the formation of new forms of individual and collective identities.” Deviance, by challenging the dominant paradigm, appears to be a precondition of social change (whether as a creator or consequence of change). Sheldrake (2003) however cautions there is a subtle distinction to be made between revolutionaries who seize power to change the system, and rebels who seize power for power’s sake and maintain the system. This study concentrates on the former type of revolutionary.

Bennett & Peterson (2004: 3) suggest: “in many ways the organisation of music scenes contrasts sharply with that of the multinational music industry, in which a relatively few people create music for mass markets.” They describe three geographies of music scene that arise within a defined time period: local, trans-local and virtual. Local scenes describe those tied to a specific locality, or creative cluster (Florida 2002) and
are similar to the Star (1991) description of communities. The socio-economic idiosyncrasies of localities correspond to some extent with musical styles that incubate there, and become identified with that locality (Cohen 1972). Music acts as a place-making agent, and the locality may become a brand. Trans-local scenes are local scenes that physically link to groups of people with similar interests in other localities. They are interlinked local scenes. Shared interests are a key reason for these scenes to connect, for example, at music festivals in rural settings, or when fans follow bands on tours. The third distinction is virtual, or digital scenes, communities who share an interest in genres of music and socialise online. Virtual scenes differentiate from geographical ones, with different rules. They facilitate a ‘level playing field’ and generally are easier scenes to enter and offer greater control for participants (Williams 2006).

Richard Florida (2007) however says, despite the internet, scenes tend to cluster into cities or regions. Florida believes that a strong correlation exists between creative clusters, the economic growth of cities, the amount of high technology activity and the degree of diversity and tolerance of inhabitants. He refers to Terry Clark who argues the key to understanding a scene lies in how its “collection of amenities and people serve to foster certain shared values and tastes, certain ways of relating to one another and legitimating what one is doing or not doing” (ibid.: para.11). The percentage of artists and designers in a location (Florida’s ‘bohemian index’) is highly correlated with the high-tech innovative index (number of patents per head) (Hoegh-Guldberg and Letts 2005). Employees of high technology sectors tend to be attracted to locations where there is a vibrant specialised entertainment scene because they share similar social characteristics (EU Centre for Strategy and Evaluation Services 2002). Michael Porter believes that pre-existing conditions of competitive advantage are required to develop strong clusters of companies (James 2002). The existence of specialist music communities may attract high-tech or innovative employees to a physical location.

The experience economy is another potential realm of opportunity for musicians. The digitisation of media has enabled the consumer to play an increasingly important role in the music sector. Experience economy theory as described previously has been criticised by Carù and Cova (2003) amongst others, caution experience economy theory:
1. Lacks a solid foundation;
2. Is culturally biased in romanticism and escapism from everyday life; and
3. Many goods and services are created by collaborative experiences and so the
   ‘experience’ is merely an ancillary offering to merchandise.

Carù and Cova (2003: 278) cite Scitovsky (1976), an economist who:

appreciated this romantic root in hedonistic consumption, for which the main aim
of daily life is to obtain the maximum possible pleasure from all the sensations
permitted by the experiences enjoyed, especially the consumption experiences.

Consumers may be more likely to pay a premium for some experiences or the
experience of a product, because they fulfil a fundamental human need for social
interaction, identity or cultural enrichment. Maslow (1970) believed self-realisation
was the highest level of consumption in the ‘pyramid of needs’ and consumers may
emphasise the promotion of ordinary everyday experiences, but music may serve to
release us from our ‘ordinary everyday’. The provision of experiences delivers
competitive advantage because they are very hard to replicate, personalised, or may
require scarce resources (e.g. interaction with a musician). Some music experiences
are not daily occurrences, but are special. McKibben (2007: 167) argues the shift of
consumers between mass and niche scenes suggests the “syndrome of consolidation,
and reaction against it, appears in almost every sphere of our life.” That is, institutions
pursue economies of scale, but consumers ‘disappear in the crowd’, and so turn
towards smaller institutions that offer personal attention and ‘local’ or niche
community.

In response to the claim by Carù and Cova (2003) that “‘experience’ is merely an
ancillary offering to merchandise,” an important emphasis for this thesis is that as
music product prices decline, the value of the experience that surrounds the use of that
music may represent an alternate revenue source. As discussed previously, Kelly
(2008) describes the value of the embodiment experience, being present at a live music
performance where the music may be perceived as ‘free’ but consumers pay to attend
the experience of music performance. An (perhaps stereotypical) example may be the
self-enlightenment perceived by some attendees who experienced the 1960’s
Woodstock festival. The next section details how firms may enhance the consumer experience via crowd sourcing and community based design; co-creation, produsage and user generated content.

Some experiences may include co-creation, or the opportunity for consumers to create collaboratively with a firm, and doing so creates value for the firm. This may be directly (consumers pay for the privilege) or indirectly, (advertising, ancillary sales etc.). For example while social networks may be replicated, the interaction between social network participants cannot be replicated. It is often the community that attracts consumers to a social network, as opposed to the underlying infrastructure. Hence, if social networks implement fees for use, users may be prepared to pay or alternately they may move en masse to another social network. Wikipedia founder Jimmy Wales described the need to manage the mood of their customers: “if the community gets mad at us, they can just leave and take the content with them. That alone keeps the relationship honest” (McNichols 2007: para.39).

A consequence of this transition to consumers as co-creators is that they may no longer be typified as distinct recipients of a good or service at the end of the value chain, rather they may become involved at various stages in the process. A 2007 Nokia study on the future of music and entertainment forecast that by 2012, twenty five per cent of all entertainment will be ‘circular’, that is, consumer created in peer communities (NokiaGlobal 2007). Consumers may no longer be typified solely as customers, instead consumers may become co-creators of value, via interactions with firms, suppliers to those firms, and other entities engaged within the network. Instead of a one-way communication from firm to buyer, complex and active interrelationships may emerge. Bruns (2008a: para.1) describes this as ‘produsage’, or “the collaborative and continuous building and extending of existing content in pursuit of further improvement”. Prahalad & Ramaswamy (2004) and Bruns (2008b) suggest the preconditions for interactive co-creation or produsage include:

1. Transparency (information availability);
2. Dialog (high degrees of personalised interactions, or intimacy) including shared problem solving by the community;
3. Access (ubiquitous broadband technology availability);
4. An absence of hierarchy and authority, with an emphasis on cooperation; and
5. Risk benefits (awareness by the consumer of the risks versus the benefits of actions and decisions they make) and shared (not owned) content. These preconditions emphasise an environment where tangible value is created via intangible experiences and inter-relationships. That is, the firm may focus on the facilitation of an environment that is conducive to co-creation and/or personalisation and this may lock in consumers to that firm. By doing so, consumers may pay for this privilege, or revenues may flow from ancillary products or services. In some instances, one precondition (the absence of authority) may not apply to music firms, who may initially establish themselves as the leader/central focus of their community, and interaction may be mostly between consumer and musician, because fans value their expertise and/or brand. But as the fan base grows they will need to step outside the community more frequently and facilitate fan-to-fan interactions, or potentially drown in the volume of digital consumer demand. This approach differs from the traditional view of value being created by the firm selling products and services to consumers who passively receive them. Secondly it may be the case that smaller firms can offer personal, transparent interactions directly with consumers more easily, quickly and cheaply than those serving larger mass markets.

The phenomenon of user generated content (UGC) merits consideration here, even though it shares similarities with the concept of co-creation discussed previously. Flew (2008: 35-36) describes UGC as a specific activity where users are both “remediators and direct producers of new media content” and “engage in new forms of large scale participation in digital media spaces.” Consumers create content and then openly share it with others, and this ongoing activity helps to build a community around that content. Echoing Maslow, Wikipedia CEO Gil Penchina claimed, “people contribute because it’s fun, because they want to share, because it’s social, or to show their expertise” (McNichol 2007: para.35). In addition to the preconditions described by Prahalad & Ramaswamy (2004) and Bruns (2008b) above, UGC content requires attention to brand and legal issues. These need to be managed carefully so as not to destroy the trust and motivation of consumers whilst protecting the firm from liability or loss of brand value.

A further development on co-creation, produsage and user generated content is the notion of crowd sourcing and community based design, where a firm may build a
(usually online) community and then direct tasks or problems to the community to act upon, or call for designs. The community or crowd may also be used to select the optimal response or solution from amongst the feedback. An example may be where a musician is about to tour and asks their community to suggest appropriate venues and accommodation. Howe (2006; 1) described, primarily how research and development functions could benefit from the “productive potential of millions of plugged-in enthusiasts” and “hobbyists, part-timers, and dabblers suddenly have a market for their efforts,” but more importantly so too may experts who also happen to be in that community. These practices contain challenges, including relationship management and potential for malicious input (such as copyrighted materials), however the “most efficient networks are those that link to the broadest range of information, knowledge, and experience” (Granovetter in Howe 2006: 3) and a properly managed crowd can theoretically work through large-scale tasks more quickly than a small team.

The personalisation and experience approaches discussed above aim to lock customers in to the offering of a firm. If consumers have invested in tailoring or co-creating the products/services of a firm, they will most likely be loyal to that firm. Consumer loyalty is one element of competitive strategy.

**Games, decisions and risk theories**

Let us now explore the microelements of business management, specifically, making decisions and managing risks. In an environment of volatility and rapid change, decision-making becomes more complicated because of higher risks. Using game theory tools helps the strategic decision making process.

Schelling describes strategic situations as: “involving two or more participants, each trying to influence, to outguess, or to adapt to the decisions or lines of behaviour that others have just adopted or are expected to adopt,” and such situations occur in business and daily life (in McMillan 1996: 3). Game theory is defined by McMillan as the study of rational behaviour in situations involving interdependence (ibid: 6). For example, it is informally applied when two people negotiate a purchase price and seek to get the best deal. Each negotiator:

1. Seeks to understand and predict the outcomes of their strategic interaction;
2. Aims to maximise their rewards, and
3. Doing so requires decisions about the allocation of scarce resources and/or competing interests (ibid.).

More broadly, game theory is a predictive tool that can be applied to business, social networks, popular culture and political science. There are many examples of game theory in popular culture, and Shor (2006) provides examples of where it has been used by musicians.

Game theory is closely interlinked with decision theory, which involves the selection of a preference (for example a preferred action) amongst alternatives with the aim of maximising reward (Levine n.d.). Decisions are made in planning, organising, resourcing, leading and controlling a firm towards achievements of its goals. The challenge of making strategic decisions is that they are made in an environment of incomplete information and partial control, which creates uncertainty (Arsham 2005a). Uncertainty is “a lack of predictability, of structure, of information” (Rogers 1962: 6).

There are several challenges in decision-making. Decision makers never have complete information, for instance about their competitors (who and how many), allies, economy, regulatory environment, or consumers. Decisions are made in an active environment where competitors are also taking actions simultaneously. For example a start-up business may be allocating additional resources to expansion, whilst simultaneously an entity whose activities are affected by the start-up may lobby regulators to minimise the impact of the start-up, as happened with Napster. Entities are, to some extent unaware of the actions planned by others, however they may make assumptions about behaviours and actions. Sometimes they may mistakenly interpret events outside their control as signals of the intentions of others. Such assumptions and signals should be kept open to change, particularly in a rapidly evolving and volatile environment.

The decision making process can be summarised as being a continual cycle of:
1. Strategic objectives and goals;
2. Risk management (assessment and reporting);
3. Decision;
4. Action (risk treatment); and
5. Ongoing monitoring and refinement (Institute of Risk Management & The National
It involves a process of questions and information gathering, being:
1. What is the aim of the firm?
2. What possible actions can be taken to achieve that aim?
3. What are the expected outcomes (payoffs) of each action? and
4. What is the optimal outcome? (ibid.).
For example, the stated aim of a musician may be to grow their business to achieve sustainability, and possible actions may include releasing products for sale, performances etc. Each action has a cost and payoff, for example, touring may be exhausting and minimise time for composing new material, but generates performance and merchandise revenues. The musician may choose to risk human burnout and tour, and take the necessary actions. Decision makers consider the risks and consequences of the decision.

As will be described elsewhere, the music sector appears to be positioned in the “initial optimisation” (Perez 2004b: 221) phase of the long wave, as evidenced by the great structural upheaval due to new technologies. The process of making decisions in a volatile system is complicated by rapidly changing options, so decision-making skills are vital. Exploring the myriad options in the music environment and weighting the consequences of decisions for risks can become complex, exhaustive and time consuming. New businesses often fail because they face high degrees of uncertainty (Eisenhardt 1989a), and Simon (1979) says the level of experience, knowledge and the organisational environment of the decision maker can influence their decisions, as can self-interest.

Within the decision making process, decision tree frameworks may be used to explore the consequences of decisions. Essentially decision trees provide a structure for identifying and analysing:
1. The consequences of actions;
2. The risks/rewards of consequences; followed by
3. Quantification of the impact so that payoffs from decisions made may be estimated.
A decision tree is a chronological representation of the decision process, where branches arise from events (Mindtools 2005). These branches depict the consequences. A decision tree can:

1. Be created by using a risk profile (to be discussed later) that highlights the consequences of events;
2. Assist to optimise decisions which lead to the desired consequences; and
3. Encompass the wider consequences and reflect their impact (ibid.).

For example if a decision is made at one stage, it may impact (influence or link) other areas of the business and a decision tree will reflect this.

A decision tree can include data and experiential information, however it requires judgements to be made to quantify the impact of experiences. Experiences are quantified as risk values in order to calculate a final payoff of decisions made (Bagley 2003). To illustrate very simply, if musicians suffer exhaustion from overwork, then the payoff is zero. A high level example is provided below.

### Table 3: A branch of a music decision tree

<table>
<thead>
<tr>
<th>Decision Path</th>
<th>Risk Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self produce in studio</td>
<td>Moderate risk (45%)</td>
</tr>
<tr>
<td>Self produce at home</td>
<td>Low risk (10%)</td>
</tr>
<tr>
<td>Hire producer in studio</td>
<td>High risk (90%)</td>
</tr>
</tbody>
</table>

Based on: Mindtools 2005

Estimating the impacts of experiences is challenging and a slow process, but decision tree processes clarify the variety of options and their consequences. A benefit of is that it is not purely mathematical modelling based on historical data (a determinist approach as described by Arsham 2005a), instead it includes value judgements that include some degree of perception, creativity and foresight. The outcome from the
process reveals information, insights and a structure in which musicians may make more rational, better decisions.

Decision-making and the creation of decision trees include the critical process of risk management. Uncertainty differs from risk because risk can be estimated whereas uncertainty cannot (Katzy and Strehle 2007). Everyone performs risk management processes in daily life, but most likely do so subconsciously. In small businesses, risk management activities may be informal and undocumented. The global standard (Institute of Risk Management et al. 2002: 2) and Australian standard (Australian Standard 4360, 2004) define risk as the combination of the probability of an event and its consequences. These consequences present opportunities for benefit and/or threats. It involves a process of:

1. Risk identification;
2. Risk description;
3. Risk measurement (much like decision trees) and then building a risk profile (the degree of acceptable risk); and

This framework for the first phase of risk management is illustrated in the table below. Firstly risks must be identified and described. This involves scanning the internal and external environments for potential risks and then naming them. The risk description includes the elements listed in the left hand column of table 24. A basic example is given in the right hand column as illustration:
### Table 4: Risk description framework

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Element</strong></td>
<td><strong>Description</strong></td>
<td><strong>Example</strong></td>
</tr>
<tr>
<td>Risk name</td>
<td>Napster</td>
<td></td>
</tr>
<tr>
<td>Risk scope</td>
<td>Qualitative description of: events; their size; type; number; and dependencies.</td>
<td>New market entrant, new service. P2P music swapping will impact music product revenue yet is a global channel for music promotion.</td>
</tr>
<tr>
<td>Risk nature</td>
<td>Strategic; operational; financial; knowledge; or compliance.</td>
<td>Financial; strategic.</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>Who they are and their expectations.</td>
<td>Napster – enable global music network (free? monetise?). Consumers – free access to music. ISPs – P2P drives demand.</td>
</tr>
<tr>
<td>Quantification of risk significance and probability</td>
<td>High impact; high probability</td>
<td></td>
</tr>
<tr>
<td>Risk Tolerance/Appetite</td>
<td>Loss potential, financial impact of risk; value at risk; probability and size of potential losses/gains; objective/s for control of the risk and desired level of performance.</td>
<td>Primary revenue source eroded; estimate 90% music product revenues at risk. Objective: revenue maintenance.</td>
</tr>
<tr>
<td>Risk treatment and control mechanisms</td>
<td>Primary means by which the risk is currently managed; levels of confidence in existing control; identification of protocols for monitoring and review.</td>
<td>Reduce risk: Legal action to protect copyright. Risk retention: Explore and create alternate revenue sources.</td>
</tr>
<tr>
<td>Potential action for improvement</td>
<td>Recommendations to reduce risk.</td>
<td>Pursue concept of ‘freemium’ pricing; use P2P as promotional channel.</td>
</tr>
<tr>
<td>Strategy and policy developments</td>
<td>Identification of function responsible for developing strategy and policy.</td>
<td>Product and promotions.</td>
</tr>
</tbody>
</table>


Risks can come from within the firm, music sector or the external environment. From the external environment the risks may arise from suppliers, customers, complementors, new market entrants, new products and services, and/or the mega
trends over which a small entity has little control. These include economic, societal, technological, globalisation, and political trends. The Porters six forces and PESTEL frameworks described previously are useful tools to identify these risks. From within a firm, identifiable risks include: employees; the capital and asset base; product/service offerings; internal systems; and processes.

Once identified and described the potential impact of identified risks is estimated (as in the last branch of decision trees). The consequence can be quantitative (e.g. financial) and qualitative (e.g. exhaustion or loss of brand). Consequences can be threats or benefits, and their impact may be scaled as high, medium or low. The probability of the consequences occurring is similarly scaled as high, medium or low. The output of this systematic method can be a series of matrixes combining the following:

1. Consequences of threats (high, medium, low);
2. Consequences of opportunities: (high, medium, low);
3. Probability of threat occurrences: (high, medium, low);
4. Probability of opportunity occurrences: (high, medium, low).

The probability matrixes may describe the occurrence and indicators that may flag the occurrence.

Arsham (2005b) emphasises the need to distinguish between the probability of an event and the impact of the event. Events with a higher impact clearly receive higher numerical risk ratings. Risks are generally given numerical ratings in order to prioritise and compare them. The lower the risk (impact and probability) the lower the risk rating tends to be. For example a minor accident would have a lower risk rating than a catastrophe. The higher scoring risks tend to gain more attention.

The matrix output is then used as part of a risk profile, that maps the risks to the business areas and flags where levels of control and/or resources could be reapportioned, and frameworks for regular monitoring and reporting are established. Any occurrences can then be dealt with by using the framework to create decision trees depicting possible actions and their consequences. From this a decision can then be made that optimises the outcome for the firm.
Risk management approaches are subjective and make assumptions about predictions and uncertainty. Because of this, they are prone to errors from insufficient knowledge, false assumptions, inaccurate predictions, inaccurate estimations of impacts and bias. Regardless it is a vital process for improved decision making. By using a decision process managers can understand and demonstrate their limits of acceptability of risk. Clearly this is a highly theoretical description of the decision making process and it’s do-ability and applicability needs to be tested by music sector participants.

Self-managed musicians need to make decisions about their operations in each segment of the value chain. They operate within an environment of high volatility, uncertainty and risk. How do they make these decisions? Do they systematically use a decision framework or just go with ‘gut feel’ or on a whim?

The relevance and applicability of these theories to this thesis will be discussed in following chapters.
2: METHODOLOGY

**Problem statement**
Changes in the music sector have created uncertainty, volatility and complexity. These changes have frequently arisen from the introduction of innovative technologies. As the technologies gain market acceptance and traction, it becomes harder to understand and manage operations in the sector. Secondly, changes may present opportunities for musicians to sustain rewarding careers. But what are the emerging innovations and changes, what opportunity do they present and can musicians capitalise on them?

For the purpose of this study, success in music is defined by the objectives or aims of the participants concerned. For musicians, these objectives can be, an often are, diverse. Some objectives may include financial rewards, artistic recognition, to communicate and motivate change, and/or celebrity status. However, one key measure of success used in this study is financial viability.

This thesis focuses on an area that is becoming increasingly important as the digital economy emerges. Previous research in this area often focussed on: specific technologies; the entertainment sector in general; or assumed the music sector comprised the production of CDs by major labels. Secondly, prior research in the business field has tended to focus on the perspective of the major labels, as opposed to musicians or consumers. There is very little literature in business or management fields about musicians as managers of small owner operated businesses.
Research question

The research goal was to discover emerging opportunities in the current music sector, interpret their potential, and then test an opportunity that is frequently claimed by sector participants and observers, that is, that musicians no longer need the major labels to succeed.

This research aims to address the following questions:

1. what is the nature, cause and potential of emerging business models for music in the context of broadband internet and social media software?
2. can changes in the digital environment facilitate a financially viable, sustainable business model for specialist music? and
3. if so, can musicians use this model to succeed?

Justification

It is important for musicians to maximise their economic potential in order to maintain sustainable careers. If musicians can sustain successful careers, it would benefit: consumers of music; the government (which has several arts funding initiatives); community groups and entrepreneurs who operate in the sector; and ultimately musicians. The traditional business model of signing to a major label may no longer be the most effective model for specialist musicians, who tend to target smaller markets. Therefore emerging models need to be explored.

Exploring musician preferences is important because it indicates whether self management is a viable option for musicians, especially as many sector observers claim that musicians can self manage and no longer need labels or management (Byrne 2008a; Cohen 2007; Gordon 2008; UNCTAD 2008 etc.).

Implications

The goal of this study is to contribute to the emerging body of research on entertainment sector business models in the digital environment. It aims to build upon the work of Michael Porter’s value chains (1998).
Music specialisation and risk taking should be encouraged, because it may stimulate innovation and ultimately benefits society. Creative industries generate flow-on effects to other sectors. Seventy eight per cent of creative firms actively innovate and are comfortable changing strategies and business structures to leverage off developments in technologies and markets. Creative firms attribute fifty two per cent of their turnover to new or improved products or services (UKDCMS 2008). This tends to have a ripple effect across businesses in the same location (Florida 2007).

The music sector is highly risky and innovative, and often a lead indicator of changes to other sectors. This is reinforced by Marie Connolly (in Connolly and Krueger 2005: 3) who describes the music sector as a “breeding ground” for new insights and testing of economics, because:

1. It is a superstar industry, that is, the rewards are highly skewed and so supply and demand theories are exaggerated;
2. The importance of emotional and non-traditional economic concerns in the music sector, for instance the impact of piracy;
3. As a social, cultural sector it may be used to expose economic trends, as evidenced by protest songs; and
4. It is highly impacted by technology, and usually the first sector to be impacted. If a trend succeeds in the music sector, then it substantiates a further R&D investment in video to obtain multimedia.

For instance:

a) Internet sites that facilitated access to digital music were explosively successful (P2P, musician sites etc.). Software developers then added in a visual element and the same products/services were launched for film (YouTube, Quicksilverfilms etc.);

b) Internet telephony (audio) was followed by web cams (visual); and

c) The social network site, Myspace, was originally heavily music focussed. Companies in other sectors now regularly use these media; even the Australian Prime Minister uses social networking tools.

Finally, music can facilitate social cohesion across cultures. It is:

one of the things that I think will make the world a better place ... we have differences but real commonalities among us. Music is one of the tools that does
that. You don’t even have to know what people are singing about. You can feel the joy or the sorrow in the music (Burrell in Marech 2003: para. 8).

If specialist musicians can successfully sustain careers outside of the traditional music business model then how they do so may be relevant to other small business operators in creative industries. Findings from this study may apply to other content industries such as film, news and books.

This thesis does not attempt to:
1. Develop or apply a business model, nor provide a solution or outcome to a specific entity;
2. Predict future scenarios, instead it provides an overview of emerging opportunities in the current environment;
3. Focus on specific technologies or providers, because these are subject to rapid change; nor
4. Provide detailed financial analysis, instead it provides a framework.

**Methodological framework**

This research is qualitative and is underpinned by epistemological and ontological assumptions that people create their own subjective meanings in an environment influenced by history, experience and social processes (Rowlands 2005; Orlikowski & Baroudi 1991; Morgan 1983). It uses an interpretive theoretical lens to explore, describe and then explain the influence of variables and changes in the music environment on its social context, and vice versa (Walsham 1995a). These variables were not predefined (Rowlands 2005). Interpretive research may be used where the “intent is to understand the deeper structure of a phenomenon, which it is believed can then be used to inform other settings” (Rowlands: 84).

Interpretive approaches have been criticised. Mumford (1985) questions the risk of investigator bias and objectivity, however subjectivity is useful if acknowledged, Neuman argues: “interpretive explanation documents the [investigator’s] point of view and translates it into a form that is intelligible to readers” (1997: 72). Although
Neuman refers to action research, his argument applies equally to interpretive literature reviews – indeed literature reviews may be more substantive than other areas of interpretive research such as participant observation (Walsham 1995b). Yin (2003) questions the theoretical standing, validity and reliability of interpretive case studies, but their use is appropriate to rapidly evolving environments with uncertainty (Walsham 1995a; Orlikowski and Baroudi 1991). The digital economy is evolving rather than fixed and measurable, as Rosen highlights: “social process is not captured in hypothetical deductions, covariances and degrees of freedom” (Rosen 1991: 8).

Interpretive research practice requires inductive sense making processes. Interpretive traditions aim to question the meaning of texts (Radnitzky 1970), and often these are hidden and clouded in publicly available literature, especially where literature was from non-academic sources. Taylor argues:

> Interpretation, in the sense relevant to hermeneutics, is an attempt to make clear, to make sense of an object of study ... a text ... which in some way is confused, incomplete, cloudy, seemingly contradictory - in one way or another, unclear. The interpretation aims to bring to light an underlying coherence or sense (Taylor 1976: 153).

The exploration, selection, filtering and interpretation of literature has involved a degree of subjective assessment, for example the assessment of reliability and opinions. Case topics were selected on the hypothesis that they represented examples where a change agent succeeded against the dominant sector incumbent.

Following this a grounded theory technique was used. A decision model, named ‘Musical Map’ was created from data obtained via the interpretive research. The development of the ‘Musical map’ model was influenced by design science, which is an attempt to create things that service human purposes (March & Smith 1995). March and Smith consider that building models and evaluating those models are key issues in design science. Questionnaires are appropriate for systematic collection of attitudes, behaviours or opinions (Dillman 1978). This systemic approach, combining interpretive research and grounded theory is useful for explanatory and process oriented research (Eisenhardt 1989b).
**Methods**

Exploration was required to:
1. Understand the structural dynamics within the music sector;
2. Interpret the key success factors of change agents who challenged control;
3. Identify and contrast the traditional versus emerging music value chains; and
4. Apply findings by developing a model and then testing its application.

The table below summarises the approach of this study, which will then be described.

*Table 5: Outline of study approach*

<table>
<thead>
<tr>
<th>Approach</th>
<th>1. Discover</th>
<th>2. Develop</th>
<th>3. Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Method</td>
<td>Exploratory research</td>
<td>Exploratory research</td>
<td>Model development</td>
</tr>
<tr>
<td></td>
<td>Literature review</td>
<td>Case studies</td>
<td>Applied, action research</td>
</tr>
<tr>
<td>Output</td>
<td>Description of evolving structural dynamics in the music sector</td>
<td>PEST analysis highlighting opportunities and barriers to sustained success of specialist music</td>
<td>'Musical Map' model development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Literature review</td>
<td>Empirical action research, questionnaire</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Description of current system and potential models per value chain element</td>
<td>Financial model for operational strategies</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Test the ability and inclination of musicians to manage their own operations. Recommendations for enhancements and / or further study</td>
</tr>
</tbody>
</table>

Phase one used the method of a literature review. Its scope was global and of English language sources. The second phase required model development from data obtained from the value chain analysis (chapter six). The third test phase used action research, empirically testing the use of the model by musicians via a questionnaire. The methodologies as applied to key chapters will now be described.
Case studies: change agents and control

A challenge in researching niche music entities is that they have tended to operate (at least initially) underground and outside of the mainstream. Blow and Heibutzki (2003: 2) confirm this, asking:

Why is it so difficult to sort out hip-hop’s maze of claims, counterclaims, and contradictions? Nobody worried about documenting what remained essentially a local scene, nor the diehard separation between the B-Boy and disco camps, which never acknowledged each other's contributions.

As such source material was often outside of mass media - in local street press and music newspapers, or verbally (as in the case of African music). To find reliable publicly available literature presented a research challenge.

A second challenge involved identifying case study examples of success outside the dominant music paradigm, perhaps because:

1. Success generally requires sustainability and examples sometimes relied upon the use of emerging technologies. It may take some years before emerging technologies can demonstrate sustainability;
2. Musicians with sustainable careers who operate outside of major labels are sometimes musicians who used to be signed to a label and so have an established fan base; and
3. A literature review does not easily reveal the financial sustainability for smaller unsigned bands, because this information tends not to be publicly available.

Musician self management

This chapter applied the findings from the value chain analysis (Chapter six). It involved primary research comprising:

1. Model development and
2. The model was then tested by musicians who then
3. Answered a questionnaire seeking feedback on their reactions to the model and attitude towards the model.
The model was influenced by: value chain analysis (Porter 1998), and decision tree frameworks (Bagley 2003). Key challenges in this approach included:

1. Complexity. An early iteration of the model included risk weightings arbitrarily assigned to elements of the decision tree. These were removed because the model became too complex for use without training by participants;

2. Normally, decision tree frameworks and the decision processes are undertaken in conjunction with key stakeholders, whereas this analysis was undertaken in isolation from stakeholders. A key reason for including stakeholders is to ensure comfort with and support for outcomes, according to Arsham (2005a);

3. The quality of output is reliant on the quality of data input;

4. Avoiding flaws in the framework - Ralph Keeney (2004) advises that when establishing the framework the focus should be on structuring the decisions as opposed to analysing structured decisions; and

5. Emerging schools of thought may improve on the decision tree process, for example, multi criteria decision analysis and data mining.

The questionnaire was administered using 'Survey Monkey’ a web based tool. It included open ended questions to allow participants to comment on their attitudes and reactions; and multiple choice questions to quantify and rank responses.

Music value chains

Chapter six builds upon the work on value chains by Porter (1998). Previous music studies that have been identified used a music value chain from the perspective of a major label (Burgelman, Christensen & Wheelwright 2004; Meisel and Sullivan 2002) however this study placed musicians at the centre of the value chain, and viewed the value proposition from their perspective, with secondary emphasis on a consumer perspective. It relied upon a literature review.

The table below summarises the key research elements of this thesis:
<table>
<thead>
<tr>
<th>Chapter title</th>
<th>Chapter three: Structural Dynamics in the Music Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter aim</td>
<td>Understand drivers of performance within the music environment</td>
</tr>
<tr>
<td>Approach</td>
<td>Exploratory research</td>
</tr>
<tr>
<td>Method</td>
<td>Literature review</td>
</tr>
<tr>
<td>Output</td>
<td>Description of the current state of the sector, sector drivers and their impact on growth rates.</td>
</tr>
<tr>
<td>Key findings</td>
<td>The music sector is highly volatile and uncertain. The revenue mix is changing. The major labels have been slow to respond or responded inappropriately and have lost market share.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter title</th>
<th>Chapter four: Case Studies: change agents and control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter aim</td>
<td>Identify key success factors for musicians outside the dominant paradigm</td>
</tr>
<tr>
<td>Approach</td>
<td>Exploratory research</td>
</tr>
<tr>
<td>Method</td>
<td>Literature review of case studies</td>
</tr>
<tr>
<td>Output</td>
<td>PEST analysis highlighting opportunities and barriers to sustained success of specialist music</td>
</tr>
<tr>
<td>Key findings</td>
<td>There will be a dominant system for as long as there is a mass market, but the incumbents and their role, ownership and nature may change. Key themes for success were identified.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter title</th>
<th>Chapter five: Musician self management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter aim</td>
<td>Test the inclination and ability of musicians to self manage</td>
</tr>
<tr>
<td>Approach</td>
<td>Action research to test hypothesis</td>
</tr>
<tr>
<td>Method</td>
<td>Model development, test and questionnaire</td>
</tr>
<tr>
<td>Output</td>
<td>Financial model and questionnaire results</td>
</tr>
<tr>
<td>Key findings</td>
<td>The model can be used to highlight the financial implications of traditional versus emerging models. Most participants were capable of using the model but were not inclined to.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter title</th>
<th>Chapter six: Music value chains</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter aim</td>
<td>Identify emerging opportunities</td>
</tr>
<tr>
<td>Approach</td>
<td>Value chain analysis</td>
</tr>
<tr>
<td>Method</td>
<td>Literature review</td>
</tr>
<tr>
<td>Output</td>
<td>Description of current system and potential models per value chain element. Data from this chapter was used to create the 'Musical map' model (discussed in chapter five)</td>
</tr>
<tr>
<td>Key findings</td>
<td>Identified emerging opportunities in the music environment that may enable musicians to succeed outside of the traditional mainstream value chain. Highlighted the erosion of elements of the traditional business model.</td>
</tr>
</tbody>
</table>
**Risks**

There were minimal ethical risks for participation in the ‘Musical map’ study. Participants were asked to voluntarily provide financial data and feedback that was (and continues to be) treated in the strictest confidence. Any comments arising from their feedback have been de-identified. No financial data was volunteered by any of the participants. Participants may have reacted emotionally to the process, and any reactions were of interest and sought. This may include frustration, boredom, confusion etc. Any negative emotions were considered part of the outcome. A key risk questionnaires is a poor response rate (Ketchen & Berg 2006), but this too may be considered part of the outcome, as a reflection of disinterest.

**Limitations**

This study acknowledges the impact of emerging technologies but has not focussed on specific technologies, instead merely citing examples. This is because they are rapidly changing and so can confound the underlying issues and will date quickly. For example MP3 music format may soon be made redundant by wireless telephony products.

The model developed focuses on financial aspects of the music value chain. It does not quantify the ‘human’ impact of decisions made, but advises participants to consider them. Other important issues may exist but may not have been identified via this approach. For example publicly available literature about certain issues may not yet be available.
3: STRUCTURAL DYNAMICS IN THE MUSIC SECTOR

The music environment

This chapter explores the current drivers and trends in the global and Australian music sector. It focuses on economic, financial and social aspects of the environment in which the music sector operates. It discusses: the traditional music sector; changes driven by digital technologies; and thirdly how changing consumer perceptions are impacting the sector. A global approach is taken because digital music is an increasingly global phenomenon. The United States of America (USA) is the most dominant country in the music sector, and market research tends to focus there, so if global statistics could not be sourced the United States was used as a substitute indicator. Where available, statistics on the Australian music sector are discussed because it is the local market for this study.

There are a variety of players in the music market. The influence of the four oligopolistic music companies, often referred to as majors or major labels, requires attention in order to describe the environment in which specialist musicians operate (DiMaggio 1977). They dominate the traditional music market, according to the United Nations the major labels control nearly eighty per cent of the global market for recorded music product (UNCTAD 2008: 120). Other companies in the music sector specialise on particular activities within the music system (for example music publishers, promoters, touring operators, distributors and producers). The music market is also influenced by, and influences other sectors such as: retailers; other media and content providers (for example TV, radio, internet sites, film, computer games software, and animation); communications operators; hardware manufacturers; advertisers; content services (such as social networks and communities of user
generated content); and venue operators. New entrants in the last few years have come included: Starbucks (coffee retailer); Nokia (telecoms); Apple (technology); and Myspace (online social network). Music performance also impacts communities indirectly, for example via place-making music ‘scenes’ and night-time economies (Connell & Gibson 2003; Bennett & Peterson 2004; Greater London Authority 2005; Cohen 2007b).

**The official, traditional music environment**

UNCTAD (2008) claim it is impossible to provide an accurate figure on the size of the global music market, due to incomplete statistics, the absence of figures for copyright revenues and the difficulty of obtaining figures. The International Federation of the Phonographic Industry (IFPI 2008b) estimate the retail market value for the global recorded music product totalled US$30 billion in 2007.

Figure 3: Global recorded music spending 2006-2011 (US$bn)


As shown above, global spending on recorded music is forecast to decline from US$31.8 billion in 2006 to $26.2 billion in 2011. Revenues declined eight per cent in the year to 2007, and eMarketer expect total global revenues to fall on average 2.5 per cent each year to 2011. This appears to be a positive forecast in light of the eight per cent 2007 revenue decline. To achieve the forecast to 2011, digital pricing which is artificially high based upon CD formats (to be discussed), will need to remain constant and revenues from emerging offerings will need to flow through to the extent that they
mitigate erosion of CD revenues. Plus this does not include licensing, ringtone income or other service types of income. Alternately, if illegal digital music does outnumber legal on a ratio of twenty illegal tracks obtained for every legal track (IFPI 2008), then eradicating piracy will certainly impact revenues, if all other variables in the system are unchanged. However other factors in the system are changing (such as the increasing number of artists releasing music without charge, and negative consumer sentiment towards the major labels) and this lessens the likelihood of digital pricing remaining constant and piracy eradication eventuating.

In the year to 2007 global CD sale revenues fell from US$14 billion to US$9 billion (LaPlante 2008: 3). Yet the volume of CD sales only fell five per cent over the same timeframe. This suggests heavy discounting of CD prices, and consequent tightening of profit margins, which is confirmed by Plunkett research showing in the same time period, profit margins fell to less than five per cent (whereas in the 1980s they were between fifteen to twenty per cent)(ibid.). A telling statistic is that in the United States forty eight per cent of teenagers bought no CDs at all in 2007, versus thirty eight per cent in 2006 (Quinn and Chang 2008).

Importantly the above market estimates for music products do not include revenues from music performance and other ancillary services, which are increasingly important. Alternate revenue sources include: tours; merchandise; licensing; broadcasting; sponsorship; and premium access to musicians (direct or via social networks). Looking more holistically at the music sector, eMarketer (2008) estimates the global market for recorded music, live music, and music publishing will exceed $67 billion by 2011, compared to $62 billion in 2007. This 2.2 per cent growth rate is less than forecast inflation increases. They believe growth will come largely from digital music and live concerts (where revenues are growing rapidly), and licensing of music for public performances, commercials, TV shows, films, and video games.

Historically the major labels would have taken no revenues from ancillary music activities, their primary revenues were music product (CDs). To fill the revenue gap from CD price declines, the major labels targeted new revenue streams, which traditionally went to other sector players or musicians. An example is the introduction of 360-degree contracts, where the label takes a percentage of revenues across all
activities from which a musician receives revenues. Companies who may or may not be affiliated with the label have provided traditionally many such activities, and may potentially be replaced by the label. 360-degree contracts are discussed in the value chain chapter of this thesis.

The declining fortunes of the major labels can best be described by the change between 1999 (the year after Napster was launched) and 2007 (most recent available data). The table below indicates the change in employee numbers within the major labels during the time period:

Table 7: Major label employees: 1999 versus 2007

<table>
<thead>
<tr>
<th>Staff</th>
<th>Universal</th>
<th>Warner</th>
<th>EMI</th>
<th>Sony</th>
<th>BMG</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>12000</td>
<td>10900</td>
<td>10200</td>
<td>10000</td>
<td>11700</td>
<td>54800</td>
</tr>
<tr>
<td>2007</td>
<td>7869</td>
<td>3800</td>
<td>5458</td>
<td>3009*</td>
<td>20136</td>
<td></td>
</tr>
</tbody>
</table>

* Sony BMG

Based on: Diebold Deutschland 2001b; Company annual reports.

As at 2007 there were 20,136 employees in the major labels, a fall of 34,663 employees, or sixty four per cent percent over eight years. However the number of labels owned by the major labels has increased, according to company annual reports. For example, the Warner umbrella includes Atlantic, Maverick, Reprise, Roadrunner, Sire, and WEA labels. The increase in the number of labels within each of the majors was often by acquisition, a strategy that may be used to maintain market share or competitiveness (by acquiring innovative startups). However the size of labels within their roster are smaller, perhaps reflecting market fragmentation.

Sony and BMG have merged, and attempts by EMI and Warner (with some parts of the former BMG) to merge were blocked by antitrust regulators who were averse to further consolidation in the market (Rizzo et al. 2007). A merger of EMI and Warner would have created an entity similar in scale to Universal or Sony, resulting in three majors dominating the global market, with a fourth potential force being the aggregated independent labels (an organisation representing independent labels, named the Merlin Network, commenced in 2007). Subsequent to the above data, in
early 2008 EMI announced it would cut a further two thousand employees, amongst other rationalisations (Finch 2008).

An indication of the rise, or recognition, of independent labels might be seen in the figure below. The major labels dominated the official global music sector in 1998, with a 77.4 per cent market share of the market (MEI 2000). Compact disc (CD) sales generate seventy per cent of their revenues (Marketresearch 2008). By 2005 this had slipped to 71.6 per cent (IMNZ 2007; IFPI 2008), which correlates with Merlin claims that the global independent music sector collectively represents thirty per cent of all music sales (Merlin 2007). The figure below highlights the market dominance of the major labels, but also the potential market power of independent labels, if represented collectively by the Merlin network.

*Figure 4: Global music company market shares*


Within countries there are marked differences in the dominance of the major labels. In at least two of the worlds largest markets, the independents hold a much bigger share. This includes the United States where market independents comprise thirty five per cent of market share (Fitch Ratings 2007) and British Phonographic Industry figures for 2005 show that eighty three per cent of total music product releases in the United
Kingdom were on independent labels (IMNZ 2007). Furthermore these statistics capture music releases on independent labels, not releases by unsigned musicians. As recording and distribution technologies increase in availability, it is expected that more musicians will release music themselves. So major labels are experiencing not only declining market share, but declining market share in a declining (CD) market.

All major labels, with the exception of EMI, are subsidiaries of global entertainment corporations that hold music within entertainment portfolios. For example, Warner is a division of AOL Time Warner and Universal sits within Vivendi Universal. Music is only one element in their parent company portfolios of entertainment encompassing music, video, film, games, sports, interactive capabilities and more. This is an important differentiation between major labels (except EMI) and independent music companies. Instead of competing with other music labels, the majors compete with other segments of the entertainment offerings of their parent companies. For example, a consumer may spend funds watching a Warner film at the cinema rather than buying a Warner music CD. Other entertainment segments also offer opportunities for cross promotion, for instance by placement of songs in video games, so the nature of competition may be one of ‘co-opetition’ (Brandenburger & Nalebuff 1996), especially when other entertainment formats belong within the same parent company. "We live in an age where music is all around us. Music has proliferated across all these channels -- commercials, video games, television shows, movies, amusement park rides -- it's part of what's in the air and it accompanies us no matter where we are or what we are doing," said media analyst Paul Verna, "we expect to have our collections with us at all times, and in many ways, music is now taken for granted." (in LaPlante 2008: 3). So the decline in the performance of the major labels, or traditional industry cannot be said to represent a decline in demand for music.

The major labels are also investing more funds in less numbers of acts, as evidenced by the decline of A&R (Artist and Repertoire) departments and cuts to A&R employees. A&R executives identify and develop new musical talent. In the United States in 2000, the major labels employed more than four hundred A&R executives. As of March 2008 there were less than seventy (Martens 2008). In recent years some music labels have renamed their “artist development” departments, whose role is to plan and manage the careers of artists, into “product development” departments that focus on releasing
music products in various formats (Klein 2008: para. 5). This reflects the proliferation of music products as discussed previously, and secondly it suggests that music products are a higher priority than the development of musician careers. Labels are “taking fewer chances on artists who don’t make an immediate commercial impact” (Goodman 2001: 22). Cuts to A&R may be perceived in the same way as research and development rationalisations in other sectors – they suggest a decline in the perception of the long term future of that firm, because it could be seen as cutting the investment in the future firm output. Wikstrom (2005: 73) uses a systems approach to describe how A&R rationalisations leads to lower product diversity, and “eventually also demand, revenues and profitability” will decline. But it is noteworthy that during 2008 EMI, as part of a turnaround strategy announced it was increasing resources in A&R (Sawyer 2008: para. 16) perhaps suggesting the cyclical nature of this sector, however the emphasis may be on scouting rather than developing musicians.

The Australian music environment
The decline in official global music product revenues is mirrored in the Australian market (PricewaterhouseCoopers 2006). Physical format sales in 2005 totalled AU$967 million (ARIA 2006). The table below shows that traditional format CD sales are still a major part of the market, although their share of total sales is in decline, and this was before the introduction of iTunes to Australia. The shift to new formats can be seen in the ‘other’ category, which includes new media, in contrast to the steady decline of vinyl and cassettes.
Table 8: Australian music sales (wholesale units)

<table>
<thead>
<tr>
<th>Format</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>%</th>
<th>Change 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>CD singles</td>
<td>12,367</td>
<td>11,343</td>
<td>9,464</td>
<td>9,285</td>
<td>7,450</td>
<td>-20</td>
<td></td>
</tr>
<tr>
<td>CD albums</td>
<td>49,670</td>
<td>46,954</td>
<td>50,641</td>
<td>48,234</td>
<td>46,288</td>
<td>-10</td>
<td></td>
</tr>
<tr>
<td>Digital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,985</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Music VHS/DVD, Vinyl, Cassettes</td>
<td>1,818</td>
<td>3,196</td>
<td>5,464</td>
<td>5,608</td>
<td>4,573</td>
<td>-22</td>
<td></td>
</tr>
<tr>
<td>Other*</td>
<td>2</td>
<td>0.784</td>
<td>53</td>
<td>11</td>
<td>59</td>
<td>461</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>63,857</td>
<td>61,495</td>
<td>65,621,996</td>
<td>63,138</td>
<td>63,355</td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>

*Other includes mini discs and SACD formats

Source: PricewaterhouseCoopers 2006: 104

Music is an important, albeit generally underpaid and part-time, industry in Australia, according to official statistics. Consumers spent about $2800 million on music in 2003-04, including audio equipment, concerts, CDs and nightclub entry fees (Cultural Ministers Council 2007). In 2001 roughly 8840 persons in Australia listed music as their main occupation, and over sixty two per cent reported an income less than $30,000 per annum (Cultural Ministers Council 2007; ABS 2003). In 2004 nearly 250,000 people worked in some way as live music performers, however eighty five per cent of these worked less than ten hours per week when they were involved.

Music events are well attended in Australia, reflecting high consumer demand for the social aspects of music. In 2004 over five hundred entities were involved in producing live music, generating income of over $400 million. About seventy per cent of them performed popular music. In the year 1995 about forty five per cent of the Australian persons aged over fifteen attended at least one music event, and this grew to an estimated fifty five per cent in 2005-06, as can be seen below. The attendance rate at popular music performances appears generally constant over ten years at twenty five per cent of the population:
Table 9: Attendance at cultural venues and events 1995 versus 2005-06

<table>
<thead>
<tr>
<th>Genre</th>
<th>Persons (million) per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1995</td>
</tr>
<tr>
<td>Popular music performances</td>
<td>3.8</td>
</tr>
<tr>
<td>Classical music performances</td>
<td>1.1</td>
</tr>
<tr>
<td>Musicals and Opera</td>
<td>2.7</td>
</tr>
<tr>
<td>Dance performances</td>
<td>1.4</td>
</tr>
<tr>
<td>Total</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics catno.4114.0, 2006: 41

In 2005-06 it was estimated sixty one per cent of the population aged over fifteen attended at least one musical event during the year. By comparison, cinema attendance (65.2 per cent) was the most popular activity (ABS 2006). As mentioned previously, official sources generally haven’t fully captured the economic importance of the sector because a significant proportion of it comprises entities that are too small to be captured, operate informally, or music is a non-core operation.

At a micro-economic level, live music performances in Australia are threatened by the declining number of venues. These include pubs and clubs, which are increasingly threatened by:

1. Noise complaints from nearby residents;
2. Alternate revenue opportunities from poker machines (pokies) which replace the performance space previously in venues (with an exception of RSL clubs);
3. Late night violence (although not often associated with music venues); and
4. Increasing regulation (taxes and licensing legislation).

However there is an increasing recognition of the importance of live music as an entertainment form within the night time economy (Flew et al. 2001) and various regulatory actions have occurred that recognise the importance of the night time economy and aim to protect entertainment zones. Initiatives include increased protection for venues against residential noise complaints in the Brisbane Fortitude
Valley zone, and in Melbourne following a 2003 ‘Fair Go for Live Music’ Campaign there.

Melbourne appears to enjoy the most thriving music sector in Australia. This is in part due to the high number of pubs and other venues that allow musicians to develop performance skills, with 47.5 per cent of non-gaming venues located in Victoria (ABS 2005). Music performance in pubs and clubs is difficult to measure, however the ‘What’s on’ section of street press (Beat 2003) shows that in one week 564 bands and 431 DJ’s were performing in Melbourne. This conservatively translates into over 50,000 performances per year in over 170 Melbourne pubs and clubs. Revenues from such activities not only include ticket sales, but also merchandise for performers, and alcohol sales for the venue. Most venues operate as small independent, owner-operated businesses but in aggregate they are significant to the Melbourne economy.

**The emerging global digital music environment**

Wolf (1999) says the underlying principle of a digital society is that content can be expressed in the same binary code of ones and zeroes. This has changed the music product from tangible to intangible, with far reaching consequences on music products and services.

In 2006, global music sales totalled a trade value of US$19,587 million, or a retail value of US$31,813 million (IFPI 2007). Eleven per cent of sales were in digital formats. Digital formats include online downloads, ringtones, mastertones, full tracks delivered to mobile handsets and internet and mobile subscription services, as well as CD sales.

As discussed previously, the rise in digital music formats has to some extent offset losses the CD format. The major labels invested heavily in CD manufacturing plants and infrastructure so perhaps needed to balance the timing of their move to digital formats in order to minimise the cannibalisation of their manufacturing assets, and this perhaps has hindered the speed of their response to digital music. It is noteworthy that the CD still maintains the bulk of the official market revenues for music products, so the, as Schumpeter (1947) theory that mainstream consumption is slow to adopt
innovations, so perhaps, by continuing to supply CDs, the major labels are simply responding to consumer demand.

However change is occurring, in another sign that digital music is eroding CD sales, an estimated 1200 'bricks and mortar' retail music stores closed in the United States between 2002-2004. Similarly in Australia prominent independent pure music retailers closed as the market consolidated into large entertainment retailers such as JBHiFi and HMV, who carry music in addition to other entertainment offerings (hardware, DVDs etc.). A smaller, premium market still exists for stores offering niche, rare music. These tend to focus heavily on service delivery to a community, such as sourcing rare titles upon request and organising or supporting events within communities.

The explosive take-up pf music available via Peer-to-Peer (P2P) software, whilst illegal, and other technological developments have stimulated musical innovation, by:
1. A price point of ‘free’ stimulates demand, and consequently interest in music;
2. Stimulated the digital music market by demonstrating demand; and
3. Weakened the concentration of power by the major labels in the music sector.

Wikstrom (2005: 69) cites various studies showing the decline in music innovation is linked to the increase in the level of concentration in the music sector. P2P, although illegal, was a major innovation in the distribution of music. In 2001 the five major labels launched legal action preventing copyright abuse by P2P facilitators such as Napster (May & Singer 2001). So from 2002 onwards a decline in P2P use might have been expected, but did not occur. As at January 2008, over five hundred legal music download sites worldwide were in operation (IFPI 2008). Illegal peer-to-peer (P2P) networks outnumber legal download sites and outweigh them in scale of content. The IFPI argue illegal downloads outnumber legal ones by twenty to one (ibid.). However the identification and measurement processes for statistically capturing P2P traffic are highly contentious, primarily because it is illegal so difficult to identify.

The increasing proliferation of music across formats and ancillary music offerings has to a large extent been driven by digital technologies. There are hundreds of digital music services in operation worldwide (IFPI 2008), both legal and illegal. Bridge ratings (2007) argue the main reason consumers purchase music (apart from
enjoyment) is to fill mobile device players, and secondly consumers buy new music they have discovered. The ease of digital music use may motivate consumers to discover and acquire more music. As can be seen below, music consumption has increased, but not necessarily music expenditure. The impact of piracy may explain the fall in revenues between 2000 and 2006. Note this is based upon a survey of four thousand United States residents (aged over thirteen years) so is an indication only, but similar data is provided by another market research agency, NPD Group (2008):

Table 10: United States music consumption

<table>
<thead>
<tr>
<th>Year</th>
<th>% of U.S. population buying music</th>
<th>U.S. Music sales (US$bn pa.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>20</td>
<td>9</td>
</tr>
<tr>
<td>1990</td>
<td>21</td>
<td>11.6</td>
</tr>
<tr>
<td>2000</td>
<td>26</td>
<td>16.7</td>
</tr>
<tr>
<td>2006</td>
<td>32</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Source: Bridge Ratings 2007: table 1, 2.

Despite a sixty two per cent increase in the music buying population, revenues have only increased 7.8 per cent between 1980 and 2006. The impetus for increasing music consumption may be that it is now (illegally) available at no cost, but also because it is more prevalent in other formats such as computer games. In 2007, the number of global digital tracks downloaded increased fifty three per cent from the prior year to 1.7 billion, with a value of US$2.9 billion (IFPI 2008), or fifteen per cent of the global legal music sector revenues. But perhaps the growth in legal digital music is not happening quickly enough to offset the rapid decline in music product sales and revenues, as evidenced by the chart below.

During 2007 it was estimated that about eight million people worldwide were on file-sharing networks at any one time, and file sharing was the most used service on the internet in 2007 (Nugent 2008). In 2008 it was claimed there were more than nine hundred million illegal music files available for download on file-sharing networks, including BitTorrent, Limewire, Soulseek, Gnutella, eDonkey, Pirate Bay, and KaZaa (ibid.). The IFPI cite studies that show up to eighty per cent of all ISP broadband capacity is taken up by P2P file sharing (IFPI 2008). The heaviest usage was recorded
at night, when the percentage of file-sharing traffic rose to up to ninety five per cent of total internet traffic (Nugent 2008) although a proportion of this may be film or television P2P too.

Graziano and Raine estimate during 2001, two years after Napster was created, in the United States music files had been illegally downloaded by: twenty nine per cent of all adults, and fifty three per cent of youth aged between twelve and seventeen years (in Fox 2002). In Japan during 2007 37 per cent of mobile users regularly used their phones to download illegal music, with nearly four hundred million illegal files downloaded in 2007 (IFPI 2008a). By contrast to illegal use, legal digital music purchase remains low. Of legal digital sales, worldwide about forty eight per cent are purchased online, forty seven per cent via mobiles and five per cent via subscriptions (IFPI 2008a). The purchase method and format of music varies widely by country depending upon their communications and regulatory regimes, as well as consumer preference.

The decline in sales is not actually a decline in consumer use of music. The sales decline is due to:

1. Free downloaded music via social and peer to peer networks;
2. The market has fragmented to the extent that consumers are purchasing in a variety of different ways, formats and sources perhaps not covered by official sources;
3. Kevorkian and Maclachlan (2001) note that consumers are no longer buying CDs to replace record album or cassette collections, and instead of buying digital music to replace their CD collection, they simply copy the CD into their music player. In Australia this is legal, but in many countries copying music for other formats for personal use is illegal;
4. There is a trend by consumers to purchase single tracks rather than whole album downloads. Worldwide digital single track purchases including those on digital albums, grew by fifty three per cent to US$1.7 billion (eMarketer 2008); and
5. The price of CDs has dropped and this contributed to revenue declines. In the figures provided by Byrne he claims less music is purchased using revenue numbers, however heavy discounting of mass-market titles (which are cheaper per unit to produce) has impacted revenues despite possibly higher unit sales. In 2005
1,975 million full length CDs were sold worldwide (RIAJ 2007) via traditional channels so it is still a significant market.

The impact of free music over the internet might be more appropriately demonstrated by the decline in sales of CD singles. The profile of a typical online music user is that they tend to download single songs only, due to the time it takes to download (this will change as telecommunications capacity grows). Global unit sales of CD singles fell by 14.3 per cent in 2000, whereas in USA CD single sales fell forty six per cent in 2001 (Masson 2001).

The global major labels were slow to respond to the internet opportunities and their online attempts missed the mark. For example, during 2002 if a consumer living outside the United States wanted to find more about Chris Isaak they would go to his website but if they clicked on a link to the Isaak TV show, they would receive a message (see figure below) stating the site is only for viewers based in USA. It fails to recognise the global nature of the internet and global market of Chris Isaak. This still occurs often. In 2008 to download digital music (in MP3 format) off Amazon.com a consumer will fill in two pages of forms, entering credit card and other personal details until they get to the third page asking for a postal address. The pull down box of states contains only those in the United States and it is at that point the user discovers the site is only for U.S. residents. This is despite Amazon.com being accessible by anyone globally with the internet and a credit card to purchase books and other parts of the store.

*Figure 5: Sorry we are not global*

Source: Showtime Online 2002
Noting the move to digital downloads, May and Singer (2001: 129) claimed the value chain of CD music products is "ripe for a change" when compared with new digital formats. Using four sources (including McKinsey analysis and industry interviews, which cannot be verified) they a breakdown of physical versus virtual costs. The table below indicates how digital music may reduce the costs of traditional CD formats:

Table 11: Savings of digital formats

<table>
<thead>
<tr>
<th>Cost Breakdown</th>
<th>%</th>
<th>Low case $</th>
<th>High case $</th>
<th>Change*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Price</td>
<td>12</td>
<td>16</td>
<td></td>
<td>No change</td>
</tr>
<tr>
<td>Retailer Markup</td>
<td>5</td>
<td>2</td>
<td>6</td>
<td>No change</td>
</tr>
<tr>
<td>Music Company's Wholesale Price</td>
<td>10</td>
<td>10</td>
<td></td>
<td>No change</td>
</tr>
<tr>
<td>Royalties, Advances</td>
<td>16</td>
<td>1.5</td>
<td>3</td>
<td>No change</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>Cut</td>
</tr>
<tr>
<td>Distribution</td>
<td>6</td>
<td>1.4</td>
<td>1.4</td>
<td>Cut</td>
</tr>
<tr>
<td>Promotion</td>
<td>15</td>
<td>1.5</td>
<td>3</td>
<td>Cut</td>
</tr>
<tr>
<td>Overhead, marketing, Inventory carrying</td>
<td>42</td>
<td>1.5</td>
<td>4</td>
<td>Cut</td>
</tr>
<tr>
<td>Music Company's Profit</td>
<td>11</td>
<td>(2.4)</td>
<td>3.1</td>
<td>No change</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>7.4</td>
<td>15.4</td>
<td></td>
</tr>
</tbody>
</table>

* according to May and Singer (2001)


This revenue allocation is depicted below:
If the traditional costs are removed, savings of up to sixty nine per cent may be made. Remaining costs include: publishing royalties; marketing and promotion; musician union membership; and musician royalties. If the costs of marketing and promotion are removed (by using fans and online social networks) then the savings increase to eighty nine per cent. Of course there will still be costs incurred in manufacturing and distribution in a digital environment (software, ISPs, online retailer if used) but these are comparatively minimal. Even if manufacturing and distribution costs total US$2 (12 per cent) per CD it still represents a reduced cost, which may be passed on in the reduced price of digital music. This cost breakdown also raises questions of label and retail overheads, and marketing. These comprise over half the cost of the CD, but a detailed breakdown of their composition is unavailable. A breakdown of costs incurred in the traditional music system may be revealed during legal action. In the case ‘UMG v Lindor (Brooklyn, NY)’ in the United States, a detailed breakdown of costs has been
requested. As at April 2008, the music labels had not supplied the cost breakdown. An example of label overheads was revealed when the new management of EMI identified expenditure of £240,000 per annum on candles, and £200,000 per annum on fruit and flowers for its head office (Finch, Gibson & Needham 2008: para. 11). “Seasoned industry executives”, however, suggested that "fruit and flowers" refers to entertainment expenses that would not be approved if named appropriately (ibid.).

May and Singer (2001) in their cost breakdown do not highlight royalties and advances of between US$1.5 to US$3 per CD, and profits of between US$(2.4) to $3.1. These are provided in the table as included in the cost of a CD, but not included as being removed by new distribution techniques. It is most likely that the royalties will also change. Musician royalties are generally advanced to musicians by the label as loans before production commences, to be used to pay for the album production, however the value of loans may be reduced if costs of production fall, and so musicians may receive a greater percentage of royalties, because they have less to pay back to the label. In addition, access via downloads removes risks from forecasting sales when investing in an act and manufacturing CD’s. There is no costly problem of unsold inventory in the digital realm, and so inventory carrying costs are also removed.

**Australian digital music environment**

In Australia the consumer take-up of the internet grows despite broadband restrictions, data caps and pricing confusion (ACMA 2008). Music continues to be a primary driver of internet usage in the home (ABS 2005). MIPI, the Australian Music Industry Piracy Investigations body, estimates that 2.8 million people downloaded one billion songs illegally during 2007 in Australia (Pollstar 2008). P2P traffic measurement firm IPOQUE found P2P traffic in Australia accounted for fifty seven per cent of all internet traffic (Schulze and Mochalski 2008). By comparison, VOIP/Skype comprised a mere 0.51 per cent of all Australian internet traffic. The most prominent P2P entity in Australia is BitTorrent with 73.4 per cent of all P2P traffic (ibid.).
Social changes

The music sector is strongly influenced by consumers. An important economic influence on entertainment revenues is changes to levels in household discretionary expenditure. The music sector competes for a share of discretionary expenditure with other leisure opportunities such as computer games, other media and sport. Consumers today also spend a higher proportion of discretionary expenditure on mobile phones. The music product is generally available for free via illegal means, so when faced with competing entertainment options, consumers may be less prepared to pay for music. Fitch Ratings believe that music spend is declining within the entertainment spend pie, as can be seen below in the figure below. However Fitch define music spend as expenditure on the music product (not ancillary income sources such as performance):

Figure 7: Music share of total entertainment expenditure

Source: Rizzo et al. 2007: 5

Sylva and Garlick (in Fox 2002) describe how the internet has benefited consumers and artists, including:

1. Consumers now believe content should be free. Seventy eight per cent of internet users who download music do not believe it is stealing, according to a study by Lenhart and Fox (ibid.). In February 2001, 2.8 billion songs were downloaded using Napster (ibid.). That same year the five major labels commenced legal action preventing copyright abuse by massive online facilitators of music sharing, including Napster. Leung and Lombardi (2001:18) believe that downloading music may be a “form of protest against music companies,” against the charging of unjustifiably high prices and other tactics which have “alienated a large number of militant kids, resulting in a defiant backlash” (ibid.);
2. The ‘Content is king’ (sic) concept, where content is considered the primary driver for success in digital societies. Obtaining and maintaining a digital music collection is equally as valid as a physical collection;

3. Consumers have gained greater control. Consumers can produce their own music compilations in different formats (Berst 2000). They participate in and belong to global communities of interest, including interacting directly (and safely) with artists. Consumers now create their own content, taking music from a variety of sources and remixing it, or using generic recording tools such as Apple’s Garageband;

4. The internet has reduced costs and removed barriers to entry, allowing some musicians to operate without the record label intermediary. For example, digitisation can make the manufacture of music easier and less costly. Fox (2002) believes this releases funds for other activities such as marketing and website development. Whilst musicians cannot match the marketing strength and business networks of the major labels, labels cannot match the enthusiasm of fans. For example hundreds of fan pages may be dedicated to a band and their music; and

5. Musicians within the labels have traditionally had limited creative and strategic control over their music (Pfahl 2001). Tensions between the interests of musicians and their labels has been well documented (Holson 2002; Albini 2003; Avalon 2005), for example Pfahl says the relationship is similar to:

> that of indentured servants forced to serve corporate bosses concerned mostly with filling their coffers, ... artists have constantly asked for more control over their work, but realise they cannot live without the benefits provided by record labels, that is, until the internet arrived (Pfahl 2001: para. 19).

> ‘Radiohead’ Singer Thom Yorke in 2004 said it would give the group a certain amount of pleasure to “give the finger” to a business model that was “headed the way of dinosaurs” (Haskins 2007: para. 26).

The challenge of market fragmentation is that “music has become so confused that the target group has its hands full finding what is it looking for” (van Deelen 2001: para. 4), and increasingly consumers need content filters, or rely upon the opinions of peers or
music genre experts. But this should reinforce their reliance on communities or peers and role models, and profiling agents that search according to a person’s preference.

**Market fragmentation**

Demand for music is thriving. This is evidenced by the prevalence of music in various formats (legal and illegal) across an increasing range of mediums and attendance at musical events. Demand for music services and product continues and grows. Much of this growth is in small start-up entities not captured by mainstream statistical agencies so it is difficult to get an accurate and complete picture of activity within the music sector.

Within this growth there are some contradictory trends:

1. Thriving demand for music is not necessarily leading to increasing revenues in the music sector;
2. The revenue mix is changing, with a shift away from the music product to related activities such as live performance;
3. Musicians generally are still earning less than other sector participants;
4. The dominance of the major labels appears to be weakening as the market fragments;
5. Emerging technologies and companies can potentially improve market efficiency; and
6. The role of the consumer is changing from a passive to an active participant.

The market is fragmenting, with many niche start-up businesses with innovative business models, which are creating change across the sector (Hicks 2002; Knab 2008). Entities that use emerging technologies and/or techniques to operate more efficiently to deliver music services are emerging. Conversely the number of music acts that the major labels invest in is declining as their market share falls. Simultaneously a few high profile music acts are leaving the major labels to sign with smaller labels, tour operators or to self manage their operations.

In 2007 Paul McCartney terminated his contract with a major label because, after decades with the same label, he was bored with them and their reliance on traditional
business models. Instead he went outside the music sector and signed a deal with coffee retailers Starbucks (Collett-White 2008). Future music suppliers may include entities across other sectors or independent musicians, including:
1. Consumer portals (for example social networks such as Myspace);
2. MSPs (Music Service Providers such as iTunes or Last.fm);
3. Media companies;
4. ‘Bricks and mortar’ retailers (Walmart);
5. Online retailers (Amazon);
6. Internet service providers (Bigpond music); and
7. Hardware manufacturers (Nokia);
and others. With some exceptions such as Starbucks, these will tend to be on-selling music catalogues owned by the major global entertainment companies.

The major labels are negotiating with telecom companies to supply their music catalogues with mobile phones, such as the ‘Nokia with free access to the Universal music catalogue for a year’ mobile phone deal (planned release in 2008). ISPs may introduce access to majors’ music catalogues for minimal amounts as part of their monthly invoices, similar to the way consumer’s pay for channels on pay TV. This develops the concept of music as a utility, bundled with other products for free. Consumers may pay a fixed fee for unlimited access or a variable fee based upon usage. No formal release of this plan had been made as at July 2008.

With regards to revenues in emerging music sector business models, the following table highlights key elements of a variety of models that have been identified and discussed within this thesis. The table describes potential revenue sources in each approach. It is provided for illustrative purposes and is not a mutually exclusive classification. The prevalence of niche start-up businesses is noteworthy. Many that survive the start-up phase and gain market traction are then acquired by major media companies, for example, Last.FM:
Table 12: Music revenue sources

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>Features</th>
<th>Example</th>
<th>Benefits</th>
<th>Challenges</th>
<th>Musician revenues (guide, 2008)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription</td>
<td>• Periodic payments to access: all or particular content; or participate in a community.</td>
<td>• Nokia comes with music (pay for device subscription includes access to a selection of music for the contract duration); • gated online music communities, for example, where subscribers have access to musicians for a fee.</td>
<td>• Annual subscription automatically renews; • Offset commitment risk with trial period; • Forces users to subscribe if they want any access (built on existing reputation); • Branding important; • Enhances consumer loyalty; • Transition step to other models?</td>
<td>• Annual, locked in subscription may be perceived as a 'big commitment'; • Some firewalls can be hacked; • May be able to access large amount of content without subscription via alternate sources; • Requires careful community management; • Untested to some extent; • May be manipulated (spammed) by companies?</td>
<td>• Contract dependent; • Nokia – no (it is hard to see how musicians are ultimately paid for use); • Musician owned site: yes.</td>
</tr>
<tr>
<td>Utility</td>
<td>• Metered use with periodic payments.</td>
<td>• Last.FM; • Audio lunchbox; • Pay per listen services are similar to broadcast royalty payments.</td>
<td>• Pay per use has a perception of fairness; • Avoids the subscription disadvantage of hacking/sharing of IDs.</td>
<td>• Variable pricing may result in unanticipated high bills, which may potentially hinder consumer take-up.</td>
<td>• Last.FM: ca.10-30% of net ad. Revenue and ca 45% from performance royalties to musicians; • Audio lunchbox: 91% of sale price.</td>
</tr>
<tr>
<td>Publishing</td>
<td>• Publishers seek and disburse license and royalty payments from use of music.</td>
<td>• Song placements in media (movies, broadcasting).</td>
<td>• Lump sum and/or ongoing revenue stream payments to musicians.</td>
<td>• Various channels slow the process of payment; • Low likelihood of placements.</td>
<td>• Contract dependent.</td>
</tr>
<tr>
<td>User generated</td>
<td>• Fan based reuse and dissemination of music content.</td>
<td>• P2P; • Podcasts and music blogs.</td>
<td>• Promotional tool; • Community building.</td>
<td>• Musicians are not paid; • Breaches copyright.</td>
<td>• $0.</td>
</tr>
<tr>
<td>Revenue Sources</td>
<td>Features</td>
<td>Example</td>
<td>Benefits</td>
<td>Challenges</td>
<td>Musician revenues (guide, 2008)</td>
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<tr>
<td><strong>Venture Capital (cont'd.)</strong></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>• Fan funding.</td>
<td>• Artistshare.</td>
<td>• Classical composer Richard Wagner’s patron was King Ludwig II of Bavaria.</td>
<td>• Builds a strong community, freemium elements; • Minimises risk of recording by testing the market for funds beforehand.</td>
<td>• Some venture capital sites replicate services offered by traditional labels, a third party. • Loss of Patron; • Extent of support depends upon generosity and wealth of Patron; • Power and propensity of patron to influence content. • Potential for losses if musician fails to recoup investment made; • Musicians may pay two sets of commissions; • Music labels may undertake tasks that are more capably handled by specialists.</td>
<td>• Artistshare charge US$5000 upfront, and musician receives 85% revenues.</td>
</tr>
<tr>
<td>• Patronage.</td>
<td></td>
<td>• Robbie Williams EMI contract.</td>
<td>• Administeratively simple; • Provides some freedom from financial concerns to musician.</td>
<td>• Label provides holistic management services to musician; • Additional revenues streams for music labels to offset losses from declining music product sales.</td>
<td>• 100% to musician.</td>
</tr>
<tr>
<td>• 360-degree contracts.</td>
<td></td>
<td></td>
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<tr>
<td>• Voluntary payments</td>
<td>• 'Radiohead' 'In Rainbows' Album; • Amie Street; • Songslide.</td>
<td>• A transition step towards paying for content; • Helps establish a price and market for content; • Highlights differences in the value of music (e.g. prepared to pay $10 for one song but less for another) and may also reveal market information (e.g. location of highest payments etc.).</td>
<td>• Short term strategy to assess market; • Requires micropayment infrastructure and must be easy/fast to do.</td>
<td>• 'Radiohead': nearly 100% of revenues; • Amie Street: ca.70% of revenues to musicians.</td>
<td></td>
</tr>
<tr>
<td>• Ancillary products</td>
<td>• Sale of merchandise; • Access to historical content; • Access to musicians.</td>
<td>• Increasingly important revenue stream; • More viable as data costs fall, for example, to make digital goods available. • Strong communities; • Affiliate sales (if x likes Band A, they may also like Band B).</td>
<td>• Consumer perception change required: ancillary offerings need to be repositioned into a premium service (e.g. books of photos, dinner with musician etc.). • Requires strong brand; • Risk of community dilution. • Strong brand name and micropayment infrastructure required; • 80/20 rule.</td>
<td>• Contract dependent.</td>
<td></td>
</tr>
<tr>
<td>• Genre marketplace</td>
<td>• Garagepunk.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Fixed price micropayments per digital song.</td>
<td>• iTunes; • Amazon MP3 store.</td>
<td>• Easy to use, fast increases propensity to purchase. • Musician - fan, minimal intermediaries; • Similar to voluntary payment, except payment indication is provided; • Accurate market pricing of music.</td>
<td>• Interim strategy to transition consumers to digital music (CD Baby also sells digital music).</td>
<td>• Difficult to predict income stream.</td>
<td>• ca65% of sale price.</td>
</tr>
<tr>
<td>• Variable price micropayments per digital song.</td>
<td>• Jane Siberry: fans pay what they believe the song is worth. The average price paid per song is displayed as an indicator.</td>
<td>• Consumer perception change required: ancillary offerings need to be repositioned into a premium service (e.g. books of photos, dinner with musician etc.). • Requires strong brand; • Risk of community dilution. • Strong brand name and micropayment infrastructure required; • 80/20 rule.</td>
<td>• Interim strategy to transition consumers to digital music (CD Baby also sells digital music).</td>
<td>• Consumers must wait for music to arrive by post.</td>
<td>• 100% of revenues to musician.</td>
</tr>
<tr>
<td>• CD Baby</td>
<td>• CD Baby</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>• CDs.</td>
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<tr>
<td><strong>Retail</strong></td>
<td></td>
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<td></td>
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<tr>
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<td>• CDs.</td>
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<tr>
<td>Revenue Sources</td>
<td>Features</td>
<td>Example</td>
<td>Benefits</td>
<td>Challenges</td>
<td>Musician revenues (guide, 2008)</td>
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</tr>
<tr>
<td><strong>Advertsing</strong></td>
<td>• Site Based Advertisements.</td>
<td>• Myspace Music.</td>
<td>• User gets content for free; • Tried and tested model.</td>
<td>• Multimedia ads frustrate users. • risk of spam and breach of trust between musician and fan; • Administratively onerous; • Propensity for users to supply incorrect information.</td>
<td>• Myspace Music does not allocate advertising revenues to unsigned musicians (as at 2008).</td>
</tr>
<tr>
<td></td>
<td>• User registration on sites or services. Aggregated personal profiles are sold.</td>
<td></td>
<td></td>
<td>• Contract dependent.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• User selected advertisements on musician sites.</td>
<td>• Pandora; • Search Engine Optimisation strategies (pay per click).</td>
<td>• User may select from a menu of advertising content they wish to view, in return for free content. • Targeted ads, user may be more amenable to paying attention; • Content provider builds greater awareness of user base.</td>
<td>• Administratively cumbersome; • Model yet to be tested?</td>
<td>• Contract dependent. • Requires mass scale clicks before musicians are paid; • Depends upon contract.</td>
</tr>
<tr>
<td></td>
<td>• Affiliate: Pay per view.</td>
<td>• Adidas sponsorship of Robbie Williams tour. Robbie Williams wears Adidas.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Sponsorship.</td>
<td>• High profile for sponsors; • Subsidises other costs; • Less administration.</td>
<td></td>
<td></td>
<td>• Contract dependent.</td>
</tr>
<tr>
<td><strong>Tickets.</strong></td>
<td>• Ticketek, Ticketmaster, Venues. • 2004 Prince Australian tour offered premium ‘onstage’ seats.</td>
<td></td>
<td>• High experience benefits; • Buildings community.</td>
<td>• Difficult to predict sales; • High organisation and logistics costs.</td>
<td>• Ticket value minus Venue and Agency fee.</td>
</tr>
<tr>
<td></td>
<td>• Premium Service Tickets.</td>
<td></td>
<td>• Can, to some degree, predict sales based upon location of fanbase.</td>
<td>• Distinction between access based upon propensity to pay.</td>
<td>• Ticket value minus Venue and Agency fee.</td>
</tr>
<tr>
<td></td>
<td>• Virtual tours.</td>
<td>• Performance recordings (video and audio).</td>
<td>• Address a global fanbase.</td>
<td>• Not as good as the real thing.</td>
<td>• Contract dependent.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• See in retail section above, most musician merchandise is sold in venues after a performance.</td>
<td>• Increased consumer propensity to purchase; • Opportunity to interact with musician - enhanced experience.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ancillary products.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Sources</td>
<td>Features</td>
<td>Example</td>
<td>Benefits</td>
<td>Challenges</td>
<td>Musician revenues (guide, 2008)</td>
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<td>----------------------------------</td>
</tr>
<tr>
<td>Premium</td>
<td>• Bulk of content available for free, but premium content charges a premium price. • Nine Inch Nails 'Ghosts I-IV' Album. • Propensity to pay is high for niche, specialised music or ancillary offerings. • New, lacking successful models from bands without history.</td>
<td></td>
<td></td>
<td>• Contract dependent.</td>
<td></td>
</tr>
</tbody>
</table>

The current state of the music sector, particularly new technologies and changing consumer preferences provides an opportunity for specialist musicians to operate outside the major labels and build a far more interactive, productive relationship between themselves and fans than exists today. Fans may be prepared to pay a premium for such services. The next chapter explores the May and Singer (2001: 128) claim that “in reality record labels may have little to fear in the long run,” using a historical analysis of change agents and incumbent reactions. This will highlight competitive strategies used in the music sector in order to identify whether sector incumbents have little to fear from current changes.
Music system competition
Colin Brumelle, a musician and music software developer has said that when the phonograph was invented in 1877, it was a radical invention able to, in Thomas Edison’s own words, “annihilate time and space” (LaPlante 2008: 2). The response from the music business was immediate and alarmist. John Philip Sousa wrote an essay titled “The Menace of Mechanical Music” that warned how recorded music would cause the music industry to go into a disastrous decline. “Of course, much of the subtext of this was economic,” said Brumelle. “Musicians were understandably worried that recorded music would undercut their ability to command fees for performance” (ibid.). Similar responses were issued to the advent of radio, and home cassette taping. This sounds very similar to the response of today’s music incumbents to digital music eroding the ability to command fees from compact discs.

Revolutions, inventions and socio-demographic cycles are an inevitable part of the business cycle and the music sector has historically been a lead indicator and a ‘test bed’ for developments (Perez 2004b), or as Attali suggests:

Music is prophecy. Its styles and economic organisation are ahead of the rest of society because it explores, much faster than material reality can, the entire range of possibilities in a given code. It makes audible the new world that will gradually become visible, that will impose itself and regulate the order of things; it is not only the image of things, but the transcending of the everyday, the herald of the future (1984: 11).

New technologies have vastly altered the musical landscape throughout time, including the invention of: instruments; the phonograph; wireless transmission; and the MP3
format. The volatility within the music sector since the inception of digital music needs to be placed in historical context, in order to more realistically assess the impact of digitalisation and offset media hype around “the end of the music industry” (McQuivey 2008: para.1). As at 2008 uncertainty and indecision appears to prevail in the mass-market music industry according to media, for example a major label executive claimed “right now everyone is paralysed” (Christman 2008: para. 6). Current uncertainties include:

1. Consumers - what price point will they accept for music and ancillary offerings? What is the role of user generated content in the music sector?
2. Competitors - to what extent and how will the major labels dominate this sector? who will emerge as the dominant players? will consumer demand for music continue in light of emerging competing entertainment options?
3. Macroeconomic variables - will the current levels of household disposable income continue?
4. Technology - what is the impact of collaborative tools and social networks? How quickly will home recording tools improve in quality?; and
5. Regulation - will a solution to simplifying global copyright and licensing be identified and implemented?

This chapter examines the impact of change agents in the music sector, and analyses the reactions of sector incumbents, and outcomes. Scenarios of successful strategic change were created using case studies. Lessons learnt from the scenarios may put today’s ‘creative destruction’ into perspective (Kaplan & Foster 2001). These scenarios are not forecasts, they are descriptions of a combination of variables at any discrete point in time (Schnaars 1992). The ultimate aim of this analysis was to identify common themes of competitive strategies for musicians operating outside the dominant system of the mainstream and major labels, because, as discussed previously, mainstream musicians are rarely able to achieve sustained success. Can success be enabled within the digital society?

To identify competitive strategies, an exploratory scan was undertaken to identify examples of specialist music or trends in music that appeared to be successful. All cases were chosen based on the hypothesis that initially they appeared to be examples of specialist music, musicians or change agents sustaining success. Success in music is
defined by the objectives or aims of the participants concerned. For musicians, these objectives can be, an often are, diverse. Some objectives may be financial rewards, artistic recognition, to communicate and motivate change, celebrity status, and so on. Success may have been achieved by leveraging off changes in the environment or changing the environment, whether they were political, economic, social or technological.

The case studies aimed to describe:

1. The current situation;
2. The change agent, change and effect of that change;
3. How the dominant system incumbents (for example, the major labels or those in political power) reacted; and
4. Whether the change agent succeeded over the longer term and any key success factors.

Analysis of the case studies was undertaken with reference to game theory, decision-making theories and music scene theories, as discussed in an earlier chapter.

Recurring strategic themes were identified from the case studies, and will be discussed further in this chapter. The themes highlight some forces that determine competition. Examples were deliberately chosen across cultures and history, because themes identified should be more robust if they are applicable across time and cultures and secondly there may be success factors that applied in other cultures or history that have not been considered in today’s Western society. Some examples were prominent and obvious (Napster) whereas others were less obvious or selected from specialist music genres. From the case studies various themes about change agents and incumbent responses emerged, and these will now be described using a selection of the case studies undertaken.
South African anti-apartheid music

Music is an essential aspect of our human existence, virtually a human right in that when we see people deprived of music, oppression is usually not far removed (Jenner 2008: para. 2).

Description

Protest music challenges the operations of power – social, economic and political – through songs, chanting and dance. Randall (2005) makes no claim for the power of music itself to persuade, coerce, resist or suppress; rather she addresses the uses to which music is put, controls placed on it and discursive treatments of it.

Situation

The 1948 South African government legalised the segregation of blacks and whites and initially mandated:

1. Whole townships of black Africans be forcibly moved onto new land zones and their historic communities were razed;
2. Blacks were required to carry passports at all times;
3. Removal of people from their homes to work in mines far away;
4. The forced use of Afrikaan language in schools.

The African National Congress (ANC) represented black South Africans and was non-violent until the final years of apartheid. Despite this the South African government banned the ANC, and its members either imprisoned or exiled.

Change agent

Vuyisili Mini was a prominent singer in the emerging anti-apartheid movement.

Change

Folk singer Vuyisili Mini was central to the anti-apartheid movement because his lyrics, music and actions exemplified defiant resistance. His song (translated as) 'Beware Verwoerd, the black man's going to get you' referred to Prime Minister Verwoerd, the 'architect of apartheid', set to a jaunty upbeat dance rhythm. It became a prominent protest chant, in local languages not understood by whites, sung constantly during rallies and even by domestic workers in the homes of whites (Beale 2003). Another
prominent resistance song was ‘Ubani Okumule Inzinja na?’ (Who let the criminals out to abuse us?). Following the 1960 brutal wounding and killing of several hundred unarmed protesters by South African Police to repress a march (the Sharpeville massacre), songs took a mournful tone, as exemplified by ‘What have we done?’ that laments dead comrades and imprisoned leaders (Hirsch 2003).

Vuyisili Mini was hanged for ‘sabotage’ in 1964, one of the first members of the ANC to be executed, but even in death was defiant. According to an ex-prisoner in ‘Amandla’, when prisoners were led to their execution other prisoners could hear nothing but their dragging shuffling feet. As Mini walked to the gallows he sang a freedom song with his fist high in the air. From then on others followed his example as they were led to the gallows (Beale 2003). The prisoner claimed:

unexpectedly, the voice of Vuyisile Mini came roaring down the hushed passages. Evidently standing on a stool, with his face reaching up to a barred vent in his cell, his unmistakable bass voice was enunciating his final message in Xhosa to the world he was leaving. In a voice charged with emotion but stubbornly defiant he spoke of the struggle waged by the African National Congress and of his absolute conviction of the victory to come. ... they ... defied all prison rules to shout out their valedictions. Soon after, I heard the door of their cell being opened. Murmuring voices reached my straining ears, and then the three martyrs broke into a final poignant melody which seemed to fill the whole prison with sound and then gradually faded away into the distant depths of the condemned section (Reddy 1974: para.’s 27-28).

Change effect
Lee Hirsch believes that protest music played a crucial role in protests against apartheid in South Africa (Ebert 2003). Because it was too dangerous to speak out against apartheid the resistance began subversively and non-violently through music during the 1940’s. The film ‘Amandla’, directed by Lee Hirsch (2003) shows how initially the songs would be sung in local languages, not often understood by the whites. They contained powerful lyrics of defiance and subversion to rally the oppressed (ibid.). The music was heavily rhythmic, comprising drums and voices, as both were easily available whereas instruments such as guitars were harder to obtain,
although a musician describes making a guitar out of tin cans and fishnets (Cohen 2003).

In the 1970’s as Resistance became more militant and the ANC began to use force (for example in Soweto uprising, where Police killed Soweto schoolchildren), the music too changed using a style either intending to uplift spirits or similar to that now known as ‘Kwaito’, which “wants to turn the gun into a microphone,” (Jooma 2003). It was broadcast on Radio Freedom; a popular yet banned radio station. During the 1980’s when a state of emergency was declared, dance also became used as protest. The toyi-toyi was a high-energy stomping dance using a jogging, knee thrusting marching style that in the 1980s began to accompany their chanting (Beale 2003). Hirsch (2003) suggests dance when performed by thousands of singing people could be intimidating. A former riot policeman claimed, “that toyi-toyi scared the hell out of us. ... I have guns, I have tanks, I have riot gear, but when they sang, it made me afraid.” (Graham 2003).

Death became commonplace, and again music was used to uplift mourners from their loss, as African musician Vusi Mahlasela says “In South Africa you don’t die of loneliness. With the township vibe, you don’t really go sad for a long time without people noticing that something is not right with you,” (Cohen 2003: 6). As seen in the movie 'Amandla', instead of mournful music during funerals, the songs changed to chants of strength and defiance. An ANC member explains that a killed colleague would have preferred they keep fighting and not mourn (Hirsch 2003).

Over three decades later music was still being used to protest against apartheid, but it is noteworthy that Caucasians outside of Africa wrote the two most prominent songs:
**Table 13: Global mass market anti-apartheid protest songs**

<table>
<thead>
<tr>
<th>Song</th>
<th>Composer</th>
<th>Protest message</th>
<th>Treatment in South Africa</th>
<th>Highest position on UK mainstream music charts</th>
</tr>
</thead>
<tbody>
<tr>
<td>'Free Nelson Mandela'</td>
<td>UK based ska band ‘The Specials’, the song was “upbeat and celebratory”</td>
<td>The imprisonment of Nelson Mandela</td>
<td>“immensely popular in Africa”</td>
<td>9</td>
</tr>
<tr>
<td>'Sun City'</td>
<td>American Steve van Zandt and recorded by a global coalition of ‘Artists United Against Apartheid’</td>
<td>The song named artists who performed at Sun City casino despite a United Nations sponsored boycott against apartheid practices there</td>
<td>banned</td>
<td>21</td>
</tr>
</tbody>
</table>


**Incumbents**

For the purpose of this case study the incumbents included members of the South African Government and the military during the 1940-1950’s.

**How did they react?**

The Government responded with sustained suppression using physical force and banning music (outlawing radio stations and censoring songs that supported anti-apartheid themes).

**Was success sustained?**

Yes, the success of anti-apartheid songs was a successful element of the trans-local community protest movement in South Africa. As evidenced by changes to music themes that affected the mood of the anti-apartheid protest movement through decades - music, singing, chanting and dancing sustained the protesters. It is noteworthy that residents of the United Kingdom and United States wrote two high-profile songs of the South African anti-apartheid movement.
Key themes of interest:
1. The contribution of music in sustaining the community;
2. Elements of subversion and revolution.

**Punk**

Participation is the operative word. The audiences are revelling in the idea that any one of them could get up on stage and do just as well, if not better, than the bands already up there. Which is, after all, what rock and roll is all about. ... The growing punk rock audiences are seething with angry young dreamers who want to put the boot in and play music, regardless. And the more people feel that 'I can do that too', the more there is a rush on to that stage, the more cheap instruments are bought, fingered and flayed in front rooms, the more likely it is there will be the rock revival we've all been crying out for. (Coon 1976: para’s. 13,15)

**Description**

This case study drew heavily on the 1991 book by Jon Savage titled ‘England’s Dreaming’. Punk music is a rock music genre that arose in the United States from 1974, and exploded in the United Kingdom from 1976. In London it centred on the Punk community of Kings Road. The music was fast, hard edged and it often contained anti-establishment lyrics. Concurrent with the music was the punk lifestyle, which promoted confrontation, anarchy and a short life ethos of 'live fast, die pretty'. It rejected the mainstream with blatant subversion of the dominant society paradigm. Dance styles were violent and confrontational; clothes were ripped with metal inserts; bodies were heavily pierced; and language was frequently profane. Punk embraced a do-it-yourself ethos, with many punk bands releasing their own work, managing their own performances outside of typical venues, and creating their own clothes (Savage 1991; Hebdige 1979; Cohen 2002; Coon 1976).

**Situation**

During the 1970s the United Kingdom was in recession: unemployment was the worst since 1940 and highest affected were the fifteen to twenty four year age group; the UK
currency was weak at £1=US$1.7; and the World Bank demanded one billion pounds in cuts to public expenditure before 1997/98 (OECD 1977). Prominent bands included Genesis, James Last, Wings, Queen and the Bay City Rollers. K-Tel was emerging as a successful producer of TV advertised music compilations that by 1976 accounted for thirty per cent of total UK music sales. There was a high ratio of bored and frustrated youth (Savage 1991; Hebdige 1979).

Change agent
Malcolm McLaren claimed the idea for the band ‘Sex Pistols’ arose when he was aiming “to sell a lot of trousers” and needed an innovative marketing angle for his clothes shop ‘Sex’, which sold creations designed by his partner Vivienne Westwood (Savage 1991: 129).

Change
McLaren coordinated a loose group together of Steve Jones (who Malcolm repeatedly apprehended for stealing from the shop) and two of his friends. John Lydon was a regular customer of the shop, and had been thrown out of home for a severe hair cut. The ‘Sex Pistols’ sound visually they promoted the same themes as the Westwood clothes, it was discordant and abrasive. It was marketed as an assault on the power structure of society, and the Westwood clothes were its symbol, as worn by the ‘Sex Pistols’ (Savage 1991).

McLaren could not book the ‘Sex Pistols’ to perform in Pubs as most had a hierarchy of bands waiting for performance bookings (later when they did play Pubs they were generally cut off after a few minutes), instead he focussed on tertiary institutions particularly art colleges, who were generally booked with bands playing soft, peaceful music. In the crowd, McLaren focussed on creating (usually violent) situations that, even when there were only a small number of attendees, became newsworthy (Savage 1991).

At the time, the general method of selling music was for bands to tailor their music to their audience, whereas McLaren wanted to create a market and so instead created an audience, people who were prepared to pay for that band, to make an effort for that band. In effect he tapped into the community of disaffection. This was in contrast to the
generally accepted aim of bands trying to play what they thought the audience wanted to hear. Once the ‘Sex Pistols’ started to attract music media attention, McLaren (and others) developed similar acts, so that it could be seen that the band were spearheading a new movement of several bands. At about the same time a punk festival was held, which attracted five hundred people, although marred (publicised?) by violence and disorganisation (Savage 1991). The London papers and tabloids printed aggressively negative and titillating features on the punk phenomenon. They focussed on the fashion (safety pins, swastikas, leather, ripped clothes etc), attitudes and violence as much if not more than the music (Cohen 2002; Hebdige 1979).

Change effect

The community of punks encouraged a ‘do-it-yourself’ ethos. A key element of the punk revolution was that expensive sound quality was not the priority in recordings, in fact low fidelity recordings were encouraged, and so virtually anyone could record and release punk music. And the DIY ethic led to an explosion of new exciting bands that were not afraid to experiment with new sounds. ‘Sex Pistols’ singer Johnny Rotten concurred: “I’m against people who just complain about Top of the Pops and don’t do anything, I want people to go out and start something, to see us and start something, or else I’m just wasting my time.” (Bordowitz 2004: 175). According to Bordowitz, the ‘Sex Pistols’ showed musicians that being sonically clean and technically perfect didn’t matter if you had a level of commitment and generated a level of excitement. Very little funding was required in the early phase of the punk movement. ‘The Buzzcocks’ Pete Shelley said, “we were all getting frustrated with music in Britain… I’d been writing songs no one would have heard about any one of us in isolation. But punk was about a lot of bands helping each other” (Kot 1993: para. 17-18).

Many bands signed to major labels and gained mass audiences and sustained careers, including ‘The Clash’, ‘The Buzzcocks’, ‘The Damned’, ‘The Pretenders’, ‘Siouxsie and the Banshees’, and ‘The Jam’. The English punk community was so tight knit in the early phase that performers would visit other punk performances as audience members. And performers would also get off the stage and move through audiences, further blurring the lines of performer and audience (Coon 1976).
Incumbent

Major labels were the sector incumbents. Punk also confronted the ‘establishment’ (Savage 1991; Cohen 2002).

Incumbent reaction

The ‘Sex Pistols’ initially self marketed and were ‘anti-label’ because the labels represented the establishment, then in an ethical u-turn ‘Sex Pistols’ manager Malcolm McLaren sought a major label recording deal, despite the emergence of a few good independent labels and national distribution channels that could provide autonomy from the music majors (Savage 1991). The ‘Sex Pistols’ signed a global deal with EMI for two years with an additional option for a year. The deal included no royalty payments on sales or performance. It totalled a £40,000 non-returnable advance against future royalties, comprising £20,000 payable on signing and £20,000 a year later. EMI were to pay reasonable recording costs. McLaren was to take twenty five per cent (twenty per cent was the benchmark for managers) and fifty per cent from any merchandising. The deal was heavily skewed towards McLaren. They later also signed with EMI Publishing, for an advance of £10,000 and this deal was more contentious as EMI Publishing tried to control the artwork, selection of songs and release label, whereas McLaren wanted total control (ibid.). There were inevitable clashes arising from three competing strategies:

1. A band promoting anarchy while signed to a major label;
2. A major label trying to massage (dilute) the punk message to sell to a mass market;
3. Malcolm McLaren aiming to create a new market as part of a new social movement.

EMI publicised the contract and promoted the ‘Sex Pistols’. An intensely competitive bidding war followed as other labels signed punk bands to recording contracts including signing bands without having heard or seen them (often because the A&R Representatives were too afraid to enter Punk venues) (ibid.). Signings usually included upfront payments. The bands signed were then either suppressed (locked into complex legal action, not marketed, recordings put on hold etc.) or groomed to dilute the more unpalatable aspects of their creativity for the mass mainstream market (ibid.)

Broadcast publicity followed, as opposed to publicity in the music media. The London papers and tabloids printed aggressively negative and titillating news features on the
punk phenomenon generating a ‘moral panic’ (Cohen 2002). They focussed on the fashion (safety pins, swastikas, leather, ripped clothes etc), attitudes and violence as much if not more than the music. Savage (1991) believes that the mass media simplifies complexities and overrides ironies and as a result the message punk conveyed was interpreted more basically as a dangerous fascist youth movement.

The ‘Sex Pistols’ appeared on a current affairs television show and swore during the segment. This unleashed a wave of mass media with titles like “The foul mouthed yobs,” “Fury at filthy TV chat,” “The Punks – rotten and proud of it!,” and “Rock group start a four letter TV storm” of moral panic (Savage 1991: 264; Cohen 2002). Following from their television appearance, EMI packaging staff went on strike, which stopped distribution of the single, a tour planned of northern England (paid by EMI) went ahead but of the nineteen venues initially booked, thirteen cancelled. At one university a Vice Chancellor cancelled the show, prompting a sit-in protest by students. EMI Chairperson Sir John Read stated “whether EMI does release any more of their group’s records will have to be carefully considered. I need hardly add that we shall do everything we can to restrain their public behaviour, although this is a matter over which we had no real control.” (Savage 1991: 270). The response from the ‘Sex Pistols’ was expletives against the establishment figure of Read. At this point McLaren lost some control, he could not totally control the mass media. Trying to regain control, he took over all interviews with the band seen in the background and not heard.

A key factor in the breakdown of the punk movement was that the mass media attention dismantled the sense of community amongst the punks and promoted copycats who, unprepared for the brutal demands of the lifestyle, weakened the movement. Each band started to vie for attention with ambitions of mass-market success and the major labels courted them. The large music label response was to acquire all aspects of this movement. At this time, the whole music supply chain was taking up punk – agents, bands, labels, promoters, media and the consumers. Punk was becoming commercialised. The punk community was disaggregating and becoming mass market.

EMI however decided that the artistic prestige gained from signing the ‘Sex Pistols’ was not worth the costs of the negative publicity. An MP wrote to Sir Read stating that EMI
was “financing a bunch of ill-mannered louts who seem to cause offence wherever they go. Surely a group of your size and reputation could forgo the dubious privilege of sponsoring trash like the ‘Sex Pistols’” (Savage 1991: 287). A severance deal was negotiated, whereby the band retained £50,000 as per the contract with EMI (ibid.). In retrospect it has been said that there was an enormous opportunity cost to EMI for this, with the financially impaired company forgoing the benefits of being at the forefront of a progressive new music trend, whose financial benefits started to flow several months later. The ‘Sex Pistols’ were a ‘loss leader’ to EMI, but EMI never capitalised on their status. A bidding war for the ‘Sex Pistols’ followed between A&M, CBS and Virgin. Virgin had recently diversified into music when the Government relaxed the recommended retail price on records and owner Richard Branson saw an opportunity to sell music at discounted prices. The band signed to A&M for two years with annual advances of £75,000. However in the haste to sign them, the A&M representative hadn’t actually met the ‘Sex Pistols’, who subsequent to signing violently destroyed the A&M offices and offended staff. During the ensuing days, tracks for an album were recorded, but the contract was terminated after repeated social digressions. A week after the contract was signed it was terminated, with an additional termination payment of £25,000. All twenty five thousand copies of the newly manufactured singles were destroyed (ibid.).

Two months later the ‘Sex Pistols’ signed with Virgin for an initial payment of £15,000 to cover one album. A month later £50,000 was advanced for global sales (ibid.). However there was a personality clash between Branson and McLaren, who both appear to have the same impresario characteristics and they sparred constantly on deals. For example, despite a global Virgin deal McLaren attempted to release a ‘Sex Pistols’ recording via a French firm just before the Virgin release was due. Branson on hearing this rush released the album. Meanwhile the ‘Sex Pistols’ had combusted in myriad personality clashes, burnout, grievances and substance abuse. McLaren developed a film based on the ‘Sex Pistols’ (securing at least £300,000 in funding) and when Lydon refused to sing, he hired Ronald Biggs in the Caribbean (ibid.). However by this time interest in Punk was waning.

The music label response to punk was to sign any punk band they could get, and then groom them into a style that could be marketable to the mainstream. Byrne (2008a:
para. 22) notes the record company ultimately decides who or what has priority: “if they "don't hear a single," they can tell you your record isn't coming out.” The acquisition frenzy led to a flooding of the market, an oversupply of 'punk' music and dilution of the culture as it became mainstream. Following on from the punk of 'The Clash', 'Sex Pistols' and 'The Buzzcocks', was the new wave of the 'Boomtown Rats', 'Elvis Costello', 'Madness' and 'Dexy and the Midnight Runners'. Then came the new romantics of 'Spandau Ballet' and 'Duran Duran', then 'Culture Club', the 'Thompson Twins', 'Tears for Fears' and 'Adam and the Ants'. Even though these bands were groomed for the mass market they incubated within the punk environment, where music quality wasn't the priority and experimentation was encouraged. So whilst the major labels failed to profit from the 'Sex Pistols', ultimately the ensuing bands became significant revenue earners for the labels.

Was success sustained? As a business model the 'Sex Pistols' had high impact, but were unsustainable and disbanded within two years. The 'Sex Pistols' succeeded in attracting large investments from major labels for no product, purely on the media they generated. The media attacked the 'Sex Pistols', they rarely performed live because no venue would have them, most radio stations banned their music as offensive and most retail outlets wouldn't stock their product.

However their disruptions had longer-term, innovative benefits for the sector by stimulating new music genres, for example ‘alternative’ is a genre now entrenched in the mainstream music sector. Malcolm McLaren said “the very destructive nature [of punk] was ultimately its most creative point. To me, that was what it was all about.” (Bordowitz 2004: 175). Despite the short-lived nature of the 'Sex Pistols', their cultural legacy has been healthy and widespread. For example, in any shopping centre today people with spiky haircuts wear clothes with studs, rips or slogans.

It is worth noting that John Lydon has sustained a long-term solo career, and the Sex Pistols have reformed and toured.

Key themes of interest
1. Do it yourself ethos;
2. Strong deviant community;
3. High media exposure (even if negative and controversial);
4. The selling of ancillary products (clothing, merchandise etc.).

**Hip hop and rap**

Our day is coming. It’s inevitable that the president in another five years will be a hip hopper. The mayor of Chicago will be somebody who has grown up on N.W.A, Chuck D, even Lil’ Kim and Foxy Brown. All of it will make sense then (Rapper KRS-One in Watkins 2005: 187)

Description
Rose (1994) argues rap and hip hop music is African protest music. Hip hop and rap grew out of the South Bronx of New York City and took the rhythms and vocals of African music and melded into it the harder features of a post-industrial ‘concrete city’ landscape (ibid.). Blow and Heibutzki (2003) distinguish rap from hip hop:
1. Rap is talking in rhyme to the rhythm of a beat; versus
2. Hip-hop is a culture, a way of life for a society of people who identify, love, and cherish rap, break dancing, deejaying, and graffiti.

Situation
The material conditions of the urban poor African American youth steadily declined in the years to the early 1980s. During the 1970s most blue collar jobs in the Bronx and Harlem of New York had disappeared as manufacturing production moved to lower cost bases, leaving dismal financial prospects for poorly educated youth left there (Shabazz 1999). As with South Africa whole communities that had previously existed around the manufacturing activities were being razed to make way for “urban regeneration for more privileged groups” (Basu and Werbner 2001: 244). Violent street gangs featured heavily in the Bronx (Shabazz 1999), which was a district typified by concrete warehouses and an absence of greenery. Young adult residents of the Bronx generally couldn’t afford admission, or the appropriate dress standards to the clubs (let alone relate to the glamour of the disco played in the clubs) (Rose 2004).
There was no one leader of the hip hop or rap movement. Blow and Heibutzki (2003) argue Kool DJ Herc (a Jamaican-born DJ who moved to the Bronx in 1967) was the godfather of hip-hop. However Public Enemy were one of the earliest hip hop bands and were selected for further analysis as they have sustained successful careers in this field. Public Enemy formed in 1982 with an initial aim described by founder Chuck D as: “We’re out for the preservation and the building of the young black mind: trying to make people aware, makin’ 'em educate themselves” (Kohn 1989: 41). Kohn suggests preservation requires a “survivalist posture”: ‘paranoid poised and armed’ (ibid.). Public Enemy were heavily influenced by the Nation of Islam, which advocates black awareness and empowerment.

Although members have changed over the last two decades, Public Enemy generally included the following differentiated roles:

1. Chuck D (the evangelist MC);
2. Terminator X (the DJ who spins the music);
3. Professor Griff (who has been in and out of the band, and is Head of Information and Head of Security of the First World); and
4. Flavor Flav (the partying comic MC).

Julian Shabazz claims this structure is similar to the organisational structure of the Black Panther Party (a revolutionary African American empowerment organisation) (in David Shabazz 1999). Contrary to this producer Rick Rubin claims he first signed Public Enemy because of their rapping prowess, and that their political stance developed later as a differentiator from other rap acts (Hilburn 1990).

When Public Enemy performs guards onstage dressed in combat gear and carrying toy Uzi machine guns flank them. They do not contribute to the music, rather they perform military style dancing or drill steps, possibly inspired by the South African toyi-toyi. The guards are members of the Security of the First World posse and are followers of the Nation of Islam. Their link to Public Enemy was through member Professor Griff, the band’s ‘Minister of Information’ and head of security who claims they go onstage to project images of strength and order (Kohn 1989). Their music has been described as a militant brand of political rhetoric and dislocating noise, or the power-punk of America’s black underclass (Cosgrove 1988: 47). Onstage Chuck D quotes from
Malcolm X speeches between songs, whose titles include ‘Rebel without a Pause’ and ‘Black Steel in the hour of Chaos’, which when performed live create an ambience of confrontation and crisis.

Change
The abrasive sound of hip hop with a near absence of melody, seems to be inspired by the Bronx street culture and reflects the concrete jungles and street hip hop lifestyles. Hip hop incubated in tenement street parties and the 1980s Bronx lifestyle (Shabazz 1999). Performances, deejaying and informal parties were held in warehouses, block parks and houses. The idea of warehouse parties now seems passé, but in the 1970s they were risky because the warehouses were exposed to the elements, unhygienic and dangerous.

A key part of emerging music scenes is a ‘do it yourself’ ethos (Smith & Maughan 1997), a behaviour frequently recognised in start-up hip hop and rap businesses (Basu & Werbner 2001). Hip hop lifestyles initially fostered an attitude of ‘bootstrapping’, or creating items from limited materials and ‘making do’, for example recorded music mixes, wearing sneakers and outsized clothes, and creating art in the street from spray cans (ibid.). Rose (1994) claims that budgets for rap videos were lower for other genres, and marketing often relied upon word of mouth within the hip hop and rap communities. Basu and Werbner (2001: 245) cite hip hop biographer Toop, who applauds the bootstrapping practices within hip hop and rap scenes for engendering an “entrepreneurial dynamic that privileged ‘ground up’ ingenuity ... to produce an island of relatively undisturbed invention in a sea of go-getter commerce.” Aspirational mindsets and behaviours were encouraged.

In their formative years Public Enemy operated outside of major labels, with no mainstream media support, instead relying on student radio, and street press. Public Enemy founders Chuck D and Flavor Flav deejayed and mixed rap tapes on student radio at Adelphi University in New York. They would attend Bronx hip hop parties where Chuck D never suspected their music could be put on albums: “Hip hop was a big party thing. It was four hours deep. How you going to put that on a record?” (Schuetz 2003: B1). Musicians and DJs would sell their home made tapes from car boots (Shabazz 1999).
Change effect

After over a decade of underground existence using university radio stations and street press, hip hop began to sell in large volumes. Artists in the hip hop and rap communities began to make careers from their craft. It transitioned from a local scene and subculture to a mass market, but remained outside of the major music channels, for example quite often using independent entrepreneurs from within the hip hop scene and offering favourable terms for artists.

Below are some key milestones in the emergence of hip hop and rap:

1. 1984: Rappers Dr. Dre and Ice Cube formed their own production companies, labels, and spin-off ventures;
2. 1987: Run DMC, a rap group that melded rock and rap, released the album ‘Raising Hell’ which sold three million copies. Public Enemy released their first album, at a cost of nine thousand dollars and tend days in the recording studio;
3. 1990: Public Enemy's album ‘Fear of a Black Planet’ was released and sold a million copies in a week.
4. 1992: Rap generated US$400 million in sales, or five per cent of the total market. However at this stage rap music was not included in official music charts because it was not sold in the appropriate channels. In the same year:
   a. Ice Cube's album ‘The Predator’ topped Billboard’s pop and R&B charts simultaneously;
   b. NWA shocked the major labels when their album ‘Niggaz4Life’ debuted at number two on the Billboard charts;
   c. NWA split up, Dr Dre established Death Row Records, where he recorded his solo album ‘The Chronic’, which sold three million copies and spent eight months in the Billboard top ten charts. His first artist signing was Snoop Doggy Dogg, who yielded the multi-platinum ‘Doggy Style’ album;
5. 1993: Rap sales for the year reached US$700 million;
6. 1994: By 1994 Dr Dre had rapped on or produced albums selling nearly twenty eight million copies;
7. 1998: annual sales of hip hop music reached US$100 million, or two per cent of total United States music sales;
8. 1999: rap sales began to be included in official charts. At this time hip hop was the highest selling genre in the United States. Sources: Shabazz 1999, McLeod 1999, musician websites.

Basu and Werbner (2001: 253) point out that a success factor of rap music is the intense and open networking done by people associated with the genre, describing it as a “conspicuous activity.” They say that access to rappers, entrepreneurs and associated people is comparatively easy, and this enables the flow of information between aspiring and established players. For example Chuck D has his email address on the Public Enemy internet site and personally receives emails. They claim another common theme is that success does not signify selling out to Corporate America.

Rap and hip hop musicians have thrived perhaps because the harsh circumstances of their environment facilitated a strong sense of community, self identity, and celebration of success. Werbner (1999: 564) claims that African American people may not necessarily possess the entrepreneurial attributes of frugality (or “pious thrift” (Basu and Werbner 2001: 257)) but the ability to sell culture with flair, innovation and an “aesthetic appreciation of the hedonist pursuit of luxury and the cultural imagination needed to tap this quest,” and the desire for novelty. She claims the newly invented cultures of entrepreneurship include: social and communication networks; willingness to take risks and extend credit; cheap materials and production processes; perceived demand for culturally unique or cheap goods; racism; joblessness; and an appreciation of culture as a commodity to be repackaged and sold (Werbner 1999: 573).

Public Enemy have been, since 1982, a major music entity that is community driven and often at the forefront of changes in the music sector. At times they have operated independently, and at other times they have been signed to major labels. Key elements of their career include:

1. Public Enemy became the first major label artist to offer songs in the then practically unknown MP3 format.
2. In 2003 Chuck D described the internet as “the most exciting thing in hip hop today” (Barton 2003: para. 10), and argued:
Technology will beat technology each and every time. And the whole paradigm of the music business is changing because there is another parallel music world to the one that has been dominated by the former rules. The new rules of music sharing, music distribution, and music exposure are now globalised. (Watkins 2005: 111)

Public Enemy became the first major artist to offer an entire album, ‘There’s a poison going on’, over the internet in digital MP3 format (Leyshon 2001). This caused many ‘bricks and mortar’ retail stores to ban the album. Consequently a CBS executive left a voicemail for Chuck D explaining their position and Public Enemy incorporated his voicemail into a later song. The song ‘Swindlers Lust’ criticised malpractices of major music labels. A subsequent tour was webcast live over the internet and they have also launched a full service online information network, rap station (artist website);

3. Chuck D has been active on the lecture circuit since 1989 addressing topics relating to rap and race. In particular he has been a critic of the music sector trying to sell black culture as a commodity. He released a book “Fight the Power” in 1997, which provided an “agenda, a manifesto and guideline into the post millennium hip hop mind” (Simon 1999: para. 5); Public Enemy won the Patrick Lippert Award for community service in 1996;

4. Since 2003, they have used direct marketing techniques and are highly approachable via email and frequent tours. Feedback from fans is placed onto the Public Enemy website, and Chuck D blogs actively and responds personally to emails;

5. The 2002 Public Enemy album, ‘Revolverlution’ included four tracks reworked by fans, who could download the vocals from the Public Enemy websites rework them and upload them back to the site. The album artwork and sleeve notes were created by fans;

6. Public Enemy minimise excessive overheads, for example, during their 2003 Australian tour a quality restaurant was booked by the tour promoter for their dinner, however the band and entourage went instead to the burger chain McDonalds; and
7. Chuck D established a record label, SlamJamz. Contractual deals offered to artists were made publicly available via the Public Enemy website in a gesture of transparency (and can be read in appendix one)

Based on: Simon 1999; Public Enemy 2003; Barton 2003; Eliezer 2003.

Incumbent
Incumbents include major labels, mass market media and fashion.

Incumbent reaction
Initially the hip hop scenes were ignored by mainstream media, Hallin (1986) would place hip hop within the sphere of deviance, of opinions the media reject as being unworthy of being heard. African American entrepreneurs from the ghettos of New York whose highly successful operations featured content that was abrasive and challenging did not sit easily with societal stereotypes at the time.

However when the market for hip hop and rap styles had been demonstrated and could no longer be ignored, as with punk music, the major labels embarked on campaigns to sign rap bands to recording contracts. This caused many hip hop and rap observers to express anxiety about the growing influence and control of outside forces on the movement (Watkins 2005). A hip hop manager warned: “That flooding is a scary thing ... they’re putting out too many records and a lot of them don’t mean (expletive). They’re just throwing them out and there can be a backlash” (Hilburn 1990: para. 30).

A twenty nine year old (African American) CEO of an independent record label complained about the move into hip hop and rap music by the major labels and mass market:

There’s a buzz, a sense of “Why let the same of shit happen with this (rap) as what happened with all our musics?” We created this shit out of nothing – turntables and electricity, now the shit sells and is earning big bucks. I know a lot of people are, like, fuck that – this is our thing, and the “Man” ain’t going to take it from us – why let it become just another music that just pays the pockets of some white executive who would die if you ever dated his daughter? (Basu and Werbner 2001: 255).
Secondly, the music became, to some extent, sanitised. The manager also believed that rap’s underground, semi-outlaw status had helped to keep the music energised and innovative (ibid.). Once signed to major labels, rappers became afraid to experiment for fear of losing their recording contracts, according to Chuck D (Shabazz 1999: 15). Dyson (ibid.: 32) notes the dilution of rap, or “taking the blackness out of the lyrics…. For many this means the sanitising of rap’s expression of urban realities, resulting in sterile hip hop which, devoid of its original fire, will offend no one” (ibid.).

Most rap music sales were to Caucasians. Basu and Werbner (2001) argue about seventy four per cent of rap sales in the first six months of 1992 were purchased by Caucasians. The major labels tried to whiten rap, promoting Caucasian artists such as Vanilla Ice and the Beastie Boys. The Beastie Boys were teamed with young African American rappers Run D.M.C. and recorded on CBS via Def Jam (the Public Enemy label). Following from their Beastie Boys success, Run D.M.C. were challenged further with a cover of ageing heavy metal band, ‘Aerosmith’s classic song ‘Walk this way’. It became a crossover hit in 1986 selling three million copies, revived the career of ‘Aerosmith’ and broadened the reach of Run D.M.C (Bordowitz 2004). Run D.M.C. became the first rap artists to appear on MTV, which had previously been accused of being a “closed shop” to African American music (ibid.: 189).

Other cross merchandising to monetise hip hop and rap markets included Rappers advertising mainstream fashion, soft drinks, cars and more. The major fashion labels exaggerated the hip hop and rap clothing style in a seeming parody or celebration, combining sagging baggy trousers with ‘bling’ (multitudinous gold jewellery) and by 1993 eighty per cent of teens wore jeans sagging around their hips (and many still do), perhaps inspired by white rapper Marky Marks’ boxers rising above his jeans in Calvin Klein advertisements (Spiegler 1996). This raised the ire of Chuck D, who argued “human beings can like hip hop but don’t become a parody of what you believe a hip hop person is” (Schuetz 2003: B1). Public Enemy producer Hank Shocklee argued “we wanted to get rid of the gold chain and bring about a gold brain” (Shabazz 1999: 46).

However in their attempts to whiten rap thinking it would appeal to the Caucasian audience, the major labels did not understand Caucasian purchasing decisions. Spiegler
(1996: 30) argued “sanitising any element of hip hop culture to make it more palatable for middle class suburban whites was likely to result in failure,” perhaps because it was not real to the origins of hip hop. A Caucasian twenty-three year old explained: “by entering into the hip hop sphere, I felt like I was opening a whole world that was closed to me before – it gave me the basis to meet all these people I had been scared of, whose main context for me was that they stole my bikes.” He then says the attraction was part fascination, part admiration and part fear: “a lot of white kids wouldn’t make it through what inner-city blacks do,” (ibid.: 31). Thus embracing hip hop lets Caucasians live the dream of a black inner city culture. This is an amazing reversal of the anti-apartheid roots of hip hop, but another person interviewed by Spiegler said “most of them don’t understand hip hop … you’ll see a bunch of white kids… trying to dress ‘hip hop’ but really they’re just jocks with rich parents” (ibid.).

Eminem was one of very few successful white rappers. Following extraordinary music sales, he established his own label promoting African American rappers like ‘50 cent’ (who has been shot not once but seven times); has had an Oscar winning movie; and established his own clothing line. He differentiates himself from other rappers by rapping about trailer park life as opposed to street life, as befitting his upbringing (artist website). He has a strong alliance with Dr Dre, but whether his success is sustainable or a novelty will be verified over time.

Rap music also had to contend with moral panic (Cohen 2002). Tipper Gore, the wife of prominent politician Al Gore, in 1990 wrote an opinion piece titled ‘Hate, rape and rap’ in which she claimed that rap’s audience is made up of “angry disillusioned and unloved kids” and that rap tells them “it’s ok to beat people up” (Shabazz 1999: 29). However Shabazz argues that rap is sold predominantly to sixteen to twenty-four year old suburban white males or “hip young white professionals” (ibid.). To counter this (and criticisms of vulgarity and crassness) though one could look to the levels of violence and misbehaviour in other genres and forms of media, for example computer games. Public Enemy felt the moral panic after controversial anti-Semitic comments were made by Professor Griff, whose role in Public Enemy was ‘Head of Information’ (Schruers 2000). Initially Chuck D sacked Griff and issued an apology claiming “we are not anti-anybody – we are pro-black,” (ibid.: 48) then under continuing pressure the band broke up. Chuck D visited Holocaust centres and spoke with an Auschwitz
survivor. Several months later they reformed, with Professor Griff in a non-speaking role (he later resigned) and released a CD that describes their plight and the subsequent retaliation. Titled ‘Fear of a Black Planet’ critics described it as “antimusic”, “a bed of noise not unlike radio static”, “swirling electroshock therapy”, “a rap opera” and “the sound of urban alienation” (ibid.).

In the modern western society suppression has been a common complaint against new music genres (hip hop and electronica) for instance, most cannot get radio airplay on mainstream stations. It is very difficult to get airplay on mainstream stations because they receive thousands of songs per week and only select a few and then place them on high rotation. Historically major labels have been accused of a practice called ‘Payola’ which is a dubious practice of promoters giving gifts and other incentives to radio stations in return for high rotation broadcasts of their music. It is unfair because ultimately it means there is an uneven playing field for music and secondly because costs incurred have historically been passed on to musicians as promotional expenses. It is illegal because when it was a common practice the incentives and gifts to radio stations spiralled out of control (for instance offering a Corvette car with new songs). Ultimately the musicians and consumers paid for payola via CD prices (Simpson 2006). Similarly, venues, retailers and promoters may blacklist performers, preventing them from performing. An example of this is the blacklist of musician Prince by retailers who refused to carry his new CD after he gave it away free with the purchase of a newspaper in the United Kingdom (Allen 2007).

Was success sustained?
From rap and hip hop the African American community created a genre and economy that belonged to them and enabled their empowerment. The group Public Enemy exemplify this. Public Enemy have succeeded in sustainable careers inside and outside of the mainstream for over twenty years. What Public Enemy sell is not just music, it’s a lifestyle and community.

Although it has not been well documented, hip hop fostered a highly successful global virtual “ethnic enclave economy” (Basu and Werbner 2001: 257) encompassing at least music, video, management and entertainment companies. It comprises self employed entrepreneurs who live dispersed around the globe but interact with each other successfully over the long term.
The major labels ignored this genre initially then entered quickly after a mass market was demonstrated. While their initial efforts either parodied or diluted rap (such as with Vanilla Ice) and didn’t succeed, in developing the white Rapper, Eminem they succeeded in profiteering from the cultural theft of African Americans.

Key themes of interest
1. Sense of revolution, bringing about change and empowerment;
2. ‘Bootstrapping’ entrepreneurialism – making do with limited resources;
3. Aspirational culture within strong networks of African Americans.

**Dance music**

These nomads chart their courses by strange stars, which might be luminous clusters of data in cyberspace, or perhaps hallucinations. Lay down a map of the land; over that set a map of political change; over that, a map of the Net, especially the counter-net with its emphasis on clandestine information-flow and logistics – and finally over all, the 1.1 map of the creative imagination, aesthetics, values. The resultant grid comes to life, animated by unexpected eddies and surges of energy, coagulations of light, secret tunnels, surprises (Hakim Bey 1991: 112).

Description
Dance music is a generic term that includes musical styles that centre on electronic instrumentation. It differs from hip hop and rap because the two genres incubated in different environments. A key element of this music is that sounds are synthesized and rhythmic (Dowling and Johnson 1995). However Martin (1999) says this is highly simplistic. For example, house music is a particular style of techno, employing four-four beats, and often utilizing vocal samples and keyboard effects for a more organic feel than techno, which relies more on computer generated sounds. Dance music consists of a variety of styles, including: acid house; ambient; bangra; big beat; breakbeat; cheese; chillout (ambient); classic house; cover versions; deep house; disco; drum and bass; electronica; funk; funky house; gabba; garage; Goa trance; hard house; hardcore; hip-
Techno sub genres of dance music are often created using samplers, computers, and drum machines. If live instruments are used, they are generally processed through a sampler, with the sounds cut up and transformed in the process. Techno artists also make heavy use of samples, often using sounds not generally heard in music such as trains, planes, animals, running water and the wind being but a few examples. In its live format, DJs will often play two or more records simultaneously, altering their speed and pitch and mixing them together to create something quite different from the original product.

Hedonism, escape from reality and ‘communality’ are key elements of raves (Oh & Atherley 2000; Marsh 1998). Raves are all night dance parties where often the consumption by ‘clubbers’ (attendees) of the illegal drug Ecstasy together with the effects from strobe lighting and dancing causes ‘transcendence’, or out of body sensations (Martin 1999). Raves are closely associated with illegal drug use, although not all clubbers take drugs. Merchant and Macdonald describe the ecstasy effect as "positive, inducing feelings of empathy, alertness, energy and love" (in Martin 1999: 81). It is both a "dance drug," allowing the user to dance for hours without stopping, and a "hug drug," making the user feel closer to those around them, and heightening physical sensations (ibid. 82). Despite being ‘anti establishment’ raves have attracted consumers all classes and races within society, across gender, ethnicity, class, and sexual orientation (Marcus 1992; Martin 1999). "The rave scene gets a bad rap," says a label owner, "most kids are there to hold hands. They are lost and need to hold somebody. It's very communal." (Reilly 1997: para. 13).

Oh and Atherley (2000) describe the fashion styles of ravers. Many ravers seek self expression, yet the majority of ravers dress to fit in with the tribe. The clothes tend to be fluoro, fun and comfortable (lycra or baggy) rather than provocative and can include accessories such as baby dummies, glow in the dark sticks, plastic toys, bright bracelets, trinkets and prankish paraphernalia like op shop accessories, prism eyeglasses and fluorescent body paint. "A trip toy is something that will catch people's
attention and make them smile," according to one rave goer quoted in Garcia (1992: para. 10). The whole purpose of the fashion is hedonistic amusement.

Bennett and Peterson (2004) would consider the rave scene is trans-local. That is, participants move to a variety of places where raves are held, for example moving between London, Ibiza and Amsterdam. Initially raves were held most often without appropriate regulatory permits in places described as ‘wild zones’, or temporary autonomous zones, that were unregulated, unpolicied and included warehouses, farms, forests, churches, bank vaults, disused air raid shelters, demolition sites or private warehouses, car parks or anywhere a large body of people could gather and loud music could be played (Stanley 1995; Hesmondhalgh 1998; Gibson 1999). Venues were fluid, and ephemeral, that is they existed only for a night and the next rave was held elsewhere (Gibson 1999).

By using temporary venues with little notice, Participants could generally escape or resist police, so the raves tended to be unregulated. Promotional channels included:
1. Flyers at raves with the location of the next rave at raves;
2. Word of mouth;
3. Email lists;
4. Mobile phone sms lists where for example, one person would get an sms and then sms five others; and
5. Pirate radio.
Because they relied on word of mouth promotion rave events needed a longer lead time to publicise than traditional performances. A benefit is the creation of a sense of exclusivity and community.

Situation
Dance music is influenced by many music genres, and Lewis (2003) believes its origins arose from the confluence of British DJs working at homosexual clubs in New York and Chicago after a trip to Ibiza where they had used the drug Ecstasy. The dance music scene appears to have been strongest between 1988 and 1991 (Lewis 2003; Marcus 1992). Raves remained a marginalised, subversive activity but Martin (1999: 84) argues they grew to become the largest youth/sub/counterculture of the post-war era. In the United Kingdom an estimated 2.5 million young adults went clubbing every week

Change agent
The emphasis in dance music tends to be on music mixes, rather than musicians or songs (Straw 1991; Hesmondhalgh 1998). Hence DJs most prominently personify dance music. Examples include Moby, Fatboy Slim or Paul Oakenfold. However the band ‘Happy Mondays’ are prominent acid music icons.

Change
As the cost of technology declines and availability increases almost anyone can use computers to easily and quickly create music. In contrast to the concentration and centralisation of the mainstream music sector, the electronic music industry is relatively decentralised and is made up of large numbers of independent small and local companies. More than any other genre, fans of electronic music are more likely to be comfortable with obtaining this music over the internet and most likely at no cost. To counter this, and perhaps because it is such a specialist genre, the bulk of electronica music isn't available commercially in retail stores. Some styles such as trance are not radio friendly and so are not promoted through this medium. Hence it doesn't translate to radio performance and so ravers do not tend to listen to radio. Dance music can be imitated, but it remains by nature, subversive. (Manning 1996). Much of what is played at clubs is created on the spot by DJs mixing songs (for instance on turntables). There is no original. This music genre may be sold on DJ-only white labels and handed out by the DJ at events.

A key element of the dance music scene is that music of 'live music' was a lower priority to the activities that occur around it. Spring (2004) argues social networks were a higher priority to the rave scene than the music. Martin (1999: 85) says a defining characteristic of rave culture is that it is “based on a sense of community, even of tribalism.” This is reflected in the names of music collectives and party organisers such as Spiral Tribe, Dub Tribe, Clan Analog and Groove Collective. Unlike traditional venues, dance parties were accepting of minority groups and had no formal dress standards (Spring 2004; Murphie and Scheer 1992), but it is worth noting that attendance commonly involved high costs (transport, door charge and/or drugs).
contrast, Gibson (1997) argues the description of the rave culture as egalitarian is “dangerously megalomaniacal.” It may be that Martin describes the early local rave scenes whereas Gibson is focussed on the virtual scene, and later phases of the rave culture when it became regulated and commercial. Gibson’s point is that the dominant power paradigm is transferred to the internet, rave organisers cannot subvert regulators by organising raves online.

Change effect
Disco draws heavily on gay culture, and takes from it a certain camp sensibility, joy in spectacle, openness, and self-expression not seen in traditional clubs (Murphie and Scheer 1992). Because subsequent genres were heavily influenced by disco, this acceptance means that traditionally marginal groups in society (women, homosexuals, ethnic minorities, students), participate in dance events without the same threat of violence found in traditional pubs and clubs. Spring (2004) notes that dance parties were risk free for participants, despite being illegal. The widespread acceptance of the dance scene has occurred in tandem with a much greater acceptance of gays in the general community, and this is a major social benefit (Murphie and Scheer 1992; Merchant & McDonald 1994).

A feature of the dance music scene was heavy cross promotion, for example into: events (raves, dance clubs); tourism (Ibiza); fashion (dance has an iconic style); publishing and illicit drugs. A prominent example of cross promotion and brand management in the dance music scene is the Ministry of Sound (MoS) franchise of nightclubs, whose strategy appears to be very similar to that of the Virgin brand. While most nightclubs go out of business after a couple of years according to Frank (1998), MoS has consistently relied on repackaging the nightclub brand to enter new markets. It also dealt with issues common to nightclubs in the scene, drugs and thefts by staff, quickly by: replacing staff and security; an undercover drug operation with Police; and a new detailed accounting system (Riddell 1997). Riddell claims that by 1997 MoS was the most durably successful nightclub in Britain: claiming to be drug-free, seemingly impervious to the vagaries of fashion and centrepiece of a leisure business turning over £20 million per annum. However this was well after the peak years of the dance music scene, and perhaps when mass scale commercialism became entrenched.
Incumbents
Incumbents include Regulators and venue operators.

Incumbent reaction
The rave culture in Britain prompted strong responses from the government and media. The so-called ‘Second Summer of Love’ in 1988, which saw the first emergence of rave culture, led the media to generate a moral panic focused mainly on the drug aspects of the culture and related legal issues. Spring (2004: 62) cites a number of studies that indicated regulators were “hostile” towards raves. Martin (1999) and Redhead (1999) describe the moral panic that arose after the deaths during raves of three young adults from drug overdoses.

Legislation was consequently amended to: increase police search powers; increase licensing sessions (reapplication for a club’s license) from once to seven times a year; impose heavier penalties on venues. The British government reacted with “an obscure 1967 statute, the Private Places of Entertainments Act (Redhead 1999: 20-21), which required any private entertainment organized for financial gain to have a license. The Licensing Act (1988) gave police greater powers to examine licensed premises and increased licensing sessions (reapplication for a club’s license) from once to seven times a year, a measure aimed directly at nightclubs. This was followed by the Entertainments (Increased Penalties) Acts (1990) which increased the penalties for holding an unlicensed public entertainment, imposing fines of up to £20,000 or prison sentences of up to six months. The Criminal Justice and Public Order Act (1994) made the organisation of and attendance at raves punishable by law (ibid., Martin 1999).

Goodman (1995) argues the act, amongst other criticisms, abolished the right of citizens to remain silent; forced citizens to cooperate with police without legal advice and allowed police to stop and arrest people whom they believe have the intention of holding or attending a rave. Gibson (1999) notes similar action occurred in Sydney Australia, where the Ministry of Police developed a ‘Draft Code of Practice for Dance Parties’ in 1977. It mandated compliance with complex and costly planning rules in order for rave organisers to host events. Gibson argued the result was that only larger, more commercial ventures were likely to obtain approval. The regulation of urban space and safety standards effectively removed the ‘wild zones’, or temporary
autonomous zones from public space, and consequently a space for deviant behaviour (Stanley 1995; Bey 2008). This may have been in response to the media moral panic.

Secondly the processes of commercialism began. Petridis (2004: G2) believes “dance music has always been marked by a sharp entrepreneurial spirit ... there was never much talk of ‘selling out’ in club land”. A key strength of the dance music scene was a strong sense of egalitarianism amongst a trans-local scene. That is, rave participants may not have known each other but were accepting of each other (Martin 1999; Straw 1991; Bennett & Peterson 2004). However with the entry and growth of commercial operators such as the Ministry of Sound the scene lost it’s sense of community. Gillan (2003) believes that in pushing for bigger and better events with expensive super DJs, the ‘super clubs’ became trapped between populism and elitism, unsure whether they wanted to be vast corporations or exclusive cliques. They tried to be both and succeeded only in alienating everybody. A necessary consequence of going for the mass market was that the events were staged in ‘conventional’ venues and because of the financial size of the deals, featured prominent advertising, any risk taking was minimised (Riddell 1997). Subversive ravers lost interest by the size, branding and commercialism. Mainstream clients were put off by the dress codes, the DJs who insisted on ”educating the crowd”, and by the sense of snobbery from the super club staff (Petridis 2003: 4).

Dom Phillips, a former music magazine editor claimed:

I think the dance industry became very, very greedy and it was just about making money and fleecing money out of people and the big clubs and DJs stopped putting anything much into it. A DJ like Paul Oakenfold plays for 40 minutes for a huge amount of cash. We worked out once he was getting about £400 for each record he mixes (Scott 2003: 12).

Paul Oakenfold, a DJ who earned £728,000 in 1999, justified his remuneration by describing himself as an ‘entertainer’ saying ”whether it’s raising my hands or pointing to someone in the crowd and smiling, it means the world” (Lewis 2003: 25).
The market was flooded with inferior products. "We stopped making rave records because the standards of the music and its culture were suddenly so low," explains Future Sound of London's Gary Cobain. "There was a point where you could make love to your cat on a synthesizer and release the resulting sequences as a rave record," (Marcus 1992: para. 6). As a consequence the decentralised structure of the sector changed as small independent and local companies were swallowed up or became unable to be heard amongst the ‘clutter’ of user generated content. Marcus (ibid.: para.10) quotes dance music label owner Mark Ryder: "It's become so easy to make a record, there's so much product bubbling out that it's inevitable that some of the smaller labels will start to suffer."

The major label response included legal action. For example, remixes are where consumers take excerpts of music and remix, modify, embellish and reinvent the music into a new art form is growing (Tapscott & Williams 2006). DJ Danger Mouse's ‘Grey Album’ is entirely based on modified excerpts from ‘The Beatles’ ‘White Album’ and vocals from Jay-Z's ‘Black Album’. This genre has potential for new revenue opportunities (providing a platform for remixes etc.). When the ‘Grey album’ was released on the internet it became an “overnight sensation but within weeks EMI had issued 'cease and desist' letters to every internet distributor it identified” (ibid.: 140). After suppressing the album, EMI later hired Danger Mouse to produce legal mashups for EMI.

Hesmondhalgh (1998) argues the use of branding was a key element that major labels used to mitigate the anti-corporate ethos of dance music. Creative director Trevor Beattie suggests "you have to let people discover brands for themselves. Ironically, too much advertising can be the first problem. You’ve got to keep it low key and get it talked about" and you are not in control (Snoddy 1998: 10). MoS funded a series of small independent start-up dance music labels with a dual purpose of maintaining credibility and the smaller labels could react quickly to sign emerging talent (Sexton 2002).

Was success sustained?
Straw (1991:98) argues that during 1990 to 1991 the “observable pluralism and fragmentation of dance-music culture was cited as proof that a collapse of the economic bases of dance music was coming.” Dance party dress standards became stylised, venues were beset by regulatory restrictions, costs escalated and the scene lost its ‘wild zones’ and experimentation. The gangs controlling drugs never disappeared from clubs and in order for gangs to compete the drugs became harder with more lethal substances (Riddell 1997).

McCusick (1992) and Lewis (2003) both argue that scenes are cyclical, and its decline is an inevitable part of the fashion cycle and “all youthful cults will eventually be destroyed by their own success” (Lewis 2003: 25). This however does not explain the longevity of other music genres. It may be said that music festivals have replaced raves. Phillips says the dance scene needs to return:

underground and think about being creative. When it started it was a grassroots, political movement. It was illegal and regarded as dangerous to the establishment. And it needs to recover that sort of rebellion and danger and credibility (Scott 2003: para.21).

Secondly he claims eighteen to twenty four year olds are still holding ‘elite’ illegal raves and small backstreet clubs in order to control their own music and generate a sense of a community and counterculture (in Scott 2003).

Key themes of interest
1. High degree of independent companies and ‘bootstrapping’ entrepreneurialism;
2. Harnessing innovations in audio technology;
3. Rave culture was initially ‘risk free’, inclusive and egalitarian (Spring 2004, Martin 1999) despite being an illegal activity. To some extent this facilitated the dance music scene.
Napster

even if we make bad business decisions, as long as we keep the servers stable and have it growing. That’s what we know how to do, so we’ll focus on that (Shawn Fanning in Menn 2003: 127).

Description
Napster was software that would search and index music files. The Napster software was downloaded and installed on a personal computer. The software enabled the computer to log on to Napster’s server. A user could search for a song title, and Napster connected the computer hard drive to its central user directory, which would return a list of active users who had that song on their computer. The user would then select one and Napster opened a link between the users PC and the hard drive of the other user and transfer the song file (Greenfield 2000).

Situation
The digital-music standard MP3, short for ISO-MPEG Audio Layer-3, was developed by German engineering firm Fraunhofer IIS in 1987 as a way of compressing CD-quality sound files (Bellis n.d.). By 1998 downloading music via the internet required people to search for websites where songs were posted. Most were unreliable, links broke or were out of date, and traffic spikes slowed download times.

Change agent
Shawn Fanning, a nineteen year old Boston Northeastern University student, was an avid online chat room participant and programmer (Menn 2003). He was also a music fan, his favourite band being Metallica.

Change
Frustrated with the reliability of music downloads, and wanting to create a music community, in June 1999 Fanning wrote a simple program that would search and index music files, that allowed music fans to easily search hundreds of sites (Varanini 2000). It maintained an index of all available files on a central server. His stated intention was also to “create a music community” (ibid.: para. 5). Fanning mentioned the idea in various online chat rooms and received feedback indicating it lacked potential because
‘people don’t share’ (Greenfield 2000). Nonetheless, he released a beta version, named Napster, to thirty friends he met via chat rooms, and it leaked to other friends. The network snowballed exponentially - the more people who joined, the more music became available. Whilst reliable figures on P2P use are unavailable (Karagiannis, 2003; Pasick, 2004), the following demonstrate the extreme growth rates of Napster. After a few days of releasing the beta, Napster had been downloaded by between ten to fifteen thousand people (Bordowitz 2004) and by December 1999, Napster had 150,000 users with roughly twenty million available songs (Menn 2003: 126), and its peak use occurred in February 2001, when an estimated 2.7 billion songs were downloaded (Evangelista 2001).

As a consequence of the rapid growth, Napster experienced scalability issues (Sheffield 2000; Varanini 2000), and “all resources“ focussed on maintenance of servers (Menn 2003: 126). Fanning and his collaborator, Sean Parker quickly formed a company, hiring, amongst others, Shawn’s uncle, John Fanning. Menn argues John Fanning had a history of business failures, litigation and a pattern of mixing personal and business funds. At least three other hired directors had histories of investor confrontations, abrasive management styles, ego’s, or been investigated for illegal activities (Alderman 2001; Foyer 2000; Menn 2003). Parker later claimed “on the business side everything was reaction. There was no time to recognise that something was awry with the way the business was being run” (Menn 2003: 126).

Change effect
Napster demonstrated high demand existed for digital music. Consumers were already sharing MP3s, but Napster made it faster and easier. Bordowitz (2004) argues the major labels did not believe MP3 technology was relevant to the music business because it didn’t fit with the then current distribution paradigm; and perhaps too because of a perception that consumers didn’t listen to music on their computers because of inferior sound quality. Instead they would burn CDs of music on their computers. At it’s peak Napster claimed to have seventy million users and ranked as the fastest growing company in history (Menn 2003). The use of Napster by university students became so heavy that university servers experienced overloads, and consequently Napster software was banned from 130 universities, however students circumvented the bans and continued to fileshare (Newsletter on Intellectual Freedom
Alternatives to Napster emerged that improved upon Napster, for example Gnutella contained a network of servers instead of one server and used open source programming code. Thomas Middelhoff, CEO of major label Bertelsmann, noted the threat of file sharing: “if file sharing really has these continued growth rates ... in the future content would have no value.” (Alderman 2001: 163).

Incumbent
The dominant incumbents in this instance were the major labels, as represented by the Recording Industry Association of America (RIAA). Secondly, mass market bands signed to the major labels potentially lost royalty revenues from file sharing, as perhaps represented by Metallica. Issues the major labels had to contend with included:

1. The threat of cannibalising their CD infrastructure and distribution channels;
2. Disagreements among key copyright stakeholders (publishers, musicians and labels) about online distribution royalties;
3. Additional resources were required to develop a legal alternative; and
4. Negotiations between the major labels to develop joint standards and content sharing ventures. Negotiations were complex and protracted.

Hence it may be understandable why the major labels were slow to react.

Incumbent reactions
Bordowitz (2004: 215) argues the major labels initially were not concerned because they believed the activity to be centralised on tertiary campuses, because it required high speed internet. They felt they “could control it.”

Public relations and legal action was initially used to defend their businesses from the Napster threat. Fanning's favourite band, ‘Metallica’, commenced and won legal proceedings against Napster for copyright infringement (Metallica v. Napster 2000). ‘Metallica’ drummer Lars Ulrich and his attorney hand delivered to Napster a printout of more than 317,000 internet user names that ‘Metallica’ claimed had illegally shared Metallica songs via Napster. This sparked a “ferocious storm of controversy” (Varanini 2000: para. 3) both for and against the Napster model. For example Alan McGee, the manager of UK band ‘Oasis’, argued “how stupid of ‘Metallica’ to, in effect, sue 300,000 of their fans” (Arthur 2000: para. 19) versus USA artist manager Ron Stone, who said
Napster “is the single most insidious website I’ve ever seen... its like a burglar’s tool” (Fisher & Yang 2003: para. 16). Napster’s senior management were subjected to intense media scrutiny, and their past failures were publicly exposed (as described above), and file sharing was said to carry computer viruses (Zetter 2004).

The RIAA had a history of legal action for copyright breaches pertaining to audio cassette and video cassette use (Beckerman 2007). At the time Napster emerged, the RIAA, on behalf of its members, had already been planning legal action targeted at millions of consumer websites where MP3s had been posted. Instead the RIAA could simply target Napster. An RIAA lawsuit charged Napster with "contributory and vicarious copyright infringement" and it sought the maximum US$100,000 allowable in damages for each copyrighted work that was infringed (‘A&M Records v. Napster 2001’; Menn 2003: 125). Clearly Napster could not pay damages that may reach “trillions of dollars”, and the RIAA sought an injunction to close Napster (ibid.). It succeeded and in July 2001 Napster closed (although it later reemerged as a legal subscription offering).

Regulatory tactics used by the incumbents to minimise the threats of change agents include legal action (court cases and appeals) to prevent or at least delay changes. This slows the momentum of the change agents, weakening the impact of the revolution. This may ultimately impede and frustrate creativity, entrepreneurial activity and cultural diversity, as seen with the legal action surrounding file sharing. Most dangerously this tactic delays the developments of healthy change, such as new business models. Secondly legal action is costly, and generally incumbents can finance lengthy costly legal battles whereas change agents frequently cannot. For instance the litigation against file sharer Kazaa lasted for five years (Friis 2008). Legal action is particularly effective because regulatory regimes and processes will never keep pace with the rapid change of volatile industries, and so frequently legislation requires amendments, further frustrating creativity and entrepreneurial activity (not to mention benefits to consumers and musicians) in this sector. Amendments to legislation tend to make it more complex, necessitating highly paid legal professionals to navigate the legislation. Adding to this, many lawsuits take place across several continents, and this additional complexity adds to the cost of the legal action. It is generally an inbuilt cost to the major labels, that tend to retain in-house counsel in
countries worldwide, but for an upstart company the additional complexity of multiple legal territories may be financially crippling. An example of this is the years it took the federal Australian government to amend their copyright legislation (Copyright Amendment Act 2006) to enable consumers to make copies across formats for personal use (for instance to copy a CD to a computer hard drive). Up until 2007 doing so was illegal in Australia. Thirdly legal action acts as a deterrent to others, for instance as at May 2008 there had been over 40,000 high profile legal cases in the United States where consumers were ordered to repay music labels for the cost of illegally downloaded music (Ziemann 2008).

In 2000, a Sony Senior Vice President announced:

The industry will take whatever steps it needs to protect itself and protect its revenue streams...It will not lose that revenue stream, no matter what...Sony is going to take aggressive steps to stop this. We will develop technology that transcends the individual user. We will firewall Napster at source – we will block it at your cable company, we will block it at your phone company, we will block it at your ISP. We will firewall it at your PC... These strategies are being aggressively pursued because there is simply too much at stake (Anastasi 2000: para. 8).

Thirdly, the major labels attempted to provide a legal alternative to file sharing. In July 2000 EMI began offering downloads of about one hundred albums and over two hundred singles. A particular program was required to hear the music, another program required to ensure the download license was obeyed, the music couldn’t be swapped (for example you couldn’t take it off your computer and put it in a CD player), and it cost similar to the price of the physical CDs. An EMI spokesperson said “we want to learn what the users want, how they find the user experience” to which Arthur (2000: para. 38) replies “actually it’s right down the digital road at www.napster.com. You get it free.” In September 2000 a coalition of music and technology companies called the Secure Digital Music Initiative (SDMI) launched a CD featuring a digital protection watermark. They issued a public challenge to anyone who could defeat its newly minted watermark. Hackers succeeded almost immediately, and the coalition ceased activities in 2001 (Craver 2000; SDMI 2006). Other digital rights management
software, including ‘root-kit spyware’ encoded onto CDs was found to be unplayable in standard CD players or damaged personal computers (Palmer & Cox 2007; Tapscott & Williams 2006; Roush 2006). When it was brought to their attention, Sony-BMG’s President of Global Digital Business said, “Most people don’t even know what a root-kit is ... so, why should they care about it?” (Tapscott & Williams 2006: 35).

Fourthly, attempts were made to acquire control of Napster and implement a revenue model. Napster initially passed up several deals with the record industry, including to license Napster’s software to others, which would have freed the company from potential liability and the acquirer would have gained the software (Menn 2003). At the time it may have been impossible to value the potential business realistically, because it was new and rapidly growing. In May 2000 Hummer Winblad Venture Partners committed to invest US$13 million for a minority stake, giving Napster an official worth of $65 million. At the time Shawn Fanning said, “There's no real business plan. But we feel strongly people will pay, maybe US$5 to $15 a month to download music files,” (Ross 2000: para. 3). Most key executive positions in Napster were replaced, resulting in litigation from those who were removed. Later Bertelsmann (later BMG) acquired Napster from Hummer in stock options. Bertelsmann believed it had acquired thirty three million ‘customers’ and innovative technology, but as BMG Chief Operating Office, Strauss Zelnick argued: “they aren’t customers ... it’s free and they have zero revenues,” (Menn 2003: 263-264) and converting those customers into paying subscribers was incredibly difficult, as has been demonstrated by the performance of Napster since 2001. The major labels (including another section of BMG) pursued Napster for copyright infringements and in May 2002 Napster filed for bankruptcy. In 2007 three of the major labels settled their legal action against Napster, after Napster costs totalled US$470 million (Laura 2008). Subsequent relaunches of Napster using a subscription model have failed to replicate its initial success.

Was success sustained?
The goal of Napster was to streamline digital music sharing and create a community, including chat rooms that were part of the Napster service (Menn 2003). Shawn
Fanning noted another goal was social; he wanted to create a community (Greenfield 2000).

As at 2008 there is a global proliferation of higher quality P2P file sharing intermediaries (for example BitTorrent). In 2005, twenty billion songs were downloaded illegally worldwide (IFPI Piracy Report 2006). New forms of digital piracy include

1. LAN file sharing, which is the sharing of large volumes of music via business or university LANs;
2. Digital stream ripping, a process of converting streamed music into a stored file. This is similar to the old concept of taping off the radio;
3. Mobile music piracy, this includes the transfer of music files via Bluetooth or memory card swapping; and
4. Pre-release piracy, which is the leaking of music onto the internet before it has been officially released. This also allows physical pirate copies to be made available simultaneously with official copies at release date.

The modes of piracy proliferate in tandem with the increase in communication devices and music formats. In a study on illegal file sharing, Liebowitz (2006: 32) concluded that it has brought “significant harm to the music industry.” Napster was created with no commercial incentive, however a sustained effect has been the proliferation of music piracy.

Napster failed because it was illegal and was unable to convert to a legal model and consequent legal action forced its closure. Secondly it lacked a business model and Menn (2003) argues the Napster senior management was dysfunctional. Initially there was no commercial incentive for Napster (Gorov 2000). Shawn Fanning said questions around the business model and legality were ignored because his focus remained heavily on server maintenance: “even if we make bad business decisions, as long as we keep the servers stable and have it growing. That’s what we know how to do, so we’ll focus on that” (Menn 2003: 127).

Key themes of interest

1. Streamlined access to digital music;
2. Enabled millions of consumers worldwide to share music freely, albeit illegally;
3. To some extent this led social changes in the perception of music pricing.

**iTunes**

Napster and Kazaa certainly demonstrated that the Internet was built perfectly for delivering music. The problem is they’re illegal. And the services that have sprung up that were legal are pretty anemic in terms of the rights they offer you, and they kind of treat you like a criminal. ... And we were able to convince the big five music companies to go along with us on this. (Steve Jobs in O'Brien 2003)

**Description**

iTunes is a free proprietary digital music player application and it may connect to an iTunes store for music purchases. iTunes software may be used to play and organise digital music collections in a format that is proprietary to Apple Computer, who own iTunes (although it can also convert other digital formats). Secondly iTunes provides an interface to other music devices, such as mobiles, iPod music players and allows music collections to be burnt to CD. Music prices in the iTunes store were initially fixed at AU$1.69 per track, or $18.99 per album, and purchasing music requires an account with iTunes, credit card and billing address in the country of purchase (Kruger 2005). To purchase, consumers simply search the iTunes catalogue and then click ‘buy’ and the song is downloaded onto their computer. A receipt detailing purchases is emailed periodically.

**Situation**

Apple, a technology company, created a device that would compete with MP3 portable music devices, basically a portable music disc called an iPod.

**Change agent**

Steve Jobs appears to be the public face of Apple. Apple is a technology company that traditionally was not involved in the music business.
Change

To sell the portable music device, Apple recognised that they needed to make it easier to legally acquire music. So they established iTunes, a one stop shop for digital songs, and negotiated with the major labels and other music suppliers a flat fee of US69c or AU$1.69 per song, to be downloaded into iTunes and onto the iPod connected with that iTunes.

Apple argued that the solution to music piracy is behavioural, and believe consumers will choose a fair and legal route if legal music is as easy to obtain as free services (Jobs 2007). The iTunes store provided consumers with a well designed, simple to use intermediary through which they could legitimately purchase music (Simpson 2006).

Although iTunes opened in 2001, it was not until 2005 when the iTunes store opened in Australia (ibid.). Up until this time, songs could be copied off CDs, or converted from digital formats into the iTunes software.

Change effect

Take-up of iTunes was rapid and the iPod became the world’s highest selling portable music device. By February 2006, Apple announced that it had sold one billion legitimate downloads (ibid.: 294). According to the IFPI, legal downloads worldwide grew fifty three percent in 2007 to 1.7 billion songs (Andrews 2008). By April 2008 it was the world’s largest legal digital music catalogue and the leading music retailer in the United States (Neumayr 2008). However Apple excludes a key segment of the music market, youth, because they may not have credit cards so cannot make music purchases.

Incumbent

The incumbents in this sector include major labels, physical music retailers and distributors.

Incumbent reaction

Negotiations between Apple and the major labels concerning the pricing and licensing of music on iTunes were complicated (Adegoke 2007). The major labels lobbied for
higher margins (including a percentage of iPod revenues), subscription models, and tighter DRM (ibid.) Apple has negotiated licenses on a country-by-country basis, so entering new markets has been slow. Secondly, some songs may be purchased via iTunes in the United States but not in Australia, and the catalogues of some artists are absent from iTunes (for example 'The Beatles' and 'Led Zeppelin') (Huhn 2006). This may frustrate Australian users who can see songs advertised that are only available for download by U.S. residents.

The pricing of music in iTunes replicates that of physical products (Cohen 2004; May & Singer 2001). One third of revenues go to Apple for the iTunes platform, including security devices; software for search, digital rights management, and epayments; and a license to use the AAC format (similar to MP3) (Burrowes 2003) and two thirds is allocated back to the music content supplier (for example the major labels). Secondly the pricing model may not be appropriate across all music genres, for example some classical music is broken in sections under a minute in length, and priced the same as a full-length song (Colker 2003).

This pricing is similar on other digital platforms such as eMusic and the legal Napster (as at 2007). On the iTunes deal, musicians are no better off than with a major label, they receive the same reimbursement as they would for other music, as can be seen in the figure below. Some older contracts between musicians and labels do not include digital music, in which case because the label owns the copyright the musician may receive no royalties on digital music sales (Byrne 2008a).

*Figure 8: Musician remuneration via format*

![Figure 8: Musician remuneration via format](image)

Source: Byrne 2008a: figure 4.

iTunes appears to replicate the pricing of a traditional CD product, which in the short term may be acceptable to recover establishment costs, but ultimately over time a large
portion of the Apple and Label charges should be cut. The primary driver for Apple appears to be to sell iPods, not music, although doing so has created a new revenue stream for them. Similarly the music label is incurring a fee similar to that of a traditional CD product, whereas some costs are negated with a digital format.

The impact on physical music retailers was reflected in store closures. Increasingly consumers are acquiring their music online. Apple created an easy one-stop-shop for the purchase of legal digital music. While the trend to music retail store closures cannot be wholly attributed to Apple, it is a new entrant to the competitive landscape.

Was success sustained?

iTunes is now an established legal alternative to file sharing, providing generally secure, virus free content. It is now the leading supplier in the global legal digital music market. Secondly Apple has not only created a new revenue stream, but perhaps more importantly, they have used iTunes to cross-sell their hardware.

Apple succeeded in negotiations with the major labels, perhaps where many start-up companies have failed, because they are an equally powerful player, albeit in a different sector. The experience of the music streaming service iMeem (discussed in the conclusion of this chapter) appears to be standard practice for how the major labels negotiate with start up music services. A similar example is Sonific, a music streaming service that closed in May 2008, claiming:

when we approached the major record label decision makers in order to obtain licenses for some of the music in their catalogues we have routinely faced demands for very large cash advances and fixed per-stream minimum payments, pressure to give them company equity, and requirements of utterly bizarre usage restrictions. It seems that the industry's major stakeholders still prefer this turf to remain unlicensed rather than to allow real-life, workable and market-based solutions to emerge by working with new companies such as Sonific. ... we therefore had to realize that a company that wants to provide interactive streaming music services must either a) risk the constant complaints of their users, due to the lack of hit content b) proceed to use any and all music (this is routinely done by allowing users to upload their own MP3s) without the
required licenses, and therefore be at the total mercy of the record labels at some point in time, and c) build a huge audience very quickly, based on having the content available - permission or not -, and then very quickly sell themselves to a large company that will take care of placating the labels while the money is plenty and the pockets are deep. Unfortunately we don't like any of these choices. The bottom line is that this industry is certifiably dysfunctional and that we do not see a plausible path to take at this time. We neither want to engage in so-called copyright infringement nor do we have millions of dollars available to buy our way in when it is abundantly clear that doing business under the existing rules of the major labels will simply amount to economic suicide (Leonhard 2008: para. 2-4).

There are many other examples similar to Sonific and iMeem, with Robertson (2007: para. 1) commenting: “it is the same onerous deal labels have foisted on digital music companies for the last decade.”

Key themes of interest

1. Simplified access to digital music;
2. The first major application to present a consistent unified interface to content from all major labels;
3. Purchasing is easy, simple, quick and addictive, increasing the propensity to purchase and develop music collections (Morris 2003);
4. A perception that the music was ‘cheap’, because songs were bought individually;
5. Apple, unlike the major labels, has a strong brand that consumers are receptive to;
6. Consumers may perceive the system is fair and reasonable (Morris 2003);
7. Secure micro payments technology.

Conclusion

The analysis highlighted how political, economic, social and technological shifts may impact current and future events, and so provided context to assist in preparing a robust, sustainable competitive strategy.
There are many instances across time and nations where music and/or musicians have not fitted into the dominant music system. The table below describes as a timeline some examples of the disruptions in, or affecting the music sector that have been analysed as case studies. Recurring themes that were identified across case studies are highlighted in italics:

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;1500’s</td>
<td>The Russian religious phenomenon of the ‘Yurodivy’. Predating the fifteenth century these were people with special insight into evil and injustice who then conveyed subliminal messages and profound ideas in clown-like free village performances. These people existed outside of society and ignored culture, but lived disciplined lives with rules and taboos.</td>
</tr>
<tr>
<td>1600’s</td>
<td>Voodoo music helped slaves cope with their circumstances and retain their African identities. It bonded slaves together, and was integral to their lifestyle.</td>
</tr>
<tr>
<td>1780’s</td>
<td>Mozart took opera to the mass market. Operatic events last nine hours and were hedonistic social events where attendees would loudly socialise through the performance. Music was localised and performed.</td>
</tr>
<tr>
<td>1930s</td>
<td>Shostakovich used musical formatting as a subliminal expression of protest. The incumbent regime responded with suppression, propaganda and violence. Music was performed locally but nationally the content was centrally controlled.</td>
</tr>
<tr>
<td>1940’s</td>
<td>Recorded music was created. In western societies music became a mass product and less of a social event. A recording was purchased in a retail store and played in homes. The purpose of music changed as consumers no longer went out to enjoy it, instead they could put on records in their lounges. It generated ancillary, high infrastructure, industries in broadcasting, manufacturing, retail, and technology.</td>
</tr>
<tr>
<td>1948+:</td>
<td>Music was used for political protest in apartheid Africa. It mobilised masses and became a basis of political protest. The incumbent regime responded with suppression, propaganda and violence.</td>
</tr>
<tr>
<td>1978+:</td>
<td>Disaffected youth identified themselves with the Punk phenomenon, purchasing the music as a basis of belonging to that culture. The style of music was integral to their lifestyle. Major labels diluted the culture by flooding the market with cheap imitations that were safer, sanitising punk culture for a mass market.</td>
</tr>
</tbody>
</table>
• 1980's: Music became mobile and solitary with the invention of the Walkman.
• 1980’s: Dance raves took music to the masses. Dance events last at least nine hours and are hedonistic social events where attendees would loudly socialise through the performance. DJ mixes are localised and performed. That is, the DJ is up on a stage, plays the tracks in real time and interacts with attendees.
• 1980’s: Electronic and Rap music become new genres. Major labels diluted the genres by flooding the market with cheap imitations for a mass market.
• 1999: Napster spawned the creation of a global village of people trading music via the internet. It created an instant mass market. Local cultures and their music become globally and instantaneously available and cost nothing. Major labels responded with lawsuits and propaganda via broadcast media to suppress peer to peer activity.
• 2001+: Increasingly, musicians take control, harnessing globally dispersed virtual social communities of fans via the internet with music just one part of ancillary entertainment and lifestyle offerings.

The review of competitive strategies found that although the sector is evolving and continually receives disruptions such as new technologies, there is always a dominant system that continues to maintain control. However the dominant incumbents themselves may change, be acquired or replaced. As demonstrated throughout recent history, there will always be a mass popular market; therefore there will always be large-scale entities who service that market. Conversely there will always be operators whose markets are smaller. These operators may work within a specialised sub genre or may perform music suited to a mass market, and may or may not transition to that market. Historically smaller operators have been financially challenged, however changes in the environment may facilitate sustainability.

The table below highlights key findings from the case studies. It lists basic examples of change agents; methods of change and how those affected by the change reacted. For example, Shostakovich used suppression to undermine the Stalin regime. The regime responded by suppressing Shostakovich with propaganda.
Table 15: Competitive strategies by music sector change agents

<table>
<thead>
<tr>
<th>Examples</th>
<th>Change methods</th>
<th>Incumbent reactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shostakovich</td>
<td>Vuyisili</td>
<td>Subversion</td>
</tr>
<tr>
<td></td>
<td>Mini</td>
<td>Revolutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Suppression via Propaganda or Force</td>
</tr>
<tr>
<td>Sex Pistols</td>
<td>Public Enemy</td>
<td>Bootstrapping</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ancillary products</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Acquisitions – bands and niche labels</td>
</tr>
<tr>
<td>Voodoo</td>
<td>Dance music</td>
<td>Culture</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Community</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dilute the community</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Commoditise the product for a mass market</td>
</tr>
<tr>
<td>Napster</td>
<td>Cost</td>
<td>Access methods</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Legal action</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Propaganda</td>
</tr>
</tbody>
</table>

The table above highlights recurring themes that emerged and are of interest to the initial question of how specialist musicians can succeed in the current environment. From a change agent position, they include:

1. A strong sense of community;
2. Cost;
3. Access methods;
4. Speed, revolutionary behaviours; and
5. Instigators - revolutions are often personified. Consumers associate more readily a leader, especially a charismatic leader.

Rarely have those who hold market power initiated disruptive trends, but they have been successful at defending or leveraging them to maintain their position. The dominant incumbents in the sector have historically reacted to disruptions and threats by exercising power to defend their position via:

1. Financial action - flooding the market and diluting the music product with imitations. Incumbents generally may sustain a financial loss for longer than start-up businesses;
2. Regulatory action - for example lawsuits to prevent or at least delay changes; and
3. Suppression, for example using propaganda and/or violence.

The case studies going back five hundred years, show dominant systems in the music sector maintain their position despite continual disruptive impacts as music has evolved. The nature of the ‘mainstream’ mass market requires a large (and so it follows, dominant) system to service it. However the composition of the dominant incumbents
has changed. This analysis has also revealed that a powerful industry has grown around music over the century to 2008. By looking to history, the study has not been able to disprove the claim by May and Singer (2001: 128) that “in reality record labels may have little to fear in the long run” because the labels are the current incumbents in the dominant system. A mass market will always exist and dominant players successfully react, defend or slowly adapt to revolutionary changes. However the nature and composition of the music sector mass market incumbents is changing and this will be discussed later. Despite this, it is still apparent that opportunities exist for specialist music. Musicians who operate outside the mainstream music structure can do so, but overall their impact has been limited. Their music tends to be of a specialist nature. The case studies highlighted recurring opportunities and barriers to innovation in music.

These themes are relevant today as competitive strategies. For instance, the singer of popular United States band ‘The Dixie Chicks’ spoke against the United States invasion of Iraq during an interview. The band suffered a severe public relations and media backlash (propaganda). The singer later issued an apology and their next album included songs about the controversy. Some radio stations refused to play the album or advertise their tours or promote a documentary about the controversy. Broadcaster NBC cited a policy "barring ads dealing with public controversy" (Wikipedia 2008b: para.51). The documentary distributor, Harvey Weinstein noted “It's a sad commentary about the level of fear in our society that a movie about a group of courageous entertainers who were blacklisted for exercising their right of free speech is now itself being blacklisted by corporate America” (ibid.).

Secondly, May and Singer (2001) argued the major labels simply need to attack the fast growing and efficient internet music companies with legal action while the labels restructure their business models. However the major labels cannot target all online music startups, instead they target those that are rapidly growing or have gained market traction, such as Napster and MP3.Com. iMeem is a music sharing social network that streams advertising-supported music. It acts as a host to music shared by its users. As a start-up, iMeem tried to negotiate with the major labels to allow legal streaming of their music catalogues by Imeem users. It has been said that major labels will not do licensing deals with startups because they do not have “millions of users
and a large pot of revenue to share” (Leonhard in Hart 2008; para. 3). The major labels demanded “millions of dollars up front” from iMeem (Michael Robertson in Hart 2008: comment 4) for access to their catalogues. This was not possible for a small start-up. If it were to fully abide by the law, iMeem would never have commenced operations. So instead iMeem achieved success by negotiating licensing deals with smaller independent labels, and grew from there. The major label music played by consumers via iMeem was breaching copyright. iMeem grew quickly and Warner music consequently sued iMeem in 2007 for “building a large base of users by hosting copyrighted music” (Hart 2008: para. 2). As a result of legal action iMeem was forced to change its business model and consequently struck deals with the major labels. The Universal deal involved:
1. A US$20 million upfront payment;
2. Equity in iMeem, plus a ‘per stream’ fee; and
3. An advertising revenue share (ibid.).
It is noteworthy that the upfront payment and equity values are not passed on to musicians of the label (iMeem and the labels). Upfront payments are not royalties so go directly to the labels and stay within the labels. However the ‘per stream’ fees might include royalties and theoretically would flow through to musicians. According to Michael Robertson this is a “crushing financial agreement that allows,” iMeem “to survive as long as venture capital money continues to flow into the company, but spells almost certain financial calamity once outside funding halts” (Robertson 2007: para. 1). A financial analysis of a royalties and operational costs revealed that iMeem cannot ever turn a profit with this financial structure (ibid.) and an exit by being acquired is their best future option. Robertson (ibid.) believes it is most likely that a major label or associated company will acquire iMeem, once they fail to meet their financial obligations to them. The threat of legal action by the major labels has been a major factor in venture capitalists declining interest in investing in innovative music startups (Harding 2008a). This is discussed in more detail elsewhere in this thesis.

Another example of the major labels taking legal action to maintain their positions is via regulatory lobbying. In late 2007 the French government proposed legislation to force ISPs to monitor their web traffic for chunks of files. If these prove to be illegal music files then the Internet service providers (ISPs) will give the consumer three warnings, and if the piracy persists the ISP will cancel their contract. The offenders
name will be put into a list of banned consumers and no other ISP will deal with them. They will be banned from the internet. In the future net based world this may be like being banned from walking down a road. In early 2008 the United Kingdom government released its creative economy policy and flagged that it may replicate the approach. The executive summary includes in the ‘fostering and protecting intellectual property’ section: “we will consult on legislation that would require internet service providers and rights holders to co-operate in taking action on illegal file sharing - with a view to implementing legislation by April 2009.” (UKDCMS 2008: 51). Other governments may follow this approach. If so, it shifts the problem of illegal file sharing up the value chain from the major labels to ISPs, and instead of using court action and fines, filesharers will be cut off the internet. Privacy issues (such as private ISPs monitoring consumer web use) may stall this proposal.
5: MUSICIAN SELF MANAGEMENT

Introduction
Adequate information is available and was obtained on elements of new music business models, and has been supplied within chapter six (Music value chains). A gap in knowledge is in testing the extent to which musicians can manage their operations, for example, to make their own decisions. What is in question is their propensity and willingness to systematically make decisions rather than act on whims. Would musicians prefer to focus on their music and let someone else (for example, a manager, or record label) perform these activities? This next section describes a study undertaken to explore this question.

To analyse this a study was undertaken which comprised:
1. A detailed model of decisions required in the management of a music career was prepared. Named 'Musical map', the model detailed the financial impacts of decisions made. It may be used by some musicians to represent their business model;
2. The model was tested by musicians; and
3. Musicians then answered a questionnaire that sought feedback on their use of the model and propensity to manage their music careers.

Responses were analysed to assess the degree of skills participants currently hold, versus the required skills in order to manage a career and business. Secondly, responses relating to their motivations, inclination and attitude towards using the model were collated and analysed.
Model construction

The purpose of the model was to highlight financial risks and rewards in the music sector. It included all measurable actions by musicians in the music system and their consequences, as identified in the literature review. Its value is that it provides a foundation for systematic decision making, as opposed to musicians making decisions based upon whims. It may represent a decision making tool, because it highlights the costs and benefits of various options at each step in the value chain. By using it musicians may be more aware of the risks and impacts of their decisions. This may result in faster, more informed decisions and increased certainty.

The model encompassed decisions to be made in the music system, for example:
1. Optimal allocation of resources (time, capital, brand, experiences);
2. Scheduling of actions;
3. Distribution methods;
4. Whether actions taken are sustainable; and
5. The interactions, and causes and effects of elements within the value chain (for example if the music is licensed to a soft drink commercial what is the impact on brand value and future sales?).

Initial iterations of the model included risk weightings for non-financial, human, experiential impacts (such as exhaustion or band disintegration from excessive touring), but the calculations required became too complex for this exploratory study. For example, without training users may not be expected to assign a quantitative risk weighting for the potential impact of exhaustion, however risk professionals can quantify such risks. Musicians most probably do consider such risks informally, but may face difficulty factoring it quantitatively. As a result, the model was amended to focus solely on financials, and participants were advised to consider the non-financial impact of decisions, for example, on relationships, teamwork etc. This was a practical solution, and in no way implies that the personal and experiential considerations are subordinate to financial consequences in decision making.

Model assumptions

The model was based upon a decision tree framework (Bagley 2003). It was created around each of the five elements of the music system. It lists fields for each cost and
income within that system. The data fields used in the model were sourced from publicly available literature. It used as a basis the financial items cited in the literature review, in particular those provided by Steve Albini (2003) and Courtney Love (2004). Other sources, including May and Singer (2001), were used as a crosscheck. Participants were asked to enter their own financial data into the model. Once completed the model was tested for over forty hours with multiple scenarios before being released.

In structuring the model, judgements were made about types of expenditure and income. Many of these judgements can be disputed and participants were invited to respond to any they disagreed with. The judgements included:

1. The model assumes a dollar currency but is flexible enough that any decimal currency can be used. Initially the input data was converted into ratios to minimise the currency effect, for instance if a band tours across countries using different currencies, but this was removed as it became too complex. It is assumed that all financials entered are in the same currency and participants were advised to use a currency converter. If a non-decimal currency is used it may result in miscalculations;

2. As discussed previously, the model does not cover the non-financial aspects of a music career (or ‘experiential impacts’), it is purely focussed on financials. This is a significant omission, but it beyond the scope of this case study. Participants were asked to consider the human cost - exhaustion, relationships etc. in addition to the financial outcome. This was especially important where the financial outcome was neutral;

3. Distribution expenses include packaging – in this context it is the physical act of printing and packaging, as opposed to design of packaging, which is a promotion and manufacturing cost (see point twelve). This assumption was made to distinguish between digital and physical distribution costs. In digital distribution no physical printing or packaging is required. However some design costs are incurred in digital distribution, and are included (as a promotion item). For example, a website may include song downloads as well as sleeve designs or artwork which can also be downloaded. It is a ‘nice to have’ as opposed to physical distribution packaging which is a ‘must have’;
4. Merchandising income is not considered as a performance income, it is considered a promotion income, regardless if sales are made during tours. The bulk of merchandise sales generally do occur on tour where consumers see the performance and, if it is a great performance, they head to the merchandise stand to buy a t-shirt, performance DVD etc. The t-shirt will then promote the band every time it is worn. Merchandising is not crucial to the success of a tour, however it can provide the highest financial margin of tours. The tour may be budgeted as break even, that is door and ticket sales will cover the cost of touring, and merchandise sales can provide a buffer to improve the quality of life for musicians on the road. Merchandising is financially risky. This is because demand is highly variable and merchandise has upfront fixed costs. For example, the band must estimate and pay for a number of t-shirts to be made before the tour, and cannot guarantee they would be sold. It is unlikely that customers would want to order and pay upfront at a performance, then wait for the item to be mailed to them after the tour when the musicians have collated all orders and organised printing. Consumers want to purchase spontaneously. However for the purpose of the model, a performance can be undertaken without merchandise, so it is considered a promotion item;

5. Tour promotion is considered a performance as opposed to a promotion cost. For example, before they tour musicians may have a farewell party and this is considered a performance cost. It is directly related to the tour and if the tour is not promoted it will most likely fail. The promotion would not go ahead without the tour, so any tour posters etc are considered a performance cost;

6. The cost of new equipment (instruments etc) is considered a production expense. New equipment may be purchased prior to a tour, but it is to replicate music that has already been produced. However, if a musician hires equipment for a tour it is a cost that is directly related to performing so there is a separate field for equipment hire. For instance an Australian musician may not want to risk putting guitars through airport luggage and hires equipment for touring through Europe, In this instance the equipment hire would be entered as a performance cost. Most new equipment though is considered a production expense because without it there is no music;

7. Despite every effort to homogenise this model for a global study, musicians may need to consider country variances when using this. It has been established on the
basis of a generic Western economy using decimal currency. For instance the biggest assumption the model makes is that musicians primarily aim to maximise income, and in some countries that may not be their primary motivator for sustainability;

8. This is primarily a decision tool, not an accounting tool. It is not to be used for accounting as it does not include taxes, government grants etc. To do so would have introduced accounting rules and country variations into the model;

9. Government grants (and philanthropic gifts) are available in most countries and this could have been added as a field in the performance (for example touring grants) and production (music grants) sections. Some musicians are sustained by ongoing grants or philanthropic patronage and spend significant amounts of time on applying for such assistance. However grants tend to be lumpy, once off payments so were omitted because they distort results. In a future model grants and patronage may be included. Fund raising activities, another activity that this model overlooks, could also be included as a promotional item;

10. Advances received are not considered as income. They are loans which must be repaid so are ignored;

11. This model does not include time costs. That is, if the musician is undertaking these tasks it does not assume an hourly wage for them. Any such costs can be entered into the manager fields (see point fourteen);

12. Sleeve design for CDs and DVDs is considered a manufacturing expense. However if photography costs are incurred the photography expense is considered a promotional cost as it can be reused for other promotional activities. This breakdown is necessary to distinguish between physical and digital music;

13. It is assumed distribution is outsourced - that is the musicians do not deliver CD/DVDs themselves but that they use mail or couriers; and

14. Managers and lawyers. If managers and lawyers are used through all activities, one fifth of their annual fee was entered through all five elements of the music system.

No attempt was made to alter the appearance of the model to look attractive, enticing, fun or exciting, for example by adding an interface that would guide the user through a series of steps. It was presented as neutrally as possible in order to minimise influencing their emotional reactions. As used by many businesses, it was presented as an excel workbook, a sensible and serious toolkit for their utilisation.
Software selection
An extensive review of risk software packages was undertaken, and a test model was constructed in Pallisade @Risk, and, after several months, was then rejected because it risked being too complex for study participants. It required a long learning curve and training, which would potentially have been an unnecessary distraction for musician participants. Secondly, it ran the risk of micro analysis, that is, factoring in too many variables that would then change frequently over time, need continual reassessment and increase the risk of inaccuracies. Pallisade @Risk uses a familiar excel interface, but users would have needed to assign their own ratings on the riskiness of events to run scenarios. The tool would have confounded the basic aim of the study, which was to explore reactions to decision making, as opposed to using complex technology and conducting risk analyses. However a future iteration of this model may use Pallisade @Risk software with a simple overlay. Such a model can then encompass non-financial variables such as the expected impact on experiences and relationships. Thirdly, licensing issues may have resulted from making the model publicly available.

Consequently Microsoft excel was chosen for the model. This was because it is easy to use and ubiquitous, therefore less potential existed for any license issues or unfamiliarity with the software. Secondly hidden macros and links could be easily and quickly entered into fields in the workbook, in order to calculate outcomes. If complex training was required before use it was unlikely that musicians would invest time in participating in this study. The critical issue was removing any complexities relating to game theory, risk and decision making, so as to make the model useable by musicians.

The Musical map model
The model assumes that the music 'system' contains five activities: production, distribution, publishing, promotion, and performance. Breakdowns of each of these activities were listed on separate pages for each activity.

Participants were required to enter into the model the last twelve months of financial data for their businesses to a reasonable degree of accuracy, and make estimates where
data was unavailable. The model is a decision tool, so it was acceptable to estimate or
guess, however the accuracy of the outcome depended upon the data entered. They
were then asked to use the model to test how it would assist them to make decisions
concerning various actions. For example, by listing the costs and revenue
opportunities in a tour, they may be able to make a financial decision regarding
whether and how to tour.

The key fields in the model are presented below, and a copy of the model is provided
on disc with this thesis.
Table 16: Musical map model variables

Input fields (note grey fields self calculate):

**PERFORMANCE**

<table>
<thead>
<tr>
<th>Performance expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variable expenses</strong></td>
</tr>
<tr>
<td>Tour promotion (for example pretour party. Put poster costs in cells M8-M10)</td>
</tr>
<tr>
<td>Petrol cost ($ per kilometre) (petrol consumption per kilometre * petrol price per litre)</td>
</tr>
<tr>
<td>Average km (number per day)</td>
</tr>
<tr>
<td>Vehicle hire ($ per day)</td>
</tr>
<tr>
<td>Air / train tickets</td>
</tr>
<tr>
<td>Instrument and Audio Equipment hire ($ per day)</td>
</tr>
<tr>
<td>Venue hire? (gross $ amount)</td>
</tr>
<tr>
<td>Accommodation ($ per day gross per person)</td>
</tr>
<tr>
<td>Band ($ per person per day for food, laundry, labour (?) etc.)</td>
</tr>
<tr>
<td>Number of band members</td>
</tr>
<tr>
<td>Crew ($ per person per day, including their per diems) - Tour manager, sound mixer, lighting, security, film staff etc.</td>
</tr>
<tr>
<td>Number of crew</td>
</tr>
<tr>
<td>Tour duration (Days)</td>
</tr>
<tr>
<td>Total variable expenses ($)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed expenses (total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage &amp; construction</td>
</tr>
<tr>
<td>Rehearsal space rental</td>
</tr>
<tr>
<td>Clothing expense</td>
</tr>
<tr>
<td>Legal fee</td>
</tr>
<tr>
<td>Manager fee</td>
</tr>
<tr>
<td>Agent fee</td>
</tr>
<tr>
<td>Booker fee</td>
</tr>
<tr>
<td>Medical (for example vaccinations etc.)</td>
</tr>
<tr>
<td>Visa/Passports and other travel administration costs</td>
</tr>
<tr>
<td>Freight</td>
</tr>
<tr>
<td>Insurance</td>
</tr>
<tr>
<td>Filming, recording of performance (payment to a company, not crew)</td>
</tr>
<tr>
<td>Performance webcast / podcast payment</td>
</tr>
<tr>
<td>Total fixed expenses</td>
</tr>
<tr>
<td>Total expenses</td>
</tr>
<tr>
<td>Total expenses per day</td>
</tr>
</tbody>
</table>

**PRODUCTION**

<table>
<thead>
<tr>
<th>Production expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variable expenses</strong></td>
</tr>
<tr>
<td>Producer points (royalties- %)</td>
</tr>
<tr>
<td>Studio fee (per day)</td>
</tr>
<tr>
<td>Food and Lodging (per day)</td>
</tr>
<tr>
<td>Equipment hire (per day)</td>
</tr>
<tr>
<td>Recording tape, CD’s</td>
</tr>
<tr>
<td>Recording duration (days)</td>
</tr>
<tr>
<td>Total variable expenses</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed expenses (total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producer fee</td>
</tr>
<tr>
<td>Legal fee</td>
</tr>
<tr>
<td>Manager fee</td>
</tr>
<tr>
<td>Agent fee</td>
</tr>
<tr>
<td>Technician/s fees</td>
</tr>
<tr>
<td>Music instrument and sound equipment purchase</td>
</tr>
<tr>
<td>Other equipment purchase (for example software, hardware)</td>
</tr>
<tr>
<td>Transport and cartage</td>
</tr>
<tr>
<td>Mastering costs</td>
</tr>
<tr>
<td>Manufacturing (cost per item)</td>
</tr>
<tr>
<td>Number of items manufactured</td>
</tr>
<tr>
<td>Artwork (for example CD/DVD packaging design)</td>
</tr>
<tr>
<td>Total fixed expenses</td>
</tr>
<tr>
<td>Total expenses</td>
</tr>
</tbody>
</table>

**Production Income**

<table>
<thead>
<tr>
<th>CD sales (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of CD unit sale that is returned to Musicians ($ per CD)</td>
</tr>
<tr>
<td>DVD sales (units)</td>
</tr>
<tr>
<td>Value of DVD unit sale that is returned to Musicians ($ per CD)</td>
</tr>
<tr>
<td>Total return from digital sales of film - iTunes etc</td>
</tr>
<tr>
<td>Total return from digital sales of music - iTunes etc</td>
</tr>
<tr>
<td>Total Income</td>
</tr>
</tbody>
</table>

**Net Production Income**

*Continued/*
Payments received from media entities to appear on tv
Payments received from media entities to appear on internet (‘premium’ access to Musicians online for ie chat, online interviews with consumers etc)
Payments received from media entities to appear on radio

Tour Sponsorship

<table>
<thead>
<tr>
<th>Total Income</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Net Performance Income</th>
</tr>
</thead>
</table>

### DISTRIBUTION

#### Distribution expenses

- **Variable expenses**
  - Physical CD distribution ($ per CD)
  - Number of CDs
  - Physical DVD distribution ($ per DVD)
  - Number of DVDs
  - Physical ‘other merchandise’ distribution ($ per item)
  - Number of items of ‘other merchandise’

- **Fixed expenses (total)**
  - Manager fee
  - Legal fee
  - Edistribution (for example uploading to website)

- **Total variable expenses**

- **Total fixed expenses**

- **Total expenses**

### PUBLISHING

#### Publishing expenses

- **Variable expenses**
  - Publisher fee (time based)
  - Publisher fee (% of total publishing income)

- **Total variable expenses**

- **Fixed expenses (total)**
  - Publisher fee (if lump sum payment)
  - Manager fee
  - Legal fee
  - Business registration (with Government; royalty collection agencies)

- **Total fixed expenses**

- **Total expenses**

- **Publishing Income**
  - Performance royalties - digital (website access; read their blogs, music demo’s, viewing recorded interviews etc.; streaming (play not purchase) of music/videos by consumers on third party sites)
  - Performance royalties - television
  - Performance royalties - radio
  - Performance royalties - other (ringtones, ecards, karaoke etc.)

- **Total Publishing Income**

### Total Income

<table>
<thead>
<tr>
<th>Net Distribution Income</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Net Publishing Income</th>
</tr>
</thead>
</table>

## Promotion

### Promotion expenses

<table>
<thead>
<tr>
<th>Variable expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Video manufacture and distribution (per item $ cost)</td>
</tr>
<tr>
<td>Video manufacture and distribution (number of videos made)</td>
</tr>
<tr>
<td>Posters (per item $ cost)</td>
</tr>
<tr>
<td>Posters (number of posters printed)</td>
</tr>
<tr>
<td>Labour cost to put up posters ($ per poster)</td>
</tr>
<tr>
<td>Mailouts (number of postal mailouts)</td>
</tr>
<tr>
<td>Mailouts (per mailout $ cost)</td>
</tr>
<tr>
<td>Email lists and management of</td>
</tr>
<tr>
<td>Merchandise (number of t-shirts printed)</td>
</tr>
<tr>
<td>Merchandise ($ cost per t-shirt, including distribution)</td>
</tr>
<tr>
<td>Merchandise (number of other merchandise made)</td>
</tr>
<tr>
<td>Merchandise (generic $ cost per item including distribution)</td>
</tr>
<tr>
<td>Website construction</td>
</tr>
<tr>
<td>Website maintenance ($ cost per annum)</td>
</tr>
<tr>
<td>Myspace (or other ie last.fm; imeem; sony bmg portal) page</td>
</tr>
<tr>
<td>Promo products (for example CD giveaways as prizes) ($ aggregate cost per annum)</td>
</tr>
<tr>
<td>Other media costs? ($ aggregate costs per annum)</td>
</tr>
<tr>
<td>Miscellaneous support costs (onsite catering etc)</td>
</tr>
<tr>
<td>Advertisements - placement in magazines, online</td>
</tr>
<tr>
<td>Uploading to online video sites (for example YouTube etc.)</td>
</tr>
</tbody>
</table>

### Fixed expenses (total)

- Merchandising Manager fee
- Manager fee
- Legal fee
- Director/film crew fee
- PR Agent? To arrange interviews, media releases etc ($ per annum)
- Video production ($ aggregate cost to film and edit)
- Merchandise - t-shirt design ($ total)
- Merchandise - design of other items ($ total)
- Photography production ($ total)
- Advertisements - design and production ($ total)
- Poster design ($) total
- Website construction ($ total)
- Internet domain registration ($ total)

### Total fixed expenses

### Total expenses

### Promotion Income

- DVD sales ($ per annum received by Musicians)
- Online download sales ($ per annum received by Musicians)
- Merchandise sales at Performances - t-shirts ($ per annum received by Musicians)
- Merchandise sales at Performances - other merchandise ($ per annum received by Musicians)
- Merchandise sales via website - t-shirts ($ per annum received by Musicians)
- Merchandise sales via website - other merchandise ($ per annum received by Musicians)
- Merchandise sales via retail outlets - t-shirts ($ per annum received by Musicians)
- Merchandise sales via retail outlets - other merchandise ($ per annum received by Musicians)
- Merchandise sales via other outlets - t-shirts ($ per annum received by Musicians)
- Merchandise sales via other outlets - other merchandise ($ per annum received by Musicians)
- Blog subscriptions

Continued...
After entering data into selected fields in the input page, the summary page was where the users could ‘play’ with the model, asking questions and calculating answers. The summary top section was auto-filled from the inputs sheet with basic calculation macros. The section under the ‘Questions this workbook could answer’ is where users could ask questions and calculate how to answer them. Some examples were entered.

### SUMMARY*

<table>
<thead>
<tr>
<th>Function</th>
<th>Income</th>
<th>Expense</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Production</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Distribution</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Performance</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Publishing</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
</tbody>
</table>

### Questions this workbook could answer

<table>
<thead>
<tr>
<th>Question</th>
<th>Input sheet cells to change</th>
</tr>
</thead>
<tbody>
<tr>
<td>What if CD sales were between x and x?</td>
<td>H7</td>
</tr>
<tr>
<td>What if petrol prices increased?</td>
<td>B7</td>
</tr>
<tr>
<td>How many units will I need to sell to break even?</td>
<td>E34-E39</td>
</tr>
<tr>
<td>If we tour can we make x% return?</td>
<td>column b + n51&amp;52</td>
</tr>
<tr>
<td>What is the optimal target level of profit and expenses?</td>
<td>summary sheet*</td>
</tr>
<tr>
<td>How many CDs need to be sold for us to break even</td>
<td>E34+E35 and summary sheet</td>
</tr>
<tr>
<td>What if we released music digitally only?</td>
<td>E34+E39</td>
</tr>
</tbody>
</table>

* (do not change the data in this section of the sheet - it feeds from the input page)

Note: Please be aware that this sheet provides an overview of costs and income. So you may choose to amend other cells to impact on the questions above. In addition other variables do need consideration, such as taxes and government grants, fees from online service providers, non-financial considerations etc. These you could add in to this workbook.

The pages below in the model provided a summary of each segment of the value chain. Data in these sheets were auto calculated (using macros) based upon data entered in the input sheet. This would automatically give the user a ‘dashboard’ of their operations:
## Performance Summary

<table>
<thead>
<tr>
<th>Cost</th>
<th>$</th>
<th>Note</th>
<th>Income</th>
<th>$</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tour promotion:</td>
<td>$0</td>
<td></td>
<td>Performance lump payments</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Rehearsal space rental:</td>
<td>$0</td>
<td></td>
<td>Performance ticket sales (number sold)</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td>$0</td>
<td></td>
<td>Income received from portion of ticket price ($ per ticket)</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Crew</td>
<td>$0</td>
<td></td>
<td>Payments received from media entities - tv</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Stage and construction</td>
<td>$0</td>
<td></td>
<td>Payments received from media entities - internet</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Equipment cost</td>
<td>$0</td>
<td></td>
<td>Payments received from media entities - radio</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Venue hire</td>
<td>$0</td>
<td></td>
<td>Tour Sponsorship</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Band Living expenses</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recording of Performance</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td>Total Income</td>
</tr>
<tr>
<td>Tour Agent and Booker fee</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manager’s fee</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal fee</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Production Summary

<table>
<thead>
<tr>
<th>Cost</th>
<th>$</th>
<th>Note</th>
<th>Income</th>
<th>$</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager fees:</td>
<td>$0</td>
<td></td>
<td>CD sales (units)</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Legal fees:</td>
<td>$0</td>
<td></td>
<td>Element of CD unit sale that is returned to Musicians (unit cost per CD)</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Producer fees</td>
<td>$0</td>
<td></td>
<td>DVD sales (units)</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Technicians</td>
<td>$0</td>
<td></td>
<td>Element of DVD unit sale that is returned to Musicians (unit cost per CD)</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Studio fee:</td>
<td>$0</td>
<td></td>
<td>Total return from online sales of film - iTunes etc</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Cartage and Transportation:</td>
<td>0</td>
<td></td>
<td>Total return from online sales of music - iTunes etc</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Mastering</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td>Total Income</td>
</tr>
<tr>
<td>New instruments:</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other equipment purchase (for example software, hardware)</td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Artwork (for example CD packaging)</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### PROMOTION SUMMARY

<table>
<thead>
<tr>
<th>Cost</th>
<th>$</th>
<th>Note</th>
<th>Income</th>
<th>$</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Video/DVD production (manufacture &amp;</td>
<td>0</td>
<td></td>
<td>Video/DVD sales ($ per annum received by</td>
<td></td>
<td></td>
</tr>
<tr>
<td>distribution)</td>
<td></td>
<td></td>
<td>Musicians)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Posters</td>
<td>0</td>
<td></td>
<td>Performance Merchandise sales</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Album Artwork</td>
<td>0</td>
<td></td>
<td>Website Merchandise sales</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Promotional still photo production (for</td>
<td>0</td>
<td></td>
<td>Retail Merchandise sales</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>various purposes)</td>
<td></td>
<td></td>
<td>Merchandise sales via other outlets</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Tshirts</td>
<td>0</td>
<td></td>
<td>Blog subscriptions</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Advertisements</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other merchandise</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mailouts</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Website (construction, maintenance)</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchandising manager’s fee</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manager’s fee</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal fees</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Relations</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Net Promotion Income ($ per annum)**: $0

### PUBLISHING SUMMARY

<table>
<thead>
<tr>
<th>Cost</th>
<th>$</th>
<th>Note</th>
<th>Income</th>
<th>$</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publisher fee</td>
<td>0</td>
<td></td>
<td>Performance royalties - digital</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Business registration</td>
<td>0</td>
<td></td>
<td>Performance royalties - television</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Manager’s fee</td>
<td>0</td>
<td></td>
<td>Performance royalties - radio</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Lawyer’s fee</td>
<td>0</td>
<td></td>
<td>Performance royalties - other</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>0</td>
<td></td>
<td><strong>Gross publishing income</strong></td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

### DISTRIBUTION SUMMARY

<table>
<thead>
<tr>
<th>Cost</th>
<th>$</th>
<th>Note</th>
<th>Income</th>
<th>$</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing, packaging and distribution:</td>
<td>0</td>
<td></td>
<td></td>
<td>0</td>
<td>n/a</td>
</tr>
<tr>
<td>Edistribution</td>
<td>0</td>
<td></td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Manager’s fee</td>
<td>0</td>
<td></td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Legal fees</td>
<td>0</td>
<td></td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0</td>
<td></td>
<td></td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

**Questionnaire**

The questionnaire was administered electronically, using Survey Monkey, an easy to use internet based survey tool. It can be accessed anytime from any country via the internet, and was only available in English language. It included open-ended questions requiring commentary responses and multiple choice questions that could be quantified and ranked. A copy of the questions is provided in the Appendix.
General themes of the questionnaire included:

1. Did it work? Were there any technical issues that may confound the results (for example macro errors);
2. The degree of difficulty in using the model;
3. Perceptions of the model (did they understand it?); and
4. Feedback on their ‘mindset’ during the process (interest levels in the activity).

How do musicians feel about systematic decision-making?

This questionnaire aimed to gain insight of the ability and inclination of musicians in undertaking management activities. For example they may be capable of these functions but not interested in doing them. The questionnaire is provided in the Appendix and a copy of the model has been supplied with this thesis.

**Participant recruitment**

A process of self selection was used to recruit participants, for there was no financial incentive to participate, the only incentive offered was the opportunity to glean new insights into music entity management. An invitation to musicians to participate in this study was made via a plain language advertorial advertisement at the end of an article that included details of this study. It sought musicians who could use Microsoft excel and had internet access. The study was promoted via:

1. Australian radio and newspaper interviews, including The Age (EG section), MX, The Australian, Red Symons Breakfast show on ABC Radio, and regional papers;
2. Release of an advertorial on ‘Pho’ a global industry email list group; and
3. A bulletin to over seven hundred and fifty people on Myspace, a global online social networking tool. In addition, direct messages were sent individually to over four hundred musicians worldwide.

An ‘Invitation to participate’ letter was sent to all prospective participants who responded via email. The model was distributed to participants via email blind copied group list, or downloaded off the website. Several days later the questionnaire was disseminated via email to participants. Participants could either email the response via word document or answer the questionnaire online at Survey Monkey (a website for conducting surveys and questionnaires).
There was a high dropout rate in the first round (described in the next paragraph) so to address this, a website was created that included the project information statement, model and questionnaire, and participants could undertake the study at any time and a pace that suited them. There was then a second round call for participants, directing all participants to the website. This included another two Myspace bulletins, sent in twelve hour intervals to catch various time zones. A presentation was made to seventy students undertaking the Griffith University Bachelor of Music (Popular Culture) course to invite them to participate. The advertorial was released on two Australian online chatboards in which musicians and music managers participate: ‘Faster Louder’ and Mess and Noise; and again on ‘Pho’.

**Participants**

There was a small response rate to the invitation to participate and then a high dropout rate through the process. In the study only one potential participant was rejected. He was an industry participant, not a musician (although he played an instrument recreationally), who wanted to participate in the ‘Musical map’ study on the basis that he be given access to the full results. Thirty eight participants received the model. Useable data was only available from thirteen respondents and commentary from another three participants.

The dropout rate may have been due to a decline in interest as the study took place over a two week time period. To address this, as previously mentioned a website was created for the study and the process was repeated. This may exclude the time lag as a reason for the disinterest. Initially it was requested that data and questionnaires be returned to the Investigator. However to encourage more responses it was modified so that only the questionnaires were required. The scope of the second round was expanded to include artist managers and a separate, yet similar questionnaire was created for them. Its theme was to explore whether they already undertake similar decision-making processes.
Results
The response from such a widespread campaign to attract participants was disappointing. One response was that it looked "boring," and another musician said he would only do it if paid (perhaps a positive indication of his entrepreneurial ability!). An industry observer and former musician with over twenty years experience commented that he doubted musicians would be interested.

Of those that did respond:
1. Eighty nine per cent of participants were Australian, and eleven per cent from the UK;
2. They operated in the new age and pop genres. Unfortunately no participants were from the electronica genre;
3. Fifty per cent rarely perform live, twenty five per cent perform every month, and twenty five per cent every six months;
4. Fifty per cent had been active in the music sector for up to five years and the other fifty per cent had over twenty one years experience; and
5. Participant ages ranged evenly from eighteen to over forty one years. Their current bands had been in operation for either up to five years (fifty per cent) or six to ten years (fifty per cent).

The findings included:
1. 87.5 per cent had used excel before, with roughly two thirds using it weekly, and no respondents had technical difficulties with the model;
2. All respondents said it applied to their music activities, with seventy five per cent finding the output meaningful, and all believed that the output appeared correct and were confident they had enough data to make it meaningful;
3. Fifty per cent felt aspects of their operations were missing from the model, and made suggestions for additional fields. Twenty five per cent found some categories unnecessary, such as ringtone sales;
4. Seventy five per cent of respondents responded that the model did not make them think of alternate processes in their operations; and
5. All respondents found the activity worthwhile.

Comments made by participants will be discussed in the next chapter.
Further exploration

The study highlighted areas for further exploration, including whether the high drop out rate been attributable to disinterest or boredom in such tasks, or was the task too complex with not enough incentive? One participant who did not submit the questionnaire but received the model responded that he would like to be removed from the study. He wrote “no reason why, I just don’t want to do it.” One hypothesis that it was due to the time lag in the first round between receiving the model and the questionnaire was disproved because there was a similar drop out rate in the second round. A second hypothesis is that, once they had received the model, there was no additional benefit to them in doing the survey so they did not respond. A third hypothesis is that the excel workbook was too boring or overwhelming, and so they ceased participating. A final hypothesis is that an incentive (prize such as an iPod) would have motivated participants to finish the study. Secondly, most critically, none of the musician respondents used the model as a decision tool, or for strategic thinking. They saw it as a financial spreadsheet, and responded that filling it in was a process similar to doing financial accounts. Further exploration is needed to ascertain whether this is due to a failure in the study process or whether it highlights a low inclination to think strategically. That is, it may indicate that musicians do prefer to use managers.

If musicians in general are disinterested in such tasks it confirms the continuing need for external management. If, however, they are interested in the skills required to think strategically how likely is it that they can develop them? If they are capable (and the participants who submitted completed questionnaires appeared to be), then it follows that an optimum way to teach them needs to be explored.
6: MUSIC VALUE CHAINS

Introduction
Musician Courtney Love claimed the financial reward structure in the music sector is heavily weighted towards the labels at the expense of musicians (Love 2000). She provided a financial breakdown example for a band of musicians that achieves a ‘superstar sign-on’ to a label with a twenty per cent of RRP royalty agreement and $1 million advance. Such a deal would be rare in practice because most royalty rates are generally between seven to fifteen per cent (Simpson 2006; Vogel 2007; Krasilovsky & Shemel 2007; Thall 2002), so the financial details provided below have been amended slightly to remove perceived bias. In the example provided by Love, the costs of producing a full-length compact disc (or unit) for the band were provided as:

Table 17: Indicative music production costs

<table>
<thead>
<tr>
<th>Cost</th>
<th>US$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recording costs</td>
<td>500</td>
</tr>
<tr>
<td>Band manager (20% commission)</td>
<td>100</td>
</tr>
<tr>
<td>Lawyer</td>
<td>25</td>
</tr>
<tr>
<td>Business manager (accountancy etc.)</td>
<td>25</td>
</tr>
<tr>
<td>Tax</td>
<td>170</td>
</tr>
<tr>
<td>For the musicians</td>
<td>180</td>
</tr>
<tr>
<td><strong>Total Recording costs</strong></td>
<td><strong>1,000</strong></td>
</tr>
</tbody>
</table>

Based on Love 2000: para’s.: 4-23.

If the band has four members, that equates to $45,000 each for living expenses out of a $1 million advance. For promotion the band will need to release two singles and two videos. Love provided the costs to the band as per the table below.
**Table 18: Indicative promotion costs**

<table>
<thead>
<tr>
<th>Cost</th>
<th>US$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Video production*</td>
<td>500</td>
</tr>
<tr>
<td>Tour support costs (band pays 100%)</td>
<td>200</td>
</tr>
<tr>
<td>Independent radio promotion** (band pays entire cost)</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total promotion costs</strong></td>
<td><strong>1,000</strong></td>
</tr>
</tbody>
</table>

Based on Love 2000: para’s.: 4-23.

*Total cost of video production is $1 million and is split between band and label

**Use of independent promoters so the labels cannot be accused of payola. This is discussed in more detail in the promotion section of the value chain chapter.

Although the initial signing and $1 million advance (repayable) looked very positive, the band now owed the label $2 million. If all of the million records are sold at full price (excluding retailer mark-up and with no discounts or record clubs) the band earns $2 million in royalties, since their twenty per cent royalty works out to $2 a record. Hence the band made no profit. The label however grossed $11 million, in part due to keeping the costs of production in-house. The label profits at just over US$7 million. In terms of label costs, Love provided them as per the table below.

**Table 19: Indicative label costs**

<table>
<thead>
<tr>
<th>Cost</th>
<th>US$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>CD manufacture</td>
<td>500</td>
</tr>
<tr>
<td>Video production**</td>
<td>500</td>
</tr>
<tr>
<td>Publishing royalty payments</td>
<td>750</td>
</tr>
<tr>
<td>Marketing (retail, for example posters)</td>
<td>2,200</td>
</tr>
<tr>
<td><strong>Total costs to label</strong></td>
<td><strong>3,950</strong></td>
</tr>
</tbody>
</table>

Based on Love 2000: para’s.: 4-23.

Below is a further breakdown of label costs between fixed, variable and discretionary:
Table 20: Fixed versus variable costs in a major label

<table>
<thead>
<tr>
<th>Cost</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable (Royalties)</td>
<td>40</td>
</tr>
<tr>
<td>Variable (Product distribution)</td>
<td>15</td>
</tr>
<tr>
<td>Discretionary (A&amp;R, Marketing)</td>
<td>25</td>
</tr>
<tr>
<td>Fixed (G&amp;A, Overhead, Other)</td>
<td>20</td>
</tr>
</tbody>
</table>

Based on: Rizzo 2007, company filings and reports.

Roughly eighty per cent of a major music labels costs are discretionary and variable. The highly variable way in which labels incur costs, “hefty markups” (Vogel 2007: 262) and complicated account keeping on behalf of musicians has sometimes led to disputes between labels and musicians. Bryce Edge, co-manager of ‘Radiohead’, said one of the reasons why the band chose to leave major label EMI to an independent label (XL) was because the contract XL offered was simple and reasonable:

It’s very, very straightforward ... we incurred costs making the record. They incurred costs manufacturing the CD and promoting it. We mutually agreed on budgets, and when we sell CDs, we divide the profits. But if I was doing that with a major label, I would immediately be suspicious that they were hiding the money (Sawyer 2008: para. 30).

With this example in mind, changes in the music system may highlight how Courtney Love (and others) might improve her situation. A system describes a “group of interacting, interrelated or interdependent components that form a complex and unified whole” (Anderson & Johnson 1997: 2). Systems work within larger systems, that is, the music system operates within a larger economic system (see figure eight below). Larger system impacts can include: technologies; socio-demographic and cultural shifts; regulatory and economic changes; and the rise of competing entertainment options and competitors.

Current changes in the larger system may enable musicians to operate autonomously outside of the dominant music system. It could be suggested that the traditional music system is not the optimal framework for most musicians to operate within, given the
emergence of new opportunities. Emerging market opportunities influence, and may change, the nature of the music sector. This chapter explores how by identifying each element in the music value chain, and then interpreting how each element may change as a result of emerging opportunities in the music sector. The current music system involves the processes of: production, publishing, distribution, performance, and promotion. Changes within the current environment may or may not have the potential to remove or change elements of this system. This may present opportunities for musicians.

Firstly the music value chain needs to established and then placed in the wider context of the larger system. Some studies use a music value chain from the perspective of a major label (for example Burgelman, Christensen & Wheelwright 2004; Meisel and Sullivan 2002) however this study shall place musicians at the centre of the value chain, and view the value proposition from their perspective, with secondary emphasis on a consumer perspective. The figure below provides an overview of the activities involved in the music system. Musicians are influenced and impacted by external factors that are generally beyond their control (however as described in chapter three, music labels via industry bodies may lobby regulators). These factors should be monitored and/or anticipated and musicians may change their operations if appropriate. The factors include regulatory, economic, societal and technological changes. Appropriate reactions may include allocating resources (effort, time, finance) to new activities at the right time (when the market is ready).

The music sector is impacted by other sectors such as: retailing; telecommunications and ISPs; broadcasters (TV, radio, internet); computer game developers and producers; animation; hardware manufacturers; advertisers; and content services (such as social networks and communities of user generated content). Musicians may also choose to use external assistance and support systems through all activities of the value chain, and they have some control over this. For instance musicians may choose to use external accountants and legal advice and have some choice in how these are used. Suppliers in this context includes, for example, equipment manufacturers, venues and other related entities that musicians have some control over.
For the purpose of this study the value chain of the music system comprises production, distribution, publishing, performance and promotion. This is the middle tier in the figure above. These elements were identified from a review of literature as generally being the principal activities in the music system in terms of time and financial resources. This chapter describes traditional practices in each segment (product, distribution, promotion, performance and publishing), and then explores emerging alternatives. Some music companies focus on particular elements of the music system, for example music publishers, promoters, tour operators, distributors and producers. Activities within the music value chain are detailed in the figure below.
Most financial analysts (such as in investment banks) investigating the music sector simply assess the value chain within product manufacture and distribution, because investment research focuses on listed companies (for example, the major labels, major retailers) involved in the sector as opposed to musicians. The bulk of major label music revenues traditionally come from product manufacture and sales. However musicians earn a significant proportion of income from touring, so performance was included as a key link of the value chain.
Music production has traditionally involved activities of composing, recording, mastering and manufacturing. Some elements of product packaging (art and sleeve work) will be discussed in the promotions segment. The product medium (CD, vinyl, MP3) influences the manufacturing costs, but this study will focus on the manufacturing of a CD because it is the prominent traditional product (in terms of sales), and use digital music as the emerging product.

To record a full play popular music album using a professional studio with a major label can range from US$80,000 to US$150,000 for new musicians, to US$500,000 for established musicians (Krasilovsky & Shemel 2007: 22). Krasilovsky and Shemel claim production costs depend on the music, format and content. The funds available may also influence recording costs. For example, established musicians will generally spend more than new musicians often because they have established sales so the label is more willing to risk increased investment. Similarly orchestras will cost more than single artists, and greatest hits compilations cost very little. Passman (2000) provides a detailed financial breakdown of the ‘advances and recoupment’ system of recording, emphasising the complexity of the chain of middle operators through which funds flow. The production of music for a retail $20 compact disc costs about $2 or between ten to 12.5 per cent, comprising $1 (6%) for manufacturing (pressing to disc) (Vogel 2007; May & Singer 2001), plus about $1 for creating, recording and producing. However
some production costs are recouped from royalties which comprise $1.50-$3 per unit (or nine to nineteen per cent). That is, production staff may be paid an upfront lump sum but also receive a share of sale royalties. This complicates a basic breakdown of this type because some royalties are in reality manufacturing costs.

Recording and manufacturing CDs has traditionally been a capital-intensive process. Major labels usually advance funds to musicians for the costs of music production. Advances are loans (Vogel 2007), usually repayable in full from music royalties before the musician receives any proceeds from sales of the completed product. The labels generally encourage musicians to use the recording studios and staff of the label (or affiliated with the label). Krasilovsky and Shemel (2007) claim most musicians sign to a label for three or more recordings. The label tends to set the recording budget. A generic calculation of advances is that they total two thirds of the average royalties from prior recordings. If a musician doesn’t sell well, until for example the third album, then the musician doesn’t receive any royalties from the third album until the balance of the first two is paid off. Generally, major musicians have to sell five hundred thousand CDs before they see any return (Downhill Battle 2004) or profit. At that rate it is common for musicians to never fully repay advances, a situation Vogel describes as an “often fruitless and futile recoupment situation” (2007: 251). An important note is that these contracts may contain exclusivity clauses that prevent musicians from performing outside of the signed label (for example recording with musicians on other labels). So if musicians do not sell well, they cannot repay their debt to the label and cannot sign to another label. This is despite the label benefiting from their music via ancillary activities such as charging them for use of the label owned studios and staff. Musician David Byrne (2008b: para. 22) argued:

the typical pop star often lives in debt to their record company and a host of other entities, and if they hit a dry spell they can go broke. Michael Jackson, MC Hammer, TLC — the danger of debt and overextension is an old story.

Steve Jobs believes a key problem for artists (and the recording business) is advances, and the way to minimise the problem is to cut advances, that is, cut the cost of recording and production of music (Goodell 2003: 4).
Now to look at the elements of production – composition, recording and mastering, and manufacturing - in terms of traditional practices by major labels.

Composing costs include:
1. Musician time;
2. Rehearsal space; and
3. Music equipment hire or purchase;
and may also include:
4. Royalty payments from sound libraries (for sound loops or copyrighted sound bites);
5. Hire of composers and or tuition; and
6. Recording tools (for example, basic recording equipment or simply pen and paper and copyists who transcribe the composition).

Rehearsal space is generally the largest cost and this depends upon the site (location, size and soundproofing). Some bands choose to compose or refine their compositions in the studio, which can be very costly. Another key composition cost that is often overlooked is musician time. Usually this isn’t included in budgets but there is an opportunity cost because the musician could be otherwise in paid employment during rehearsal or composition time. Advances tend to provide for living expenses so that the musicians can focus on their music.

Lebrecht (1997: 434) cites a comprehensive earnings survey that showed music composers on average obtained less than ten per cent of their income from composition. The bulk of their income came from teaching, copying, performing and non-music activities. He claims that no more than two or three composers in any publishers list can earn a living from composition.

Recording
Professional studio use is generally the largest cost in music production. Example details for studio pricing and equipment are provided as an Appendix. Studios and rehearsal spaces need to be booked in advance, and often have rigid time schedules due to cost pressures. An indicative rate for hire of a studio is advertised as AU$850 per day. An indication of cost to hire an engineer (to use the studio sound recording
equipment) is $1000 per day (March 2004). A professional studio often has three management staff and four sound engineers. Because the musician must recoup all recording costs before they receive any payments, the onus is on the musician to record as quickly and cheaply as possible. However the creative element can influence the time it takes, with musicians or producers seeking perfection, requiring excessive retakes, the latest most expensive production equipment, multiple recording sites, additional staff (musicians, production staff) and other variables.

An example of recording excess described by Dannen (1991) is ‘Boston’, a 1980's band that was led by musician Tom Scholz. Recording of their second album went over budget and overtime. It is claimed this was due to Scholz’s quest for sonic perfection, for example he rerecorded a drum track seven hundred times before he was satisfied (ibid.). When Boston’s third album was two years late and over budget, the label (CBS/Epic) ceased royalty payments to the band (which they had been receiving from their highly successful first album). This resulted in a letter to the label from Scholz who claimed:

 Apparently some people at Epic feel I should be punished for my refusal to sacrifice quality and deliver a record that’s compromised by haste. In fact, I will never foist a second-rate record on the public to fill CBS’s pockets or my own, (ibid: 137).

Because CBS withheld royalties the band ran out of funds but kept working on the album (after hours from their new day jobs) and by 1985 it was nearing completion. The third album was released on MCA (another label) in 1986, four years late, and eight years after the second album (Dannen 1991). It sold four million copies and most probably never recouped outlaid funds, or the seven hundred retakes of the drum track.

Production staff
The producer role varies according to the experience and needs of the music entity, and defining the role at the outset of a project is often a matter for sensitive negotiation. Some musicians want the producer involved with all of the musical decisions associated with a song or album, whereas others, possibly more experienced musicians
need less production input, and consequently minimise their production costs. Steve Steckler, an American audio producer, says producing is looking at the big picture, a holistic task of examining and overseeing all of the musical elements in a project (Digman 2004). The UK Music Managers Forum (2003: 165) describes the role of a producer more dramatically: “the artist may think he is the best person to describe how to approach a particular recording but in many ways the artist may be too close to his art to do this.” The forum believes there is “great antipathy” towards the idea of artists producing themselves because this too often leads to “over-indulgence,” concluding the producer is a go-between “scapegoat” (ibid.). Passman (2000: 132) describes the role of a producer as being:

responsible for overseeing and bringing the creative product into tangible form (a recording), which means (a) being responsible for maximising the creative process (finding and selecting songs, deciding on arrangements, getting the right vocal sound etc.), and (b) taking care of all the administration, such as booking studios, hiring musicians, staying within a budget, filing union reports, etc.

The mechanical aspects of administration – contacting and co-ordinating musicians, arrangers and engineers, filing paperwork, etc. – are often delegated to a production coordinator (Krasilovsky & Shemel 2007; Digman 2004). A producer may be needed to make sense of the overwhelming technologies and tools in the studio, in conjunction with the engineer. The management of these functions keeps the recording within budget, and that is a key role of the producer.

Producers may come with the studio or be independent. A label may permanently employ a producer and use in-house and allied facilities and staff, thus keeping revenues within the label. Producers are usually paid a fixed compensation (hourly rate or package rate up front) and a percentage of sale royalties (usually three per cent but can range from one to five per cent) (Krasilovsky & Shemel 2007: 35). Musicians pay for this cost, usually via the advance that is repayable from royalties.

Mastering involves sound engineers who provide a fresh ‘set of ears’ and who edit and mix the layers of recorded material into a cohesive song. The role of mastering in
traditional music production cannot be underestimated, for example Britney Spears may sing only one take (sings once only for recording) and then tells the producer to “make it up in the mix” (Daniel 2005), requiring engineers to edit it into a quality vocal. Mastering requires technical skills including the use of complex mixing and audio software and hardware.

The abilities of production staff can be critical in the recording of an album, and hiring them is a critical decision. It is sometimes complicated when the label a band is signed to puts forward label aligned recording staff or sets a recording budget that can’t accommodate their goals. Producers and engineers who can communicate with and understand the audio aims of musicians are important. They can make a band achieve the exact sound they aim for by manipulating recording studio tools (for example echoes and overdubs). Some producers have an identifiable audio style and are sought for it, for example the ‘wall of sound’ style of Phil Spector, the work of Tony Cohen or Rick Rubin, and their approaches are unique and difficult to copy. Therefore some recording professionals are in high demand, expensive and difficult to book. Sometimes recording professionals will work without upfront fees for lesser-known bands whose music they enjoy and take a percent of royalties as payment. In the foreseeable future it appears unlikely that technology will be able to supplant producers and mastering professionals with unique ‘branded’ styles. However, there are emerging solutions for specialist musicians who cannot afford or cannot catch the attention of the scarce and busy talented recording professionals. These will be discussed later.

Manufacturing
A key element of the traditional music sector model is that it is based around a structured and static music format: the CD. The manufacturing of vinyl records and subsequent CDs necessitated extensive physical infrastructure. Pressing plants for manufacturing CDs are low margin operations and sometimes viewed as costs centres by major labels (Burgelman, Christensen & Wheelwright 2004). They require economies of scale to operate efficiently, and this has frequently been a driver behind mergers or closures in the last few decades (Meisel & Sullivan 2002). For example in 1979 Warner attempted a merger with Polygram primarily to negotiate a licensing agreement for Polygram to manufacture Warner CDs (Dannen 2001: 252). CD
manufacturing is heavily polluting and margins may decline further when environmental emissions control legislation is enacted.

The need for physical infrastructure also facilitated (in conjunction with radio) the mass market because manufacturing factories operating at full capacity needed to produce each title in volume. The major label must forecast sales and estimate the number of discs per title to be made. If the estimates exceed actual sales then the discs are remaindered (sold at a discount) or worse still returned, written off (removed from inventory lists) and destroyed. If sales are underestimated then a more difficult decision needs to be made about reprint volumes (and subsequent financial risk of overestimation and remaindering).

Other costs
Given the complexity in traditional music production, many musicians feel compelled to hire accountants and lawyers to:
1. Oversee recording budgets and contracts;
2. Copying of scores for hired musicians;
3. Manage agreements with hired staff (for example, producers); and
4. Allocate music production costs, living expenses and allowances and tax (including recoupable items).
Some musicians may form a production company solely for the production of their music and this may also require legal and/or accounting advice.

Musicians may choose to simply sign entirely over to the label and allow its employees to make all such decisions regarding their careers. The complexities involved may be more efficiently handled by large labels that are able to diversify their risks over many specialist activities with economies of scale (Vogel 2007). However, the label may cross subsidise its operations and may ‘over-service’ the music entity. For example the label may choose to record in a subsidiary studio that is more expensive than a non-subsidiary studio of same standard. There is little incentive for a label to minimise costs for musicians when such costs are ultimately revenues for another part of the label. Vogel also notes “recording contracts are unusually complex and reflect artefacts of previous technologies that are of diminishing importance or that have already become totally irrelevant” (2007: 251). For example, many recording contracts may
not include royalty revenues from subscription services or use in computer games. In such instances, the label may continue to take a percentage of revenues to cover ‘packaging fees’, which formerly were used to cover the cost of physical packaging of CDs and cassettes, and secondly may withhold a percentage amount for ‘unsold inventory’, neither of which are relevant to digital music.

Production: emerging systems
Technology developments such as digital production software now enable streamlined, real time composing, especially if combined with recording. The quality, availability, cost and ease of use of recording software is improving. This allows musicians to potentially reconstruct how they compose, produce and make music. Digital recording techniques were initially generally restricted to innovators, especially in the electronica music genre (musicians such as Brian Eno etc.) however now musicians across genres are using them. Basically it involves digitising sounds and data into codes (zeroes and ones).

The quality of production studios are still sonically superior, but home based digital technologies may create a different sound. Various musicologists and industry observers reminds us that it’s the ideas, not the tools that should be the focus in music production (Batcho 2003; Hodges & Haack 1996; Hanson, Hutton & Swenson 2003). For example a consumer may purchase a 1940s Duke Ellington mono recording with poor scratchy audio but the music still generates the emotive response that is fundamental to quality music. As Hanson, Hutton & Swenson (2003: 8) claim:

‘music is ultimately about the performance of a person or group. It’s a vibe, it’s an emotion, ... we as engineers, producers and musicians get so involved in the technology and the process of music production that we lose sight of what’s important.

They claim it’s more important to maximise the utility of the technology you already own. A band manager claims that audio quality, in some markets is becoming less of a priority: “Hi-fi is not the top priority for these kids. They’re used to listening to music on phones and through tiny earbuds” (Jaworski & Richards 2008b: 9).
This thesis will not focus on specific technologies as they are rapidly changing. However as an example, Apple releases free recording software with all Macintosh personal computers (Garageband), which according to the sales literature allows “many of the core features of costlier music production software in an interface easy enough for rank amateurs to handle … with Garageband you can sit alone and create music that sounds like an orchestra played it. Or you can finally make that CD with your jamming buddies, even if no record firm will return your calls” (Mossberg 2004: para. 3, 5). Referring to the earlier Boston example, had they been self-recording, Scholz may have recorded those seven hundred drum retakes without any financial pressure. Adam King, of the Brisbane independent band Turnpike describes how the recording software has improved over time:

I can remember listening to the Demo Show on Triple Zed eight years ago and everything that came out locally was shit, almost unlistenable … Now I can’t tell the difference between the latest Geffen release [US major] and the latest Dollarbar release [Brisbane band] (Rogers et al. 2004: 31).

Digital production costs are generally smaller because a traditional studio need not be hired, recording can occur wherever there is a soundproof area.

Right now is an amazing time… You can sit in your house and you can make a record. You don’t need [major label CEO] Clive Davis to come along and give you a quarter of a million dollars. You can do it with a credit card and a Pro Tools system (Jaworski & Richards 2008b: 11).

An illustration of how digital recording enhances production is looping and mashups. Historically electronica musicians linked sound samples to form the basic structure of a song. This was a cumbersome process and generated a poor quality ‘artificial’ sound. However it is now much easier, faster, accurate and flexible. A producer explains loops “introduce a certain ambience to a track, creating a mental picture of where you want to take the listener, … it helps set the mood,” by providing either a rhythmic base or harmony (Hawkins 2004: 32). Hawkins cites a prominent popular music songwriter, Joe Solo, who claims a loop forms the starting point of production, whether or not it ends up in the final mix (ibid.). Musicians are now sampling loops from obscure old
recordings, vocals and instruments. A solo guitar performer in a pub may use real-time looping during a live performance, that is, they play a few bars of guitar and record it onstage, then while continuing to play would stop the recording and start it looping, and play over the top of it. Mashups involve cutting excerpts of sounds from recordings and then mixing them with other pre-recorded sounds to create (mix or mashup) new pieces of music. This ability fundamentally changes the process of production – composing, recording and manufacturing may occur simultaneously and at little cost. It forms a new piece of music, based upon former pieces. This sometimes creates copyright issues, depending upon the extent of reuse.

Digital production software may, to some extent, substitute for a physical professional studio, which removes the largest production cost. Working from a home or a similar base, musicians can take as long as they like without financial penalty (and some tax benefit), unlike studios. They still need instruments (which they would already own, or access to sound libraries), digital equipment and internet access. Most digital recording software is simple enough to use and with some training, the musician may perform tasks previously handled by mixing, engineering, arranging and production staff. Doing so, the composition may be more immediate to the musician, there are no third parties adding in their interpretation of the composition via recording choices (mix, volume, pitch, microphone placement etc.). A caveat is that the self-recording musician needs to be technically competent enough to use the digital recording tools to achieve the desired sound, which production staff may do more easily and quickly. A second caveat is that often the ‘professional ears’ of production staff will enhance a recording. However, musicians can do home recording at a time that suits them, rather than when a studio and staff are available.

Music production using a laptop also becomes liberating (Krogh and Anderton 2004), allowing the possibility to record, edit, master and mix anywhere and at anytime. As mentioned, this potentially changes the nature of music in that it captures the real time aspect of it. A prominent composer, Phil Garrod (Weiss 2004: 135) said “to create a good piece of music, there has to be some kind of real-time element to keep the spark going, … having all instruments within arm’s reach really helps.” Musicians may record their ideas before they escape. Hanson, Hutton & Swenson (2004: 8) claim:
if you agonise over one track, the other ideas bubbling up in your brain never even get a chance – that first idea is bottlenecked at the door. The early part of the song writing phase should be the most freethinking, the least technical ... you can feasibly come up with a whole song in less than an hour, and it'll be almost like a blackout: you can’t recall how it came to fruition. But it’s often how you come up with the best ideas.

This clearly is a more suitable production process than booking studio time, as the traditional structured studio process necessitates preparation and co-ordination. Digital mobile recording processes create challenges when the musicians have to recreate the composition for live performance, but Hanson, Hutton & Swenson (2004) claim musicians can piece them together. Taking this concept further, the demo may in the future become a new music format because the bulk of music may be released in demo format, fluid and constantly evolving. It may be co-created between musicians and their fans over time, and a finite completed product released at the end of the co-creation conversation.

Examples of bands using a crowdsourcing co-creation approach to music include ‘Public Enemy’, ‘Radiohead’ and ‘Beck’. ‘Public Enemy’ were one of the first bands to use this approach by asking fans for input to their music compositions. Their release titled ‘Revolverlution’ included four tracks reworked by fans, and the album artwork and sleeve notes were created by fans approached by singer Chuck D. on the Public Enemy website community. Fans could download the vocals, rework them and upload them back to the site for Chuck D. to listen to (Public Enemy 2002). In 2008 the prominent band, ‘Radiohead’, released a new song in layers, consumers could download the bass, guitar, drums etc., and then mix their own versions of a song and upload their results to the ‘Radiohead’ site. Similarly, the prominent artist Beck, who was signed to a major label at the time, released song layers in 2006 for fans to remix and also included an experimental home-made video, saying:

There was something really inspiring about the variety and quality of the music that people gave back. In an ideal world, I’d find a way to let people truly interact with the records I put out – not just remix the songs. ... We filmed a series of very low-budget, homemade videos for all the songs on the record. We
got a bunch of cameras and a $100 video mixer off eBay and shot 15 silly, impromptu videos against a greenscreen. ... It was just a complete free-for-all, done on the fly. We’re putting all the videos together right now with the idea of having a visual version of the record that we’ll put on the Internet. I’m totally curious to see how the videos will add to the experience of listening to the album. Or maybe they’ll actually detract from the experience. That would be funny (Steuer 2007: para.’s 7, 12).

As mentioned, digital music minimises environmental damage (as opposed to CD manufacture) because minimal energy is required to reproduce it, provided consumers do not burn the music onto personal use CDs. Using Garageband, completed songs can be exported to a website (or potentially to Apple’s iTunes or another online music store) and made available worldwide nearly instantly. Fans can link to the music and comment on the content. Because digital production is a simple and fast way to produce music, musicians needn’t sign formal contracts with labels that lock them in for three albums or similar. Instead they can place content on websites as often as they wish, for anyone in the world with access (internet, mobile etc.) to hear.

Musician Beck when discussing his flexible approach to recording commented:

I like the idea that I can quickly record a few acoustic songs that I’ve been working on and immediately put them online for people to download. And then I can record songs with a producer in a big studio for a big label and put them out as a CD, a DVD, and a remix project and let people experience that music in very different ways” (ibid.: para. 16).

Musicians may still seek producers associated with certain audio styles, such Tony Cohen or Phil Spector. At a 2003 Audio Engineering Society Convention the main theme was that the digital audio workstation has fundamentally changed business models that have existed for decades, resulting in a migration from professional recording studios to home and personal studios (Walsh 2003). In a sign of convergence, the United States music instrument retailer Guitar Center became a reseller for Apple products (ibid.). Similarly guitar manufacturer Gibson released a product for linking media with recording applications for the home market. However an audio engineer
claimed “we can also take the non-talent, the beautiful non-singer and give them a career where one could never have existed. This effect of technology on popular music and on a future generation of music makers cannot be ignored” (Walsh 2003: 8). The cultural and financial benefit of technologies that can create careers for beautiful non-singers is a consideration that perhaps the market may decide. That is, if the product isn’t good, no one will pay for it.

Key points

Traditional production
1. Production is expensive and so requires large advance payments to fund it. Advances are a key problem for artists and labels, and the way to minimise the problem is to cut advances, that is, cut the cost of recording and production of music;
2. Production services are usually kept in-house, within divisions or companies affiliated with the major label. Hence the label often lends funds to finance services it charges for;
3. Traditional production costs have formed a high barrier to entry for the sector.
4. Recording in studios is highly structured: booked in advance, for a set duration, and involves co-ordination of staff and resources; and
5. Demand for production staff with unique audio styles and expertise is ongoing; a market of consumers who appreciate the aesthetics of studio quality music production continues.

Emerging production systems
1. A key element of music is ideas, and emotions, as well as aesthetic (audio quality) enjoyment;
2. Software has emerged that facilitates home based recordings for little cost;
3. Digital recording at home enables musicians to record ‘fluidly’, that is, when they are in the mood, as ideas arise, and for as long a duration as they wish; and
4. Digital recording has enabled new genres of music (mashups, co-creation etc.).
Distribution: traditional systems

Music is distributed via various channels, including ‘bricks and mortar’ retailers, at performances, and digital distribution. Digital distribution may fall into three categories: mobile, hardware (PCs) and software. As these categories converge, the delivery of music may ultimately appear seamless across all categories. To illustrate, music on a compact disc may be uploaded into iTunes, and then transferred to a mobile device (phone or iPod). Similarly music may now be downloaded directly from the internet to mobile devices, or personal music collections may be streamed online to phones, or radio may be listened to via computers. Because digital distribution is evolving rapidly this study will not focus on specific technologies or mobile music.

Premkumar (2003) describes possible distribution models for music and the next section describes each model he presents, with a focus on those that may hold the most promise for music distribution. The section also includes P2P as a distribution platform, which his article overlooks. Premkumar (ibid.) summarises distribution strategies in the figure below:
Figure 11: Premkumar distribution strategies overview

Source: Premkumar 2003: 91

and then compares them as per the excerpt below.
Table 21: Music distribution channels

<table>
<thead>
<tr>
<th></th>
<th>Label - Retailer - Customer</th>
<th>Label - Customer</th>
<th>Label - Intermediary - Customer</th>
<th>Musician - Customer</th>
<th>Musician - Intermediary - Customer</th>
<th>Audio-on-Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pro</strong></td>
<td>Physically browse / listen to music before purchase; Easy shopping for non-tech customers; Awareness of new music.</td>
<td>Online convenience; Flexibility - buy songs versus albums; Lower prices.</td>
<td>Convenient, one stop shopping; Online community and information on musicians.</td>
<td>Direct link, lower prices.</td>
<td>Convenience, one stop shopping.</td>
<td>One stop shopping; No ownership - playlist can change; Less costly.</td>
</tr>
<tr>
<td><strong>Con</strong></td>
<td>Inconvenient trip to store; Cannot create own CD at home; Higher price.</td>
<td>Slow download; Lower music quality; Visit multiple sites - no one stop shopping.</td>
<td>Cost - intermediary; Slow download; Lack of information on musicians.</td>
<td>Inconvenient, visit multiple sites;</td>
<td>Good musicians may not participate / Contracts; Extra cost; Slow download.</td>
<td>Quality of connection; Cannot transfer to multiple devices.</td>
</tr>
<tr>
<td></td>
<td>Role in supply chain; Local customisation reduces inventory and returns.</td>
<td>Not cost competitive</td>
<td>Disintermediated</td>
<td>Disintermediated</td>
<td>Disintermediated</td>
<td>Disintermediated</td>
</tr>
<tr>
<td><strong>Pro</strong></td>
<td>More visibility for musicians / albums; Quality recording; Control illegal copying; Reach non-tech audience.</td>
<td>Efficient supply chain; Direct link to customer; No inventory; Less cost, greater margins.</td>
<td>Outsourced digital infrastructure; No inventory; Reduced physical distribution cost.</td>
<td>Compete with other labels in website; Illegal copying; Lower margins due to intermediary; Payment issues / minors.</td>
<td>Efficient supply chain; No illegal copying (streaming only); No inventory; Less cost / greater margin.</td>
<td>Digital distribution infrastructure; Revenue loss due to less ownership; Inability to introduce new musicians / albums.</td>
</tr>
<tr>
<td><strong>Con</strong></td>
<td>Not cost competitive; Obsolete inventory; Commission to retailer.</td>
<td>Illegal copying; Shut-out non-tech customers; Cost / digital infrastructure; Payment issues / minors.</td>
<td></td>
<td>Disintermediated</td>
<td>Disintermediated</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Greater visibility / advertising; No illegal copying.</td>
<td>Possibly more sales and commissions.</td>
<td>Direct link to customer; High margin.</td>
<td>Outsourced digital distribution; Visibility / more visitors.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Con</strong></td>
<td>Music Quality; Illegal copies; Not a good channel for advertising and marketing music.</td>
<td>Music quality; Illegal copying; Lower margin.</td>
<td>Illegal copying; Difficult to reach all potential customers, no advertising; Cost / digital infrastructure.</td>
<td>Competes with other musicians on website; Lower margin; No direct link to customer.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Too many intermediaries.</td>
<td></td>
<td></td>
<td>Loss of sales due to reduced ownership; Musicians cannot reach customers easily.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Premkumar 2003: 92
The key distribution chains as segmented by Premkumar above, will now be discussed in more detail.

Musician to major label to manufacturer to retailer to consumer

Music distribution of CDs is labour and capital intensive. Discs are transported from manufacturing plant to a distribution centre (warehouse) that tends to be owned by the music label. Generally it is most efficient if the distribution centre is near the plant. The inventory is stored and then transported again to retail outlets. The music label then lobbies and/or pays for placement of the CDs in retail stores. Consumers then enter the store, purchase the item, it is wrapped with a receipt and taken away. The consumer then takes it home and may play it on a stereo and/or load it onto their computer. The infrastructure required, such as distribution warehouses and transportation, necessitates economies of scale and this created a barrier to entry, which allowed major distributors to lock in key control channels to major retailers (Burgelman, Christensen & Wheelwright 2004). In effect it dictates the content of the music sector in that the major labels must sell mass volumes of a CD in order to remain viable, therefore their products are aimed at the mainstream.

The traditional distribution channel costs include: warehousing, transportation, petrol, logistics and information systems, retailers, planners (to forecast and coordinate what will sell where), and returns, remaindering and/or destruction of unsold stock. This distribution model can cost roughly eleven to thirteen per cent of the CD price (ibid.). However that percentage omits the cost of the retail infrastructure (staff, rent, inventory etc.), which amounts to roughly thirty five per cent of the CD price. Hence distribution costs comprise at least forty six per cent of a CD price. Premkumar notes about seventy five per cent of the final cost of a CD is a fixed cost, and given the risks of forecasting music sales, any fixed cost should be minimised.

Compared with digital delivery CD distribution via bricks and mortar retailers is slower and carries an additional cost of inventory in stores or warehouses where rent is paid. Secondly, the cost of the removal and destruction of unsold stock is factored in and removed before musicians receive any royalty payments. Because this effectively passes the financial risk of distribution onto the musician, it creates a ‘negative
incentive’, that is, the labels won’t be financially affected from stock returns, the cost is passed on to the musician. This has led to a colloquial phrase that an album may ‘ship gold, return platinum’.

The distribution of physical products via bricks and mortar retailers does have some advantages, being that physical sales create scarcity (if stock sells out) and consumers are prepared to pay for scarce goods, but this benefits second hand markets where musicians (and their labels) receive no royalties. Digital distribution removes the music scarcity, and replaces it with ubiquitous availability, and consequently consumers are less willing to pay as before. Another benefit of this distribution channel is experiential, consumers like to congregate in, and browse their local or specialist music store for social engagement in addition to making a purchase. By providing a social hub for interested fans, physical music retailers represent an outlet for premium or ancillary music products and services, such as in store live performances.

Premkumar (2003: 94) describes an interim strategy for digital distribution that includes retail outlets. In this the major label simply digitally distributes music to kiosks in a retail store, where the consumer can choose the music they want and press it to CD. This strategy saves sixteen per cent of total cost (logistics, manufacturing and inventory). However it is unclear whether Premkumar includes in this the cost of the kiosk infrastructure such as the physical assets and communications connections. It also takes time for the customer not only to press the CD but also to browse. During this time no one else can use it thus ruining any experiential benefit of browsing the kiosks. It is replacing one mass fixed cost of the manufacturing plant with distributed smaller fixed costs. Hence this strategy appears to be simply an interim step towards digital music, a novelty, and the cost of establishment would probably outweigh the financial benefit.

Musician to major label to online intermediary to consumer

As exemplified by Amazon.com, instead of a bricks and mortar retailer the music label uses an online one. This may distribute music by CD format, thus the only change in the supply chain is to replace a bricks and mortar retailer with a virtual one and warehouse distribution centres. Secondly, it includes ecommerce (transaction) costs
such as Paypal. CD's tend to sell for the same retail price via virtual retailers, however because carrying costs are cheaper (distribution centre versus retail) they may carry a wider range of stock. Hence this channel does not cut costs to any great extent, it still requires transport and logistics costs. Another cost is time delay and postage, the consumer must pay postage and wait for the item to be mailed, and items may get lost in the mail.

Digital distribution
Digital music distribution may minimise fixed costs and in theory enable 'limitless' stock. In digital distribution the fixed costs are for technical services, such as website management, internet service provider (ISP), and transaction fees. The quality of communications and technology available to participants (consumers and sellers) is critical, such as bandwidth for downloads, device mobility, size, and audio quality. Otherwise another cost may be frustration (for example, when the website crashes during a purchase).

A criticism of digital music is that it does not contain the details of the recording, usually included in CD liner notes (Bruno 2007). Consumers must seek that information out themselves. This is important for two reasons, firstly as discussed in the production section, recording studio crew can be vitally important to the sound of a recording, and are becoming increasingly under acknowledged in the digital music space. As a solution, band websites may offer album sleeve reproductions that can be read and/or downloaded. In the earlier days of downloads consumers complained that album artwork was unavailable (Bruno 2007) and this has been remedied by making it available as part of the song download, for example via iTunes. To a lesser extent the unavailability of production details prevents searches for music. For example consumers may not search by 'Producer' fields in most online stores, but they could however find such details from music information sites.

Musician to major label to consumer
If the major label were to sell direct to customers, this would create customer confusion because it puts the onus on the customer to research which major label owns which musicians. For example if a consumer wants to buy an ABBA CD they would
search for ABBA not the label they were signed to. The consumer has no idea of which label ABBA was signed to. To search by major label is too complicated and insignificant for the consumer and Premkumar (2003) highlights that customers would need to visit multiple sites. Attempts to date by the major labels to try this approach have failed, for example, Pressplay, a now defunct partnership between Vivendi and Sony. It is questionable whether a digital storefront is a core role of the major labels and it potentially cannibalises and threatens their relationships with physical retailers.

A similar distribution channel is emerging from joint ventures of technology and major labels, thus removing the ‘major label – intermediary’ link in the chain. For example, the musician would be signed to Sony and then the music will become available for purchase via a Sony owned website (or other medium) and played on Sony electronic products. Similarly Apple iTunes uses music, from all major labels, to sell its iPod players. A key factor in the success of this approach is openness to the inclusion of music from other labels, because consumers may be frustrated by limited content availability, and again, do not distinguish musicians by the label they are signed to. If the financial performance of the major labels continues to decline, technology companies and social networking internet sites may become major labels by default.

Byrne (2008a) shows the various types of major label deals (equity, license only, profit share, manufacture and distribute deals) and emphasises how control by musicians is eroded as the label stake increases. As control erodes so does the potential profit returnable to the musician as can be seen in the figure below:

*Figure 12: Six distribution models – with varying degrees of musician control*

Source: Byrne 2008a: figure 2.
It is worth noting here that most major labels rarely sign manufacturing and distribution (M&D) deals primarily because such deals provide them with minor financial rewards. Such deals provide little scope for label and marketing overheads.

**Distribution: emerging systems**

Musician to consumer

Byrne highlights (in Figure eleven above) the benefits of the musician to consumer (self-distribution) approach. The musician retains creative control and a “lot of artists don’t realize how much more money they could make by retaining ownership and licensing directly,” and "if it’s done properly, you get paid quickly, and you get paid again and again. That's a great source of income," (Byrne 2008a: para. 25). The musician to consumer channel is the most cost efficient and direct approach but does pose practical challenges. At its most basic it involves musicians (or their representatives) selling CDs to consumers directly after a show. Niche musicians with small markets frequently will finish a performance and then work on their merchandise stand. Selling directly to consumers is generally a great experience for musicians and consumers because they may interact and the interaction experience increases loyalty and promotion (consumers tell friends about it). It simply involves estimating sales before the show or tour and carrying enough stock (which may be CDs or, for digital music, passwords to an online site for downloads).

A variant on the musician to consumer channel is the musician providing music downloads on their website. An unsigned musician, Emily Arin has a subscription-based website where for a US$12 per annum fee, she provides one new song per month (Mraz 2008). Unsigned musician Jane Siberry has a “pay what you can” policy with her downloadable songs. Her site shows the average price her customers have paid for each track and this “subtly creates a community standard, a generalized awareness of how much people think each track is really worth” (Thompson 2007: para. 16). For some songs the price is more than the price for the same song via iTunes. This channel still requires intermediaries including: ISPs; ecommerce facility (for example Paypal); and/or website developer and online security. However these are comparatively minimal and tend to be either: once off lump payments (website development);
variable costs (ecommerce payments); or subscriptions (internet service). A website can be constructed cheaply and ISP payments may be absorbed with other activities (for example, if the musician already has internet access at home). This approach features minimal incremental costs for usage, so potentially higher margins for musicians. Another benefit of a standalone website is that the musicians are not locked in to intermediary (online retailer), who may change without warning.

In October 2007 the globally prominent band, ‘Radiohead’, released their album ‘In Rainbows’ themselves, as a digital download and each downloader could nominate a payment amount (plus transaction fee). Tentative sales estimated that in the first ten days of release 1.2 million downloads were made, paying on average US$5 to US$8 per download (Haskins 2007). This totals approximately US$6-9.5 million (minus transaction fees) paid directly to the ‘Radiohead’ group, with none to retailers and distributors. ‘Radiohead’ singer Thom Yorke said:

In terms of digital income, we’ve made more money out of this record [‘In Rainbows’] than out of all the other ‘Radiohead’ albums put together, forever — in terms of anything on the Net. And that’s nuts. It’s partly due to the fact that EMI wasn’t giving us any money for digital sales. All the contracts signed in a certain era have none of that stuff (Cohen 2007: para. 2).

However as flagged previously, this example still included intermediaries – the website developer, ISP and transaction fees.

Another example of the musician to consumer approach (covering both production and distribution) is David Bowie’s ‘Bowie bonds’, where fans or investors could invest in future sales of his music. The Bowie bonds were priced using a discounted cash flow approach (on historical sales), with the aim being that they provide Bowie with independence and funding to produce future music (Papagiannidis and Berry 2007) outside of major labels, and release it directly to consumers with profits going to bond holders. It smoothed his income over time and minimised his financial risks, rather than relying upon lumpy unpredictable revenues based upon music release dates. This is a direct model where the support system included managers of the financial instruments as opposed to major labels providing advances. Because Bowie is an
established musician, this is less risky than an emerging artist where such investment would be similar to the provision of venture capital. A similar framework for emerging musicians is ‘Sellaband’, where fans can invest in musician recordings. This will be discussed in more detail later.

The musician to consumer channel does not confine the musician; they may release any type of content without going through intermediary or label channels of approval. It needn’t be a finished product but instead they could make available a demo, film or interview. Major labels may manage releases more formally and slowly. The musician may require improved online security, if not to protect themselves then to protect the privacy of consumers who submit personal details to the musician / business. Most small businesses are able to manage such issues, although musicians may be more prone to abnormal customer behaviours (such as obsessed fans or hackers) than traditional businesses. Despite the potential of this channel, Premkumar (2003) dismisses it because:

1. Emerging musicians may struggle to reach customers;
2. The free music expectancy of consumers creates revenue risks; and
3. Most musicians view this option as a promotional channel until a major signs them.

These challenges have abated somewhat in the years to 2008. Musicians can take steps to improve reach or attention, and social networking sites, search engines and music discovery or relational programs (such as Last.fm) are crucial to this. Some musicians may have a presence on a social network site and use it to redirect consumers to their website. For instance, Australian band ‘The Drones’ has a Myspace page with a prominent banner redirecting viewers to their website. Premkumar assumes the motives of musicians are to gain mass sales, but instead musicians may profit more via higher revenues from a smaller fan base.

Search engines are important in the digital distribution channel, and have been used effectively but perhaps not by niche musicians. To illustrate, in 2004 the Australian start-up airline Jetstar bypassed the travel agent commission with their internet sales. In retaliation, travel agent Flight Centre arranged with search engine Google for the results of Google searches on Jetstar to route to Flight Centre websites, and Flight Centre promoted other airlines (Gottliebsen 2004). Most music fans may use Google or
other search engines to locate a band website (or presence). Search engine results could link to a digital music supplier the musicians use. That is, search engine to musician to intermediary (be it a retailer for example Chaosmusic, or Amazon; the Label or Musicians themselves if they are selling directly). The websites of musicians are usually quite easy to locate and also contain ancillary products and services such as community forums, tour news, merchandise and biographies.

Premkumar (2003) argues musicians who deal directly with consumers, tend to do so as an interim measure until they sign a contract with a major label. Bhattacharjee, Gopal and Sanders (2003b: 108) similarly claim that such practices serve a “useful marketing function”. This does not appear to be substantiated in later years, as evidenced by the ‘Radiohead’ example in 2008, where a major established band released an album directly to consumers.

Musician to intermediary to consumer

Instead of a musician centralising their online presence on a website they may use an intermediary to do this. Examples of intermediaries include Myspace, iTunes, Artistshare or Mudda. Artistshare and Mudda contain music supplied in a standard format and consumers may search the sites to access additional content and services such as musician discussion forums, websites, discographies, reviews, product purchase information, even guitar lesson videos given by the musicians and more. This strategy may be successful if the intermediary has a very strong brand name and community. In some respects the musician tends to lose control in this channel, because their web presence must fit the structure and terms of the intermediary, it is similar to a franchise business model. It is also similar to an online version of a major label. Another provider is Garageband (not to be confused with the Apple software product named Garageband). Garageband addresses the issue of needing a strong community by mandating that participants cannot upload any tracks until they have reviewed thirty other tracks on the site. The reviews then feed into rating charts, and top rated musicians are offered recording, publishing or licensing deals. Garageband receives income from Musicians, who pay to upload their songs, and from advertising and paid downloads (Papagiannidis & Berry 2007).
Product focussed transactional intermediaries include iTunes and Amie Street, which is an online intermediary that uses ‘fan driven pricing’, where songs are initially free to download and then rise in price based on popularity, up to US 98 cents. Amie Street believes “empowering customers is the best way to maximize revenue for the artists” (Amie Street 2008: para. 6). They appear to also release music from major labels as well as independent musicians. The site also serves a social purpose with a major label CEO claiming:

They know that to successfully sell music you have to provide customers with much more than just a buy button. They give customers a social experience around music discovery that has up to this point been lacking in digital retail (Boltuch 2008: para. 3).

Amie Street may be an interim experiment to determine the price consumers are prepared to pay, and at what point premium pricing can commence. Ultimately pricing variations by sales volumes over time may determine whether: ‘if a musician has a consumer base of x numbers they can charge songs at $x rate’. An example is Jane Siberry, where the average of prices per song paid on Amie Street is viewable. A similar intermediary is Songslide, a music website where consumers their payment amount per song (with a US 59 cents minimum, probably to cover costs). On Songslide the average price per song is US$2.08 (Dubner 2007).

Social networks have been highly successful intermediaries for music discovery. The social network Myspace initially enabled musicians to set up pages for free, and small selections of music may be downloaded at no cost. After gaining over one hundred and fifty million registered users, Myspace was acquired by News Corporation, who intended to monetise the Myspace user base (News Corporation 2008). Following the purchase Myspace musicians could offer music downloads for sale. Initially sales were via Snocap (another intermediary), although this proved unsuccessful, again perhaps because of a consumer perception that digital music should be free or easy to purchase, or perhaps because musicians prefer to sell directly. However Myspace has been used successfully by musicians seeking a global market at minimal cost. This will be discussed in more detail in the promotion section. Myspace intends to monetise this channel further by using it to sell tickets to performances and other merchandise
(ibid.). Caution is required though because, as with any intermediary, sites may change quickly and the musician has little influence, for instance, consumers may move to other sites, the site may start charging or may censor or in other ways influence content. RSS Feeds, blogs (web diaries) and other user generated content can also provide pointers to music discovery and distribution.

A final digital distribution channel described by Premkumar is ‘Audio on Demand’ (AOD) and/or internet radio. It uses a subscription model for access to a music catalogue, restricted website or community, for a finite duration (for example five dollars per month). In this model, which is similar to Pay TV, the consumer doesn’t own the music, but subscribes to access a library of music and usually can play it on multiple devices. If the subscription ends or the company ceases, consumers lose access to the music they’ve invested time in locating, evaluating and managing into lists as part of their subscription. In the financially volatile music sector the likelihood of a company ceasing suddenly is high. Similarly AOD channels may not have all music on them, and paying consumers have little tolerance for limited content. Whilst consumers predominantly believe that music should be free, behavioural factors, specifically a predisposition for ownership (Kahney 2007; Goodell 2003), and fear of losing their collection how hinder take-up in this channel. Secondly it is not apparent how musicians are reimbursed via this channel, the perception is that revenues will flow to major labels, and many musician contracts with major labels do not contain clauses for royalties received from internet broadcasts (Krasilovsky & Shemel 2007). Nonetheless Rick Rubin, former producer and current CEO of major label Colombia USA believes it is the way forward, arguing:

You would subscribe to music ... you’d pay, say, $19.95 a month, and the music will come anywhere you’d like. In this new world, there will be a virtual library that will be accessible from your car, from your cell phone, from your computer, from your television. Anywhere. The iPod will be obsolete, but there would be a Walkman-like device you could plug into speakers at home. You’ll say, ‘Today I want to listen to ... Simon and Garfunkel,’ and there they are. The service can have demos, bootlegs, concerts, whatever context the artist wants to put out. And once that model is put into place, the industry will grow 10 times the size it is now (Hirschberg 2007: para. 27).
Music distribution via subscription models may use staggered pricing for levels of access, for example higher fees allow a higher level of access to the musician or music (such as demo's). Specialist musicians with smaller markets can provide intimacy, which helps maintain loyalty and sustainability. Both specialist and mass marketed musicians may need to use support staff and customer relationship management (CRM) methods and tools. An example is Artistshare.

Subscription based music portals such as Yahoo music or Rhapsody are another intermediary. In this model consumers pay a monthly subscription that covers access to all music in that portal. It treats music as a utility and it is priced as such. In this case it may be bundled with other utilities such as a phone bill or social network site subscription. For example in 2008 the global telecom company Nokia released a mobile phone package that includes free access to the Universal music catalogue for twelve months (Nokia 2008). After twelve months consumers may continue access for a minor fee that is added to their monthly phone bill. This is similar to signing to an additional Pay TV channel. This model may not gain traction if the catalogues of all major labels are included as one offering because, as mentioned previously, consumers may not discriminate between music on labels and they access music from a variety of sources.

Secondly treating music as a utility undermines the importance to consumers of the belief that their music collection is unique. To address this, some portals offer lockers in which users can set up play lists. Thirdly, Kahney (2007) argues people like to own music. For this approach to succeed, access will need to be low-priced (bundled free with a mobile phone subscription in Nokia’s example) and offer any music available instantly anywhere. If so, what is being sold is the access medium, not the music (Leonhard 2007). The process for musicians to be remunerated in this model appears complex. As a rule of thumb, increased complexity of processes minimises the ultimate return to the musician.

Advertising supported free services

Advertising supported music distribution is music made available to consumers at no cost after they listen to an advertisement, or the website they access it from contains banner or popup advertisements. It is a risky approach for musicians who may not
want to be branded by association with the advertisements. The intermediary (site) generally makes the choice of advertisers and musicians have little influence on advertisements. In this model music becomes a customer acquisition expense and advertising is the revenue. Despite the risks it resembles an approach where musicians are marketed as brands; and may suit a highly niche specialist musician with a close fit to the advertiser. Musicians do use products and services so might themselves find complementary advertisers, but to negotiate sponsorship may be complex and involve publishers and advertising agencies (this will be discussed in detail later). Payment may be made based upon:

1. CPM (cost per thousand page views);
2. CPC (cost per click – paid if the viewer clicks on the ad);
3. CPT (cost per transaction – if the site directs the viewer to another one where they become a paying customer);
4. Lead generation (paid for details of potential customers); and
5. Aggregated viewer demographic data sold to third parties.

The advertising supported free service approach used by Myspace, and other social network portals, relies upon advertising revenues for funding. Another (non-product) example is advertiser sponsored tours and performances.

‘Freemium’

The free-premium concept describes music that is given away as a sample to attract new consumers, who may then purchase related ‘premium’ music or ancillary products/services at premium prices. This concept relates to scarcity and demand with a ‘sell less for more, sell more for less’ approach (Anderson 2008). Digital music is perfectly suited to ‘freemium’ approaches because the costs to suppliers of additional distribution volume are negligible. The free music is ubiquitous but serves to increase demand for scarce premium products. Examples include:

1. Nine songs of a twelve song album may be free, and to obtain the remaining three songs the album must be purchased;
2. The entire catalogue of an artist may be freely available as digital music, but an autographed limited edition vinyl package costs hundreds of dollars; and
3. Cross subsidisation, where ubiquitous free music is released to sell ancillary products or services (performances, t-shirts etc.); and
4. Labour or gift exchanges, where free music is exchanged for items or services such as reviews, promotional activities, or gifts such as remixes, graphic design etc. These are discussed in more detail later in this chapter, but are mentioned here because freemium pricing is perfectly suited to digital distribution where marginal costs of the volume of downloads are negligible.

Another product innovation includes the recording of live performances, which are then made available for purchase immediately after the performance ends (Donovan 2004). Alternately consumers may go to a website to view the performance and then purchase a copy. The quality is higher than bootlegs (illegal recordings) and includes show details, artwork cover and a song list. It can be achieved by installing recording software such as ProTools in the mixing desk of a live venue. This service allows a real-time and more intimate link between musician and consumer. It also allows the musician to generate extra income during tours. If, after their performance, the musician then works on the merchandise stand this could easily be part of the musician to consumer distribution channel. Conversely the musician loses control of content in this real-time environment, for example, they do not have time to edit or even view the recording. A solution to this is that the performance may be edited then uploaded to a website at a later date, although doing so loses the sense of immediacy that a consumer may enjoy.

Consumer to consumer (C2C) distribution

Peer to peer (P2P) technology enables consumers to swap music easily and freely. The figure below depicts two prominent P2P models.

*Figure 13: P2P models*
Although illegal, the explosive growth of Napster generated a strong demand for free digital music. Whilst it took three years to legally sell one billion tracks on iTunes, it is estimated that around two billion are traded on P2P networks every month (Page 2006). To date, no revenue has been directly received by musicians for P2P music swapping, although the activity of P2P may provide a promotional benefit. That is, consumers may obtain a sample of the music via P2P networks and then purchase the CD or ancillary products. A very important aspect of the consumer-to-consumer channel is user generated content, which will be discussed in the promotion section of this chapter. Drawbacks of allowing consumers to share their music (and related) content include the absence of quality control, so some files may become corrupted and quality may deteriorate.

Attempts to replicate the P2P model on a fee basis, such as the relaunch of the legal Napster have had little success. However this model influenced open source software models, and Easley, Michel and Devaraj (2003) argue that there may be a business model that allows open sharing, no content control, free distribution and profitable sale. The strategies of Adobe Acrobat reflect this. Like Adobe Acrobat, the fact that music in MP3 formats is freely available has allowed the format to dominate (and subsequent pressure on the major labels and their unsuccessful responses, for instance with protection software). Another dominant format is Apple's WAV, which is not as openly shareable as MP3. Easley, Michel and Devaraj (ibid.) suggest strategies that emphasise the experience for consumers, such as rich websites, recommended links, early adoption, mailing lists, touring, blogs (online diaries) and reviews that may be adopted in the C2C context. Bhattacharjee et al. (2003a) highlight the importance of C2C in personalised recommendation and improved search mechanisms. They suggest that a consumer can attach value only after listening to an item and that the purchasing decision is influenced by prior purchases and other consumers (for example online friends). Interestingly their study also concluded that revenue maximisation strategies do not necessarily involve efforts to eliminate music piracy.

To summarise, music distribution channels, Premkumar (2003) says because the ‘musician to consumer’ and ‘musician to intermediary to consumer’ systems disintermediate two powerful supply chain members, record companies and retailers, and provide no significant benefits to other chain members, they are least likely to
succeed. This conclusion appears to be based from the viewpoint of sector incumbents retaining control. However he overlooks the perspective of the consumer, who might enjoy and be prepared to fund a ‘musician to consumer’ channel, especially if:

1. The music costs less via this channel;
2. Payments go directly to the musician as opposed to going via a major label; and
3. They may enjoy direct interaction with musicians.

In musician to consumer channels the musician may directly manage and control costs rather than intermediaries who on charge the musician.

Lechner and Hummel (2002) confirmed the music sector incumbents are being challenged by emerging business system architectures that are based on virtual communities with self-organisation and where the participants are of equal status, as can be seen in figure thirteen below. They conclude “members of a community (adequate organisation precluded) are eventually more powerful and knowledgeable than any vendor, intermediary, or producer” (ibid.: 52).

![Figure 14: System architectures in the music sector](image)

Bhattacharjee, Gopal and Sanders (2003b) argue music demand is dependent on: price; distribution mechanisms; technology; and music type. They found that piracy increases if music prices increase; therefore lower prices combat piracy. If distribution costs can be lowered and price is also lowered, demand for quality music should increase. In a
further study, they confirmed that “good” albums sold more, and lower quality music failed more quickly (Bhattacharjee et al. 2007: 92). However major labels will protect the price of CDs for as long as they can.

In 2008 Jim Griffin of Warner Music proposed a model of collective licensing for music distribution via the internet (Gustin 2008; Anderson 2008; Rose 2008). Griffin proposes that ISPs charge consumers a utility-like fee (for example five dollars per month) for music use as an additional item on ISP subscriptions. In effect it proposes that music be treated as an add-on optional offering for ISPs. Funds will be dispersed to music rights holders via traditional copyright agencies and processes. Further details of this proposal were unreleased at time of writing, however it is said to provide ‘unwritten insurance’ to consumers from prosecution for copyright breaches in P2P activity. It also provides a new revenue stream and a form of compensation to the major labels from P2P. Historically entities that have tried this approach, in particular Snocap, the legal form of Napster, have been unsuccessful.

However simultaneously to this proposal, music industry associations are lobbying governments and ISPs to introduce ‘three strikes’ legislation requiring that ISPs monitor their traffic for P2P activity and, after three warnings to offenders, disconnect P2P participants (IFPI 2008b). They will also be banned from signing to other ISPs. If lobbying is successful and legislation is introduced then it may be more likely that consumers who use music illegally may require the (unwritten but implied) ‘insurance’ of the Jim Griffin proposal. If so, it may sustain the traditional music system. As at April 2008 the European Union has voiced privacy concerns against the ‘three strikes’ proposal and support has not been given, despite legislation in France in planning (European Parliament 2008: point 23).

There will be no single distribution channel in the future. Hughes and Lang (2003) argue that the internet (or a future device) has facilitated fragmentation away from large and established music industry institutions to niche digital community networks of individuals both as musicians and consumers. These community networks are evolving, dynamic and self-organising. Music (and musicians?) remains the core driver of the sector, however evolving distribution channels are threatening the power and values of current stakeholders. Easley, Michel and Devaraj (2003) argue that attempts
to control all the channels and formats of music (and ancillary activities) may prove too costly. Musicians may have to relinquish control of their product and focus instead on revenue opportunities in ancillary activities.

Key points

Traditional Distribution
1. Of physical products is high cost (many players, financial and environmental);
2. Form a barrier to entry for musicians;
3. Necessitate a mass market, which in turn influences music content;
4. Is inefficient, for example, require unsold inventory to be returned and destroyed.
5. Consumers do not search by major label to discover music; and
6. Record stores are open at finite times and consumers must travel to them, but they are also social hubs.

Digital distribution of digital music
1. Enables ‘limitless’ inventory;
2. iTunes contains music from all labels and is generally open to independent musicians;
3. Is immediate and can be transacted at anytime, anywhere with internet access;
4. Has minimal fixed costs, and musicians tend to be paid quickly;
5. Has a low entry point – anyone can distribute digital music to anywhere with internet access; and
6. The potential in the musician to consumer channel has not been fully exploited at time of writing, for examples, musicians can set or ‘game play’ pricing for their products.
Promotion: traditional systems

Promotion is a fundamental marketing activity that involves:

1. Identifying the target market and defining what is to be sold;
2. Market strategy and action programs;
3. Sales management; and
4. Monitoring and controls.

Music promotion includes activities such as: video production, advertising, interviews; product artwork; the distribution and placement of promotional products and/or performances for broadcast. These activities take place over a variety of mediums such as: broadcast and print media, street walls, retail outlets and performance venues (Hutchison, Macy & Allen 2006).

There are several challenges for traditional promotion techniques. The importance of traditional media to music promotion is waning, as evidenced by the increasing rate of physical music magazine closures (Harding 2008b). Increasingly consumers rely on peers and friends in social networks to recommend music, although often those ‘friends’ include reputable music journalists whose opinions they may value. As mentioned previously, historically major labels have been accused of a practice called payola, where promoters give gifts and other incentives to radio stations in return for high rotation broadcasts of their music. Because television is a mass medium of limited channels, opportunities for the broadcast of specialist music are slim. Another issue
with mass-market promotion is that a musician is a finite resource, a human being, but may be treated as a brand. Mainstream promotion requires mass market targeting, which means dispersing the finite resource as much as possible, through magazines, television, posters, etc. Promoting a new release may involve two days worth of consecutive, fifteen-minute interviews. This can be tedious and tiresome, as seen in the opening comment of a fifteen minute interview with Norah Jones, one of a series of fifteen minute interviews she had been doing in a block:

VH1: How's your brain?
Norah Jones: Pretty fried, but I'll be okay  (Macnie 2002: para. 3).

Because of fierce competition entertainment journalists seek ‘scoops’, and musicians may find their privacy is invaded in order to get a story. Famous musicians may be constantly tracked by paparazzi. Reality can also be constructed, for example photographers may use photography software to manipulate photographs. As mass dissemination becomes easier, the potential personal strain on musicians may increase. The musician becomes a branded product for mass consumption. In the process their sense of self may be lost or twisted, as perhaps exemplified by Britney Spears (Schmidt 2008).

Thom Yorke of UK band ‘Radiohead’ described it as:

We were trying to avoid that whole game of who gets in first with the reviews. These days there’s so much paper to fill, or digital paper to fill, that whoever writes the first few things gets cut and pasted. Whoever gets their opinion in first has all that power. Especially for a band like ours, it’s totally the luck of the draw whether that person is into us or not. It just seems wildly unfair, I think (Byrne 2008b: para. 10).

A key theme across all promotional activities and mediums is brand management and this will now be discussed in relation to traditional promotion. A brand can be described as a name or word intended to identify the product or services of a seller and to differentiate them from those of competitors (Kotler 2007). Brand equity reflects how consumers respond to the brand; it’s an intangible asset that contributes to the
value of the brand owner (ibid.). When a consumer purchases music they may perceive they are also supporting that musician. When events occur that impact the brand, responses must be made to protect it, for example via crisis management activities. Because musicians are often marketed in conjunction with their music, brand and crisis management is more sensitive than traditional products. Musicians are perhaps more iconic and complex than most brands because as mentioned they are also humans.

Key elements to traditional brand management include ideas generation, diversification and divestment. Generally musicians are creative so generating ideas comes easily to them, for example a band may have an idea to perform their music as a live soundtrack to a film in a cinema. Implementing their ideas may differentiate them from competitors (Mason 2001). Niche musicians might form alliances with specialist related entities, for example a swing band should target rockabilly fashion launches, or a hip hop band could target skateboarding events or street parties. Musicians may be interested in their 'scene' and ideas may generate from participation in that scene (Florida 2007). Musicians may diversify into complementary sectors, for example, acting, personal computer games, merchandising, event participation (fund raising etc.) or instrument manufacture. Doing so, they may use the same service providers (for example, use the same accountant for all activities). To protect the core brand in which the bulk of investment has been made (for example, the band), Mason (2001) suggests the creation of a second tier brand for non-core activities and revenues of this second tier should be monitored closely. Any brands in the second tier that are not profitable or damaging to the core brand should be divested (ibid.). For instance a band member may go solo and release music independently. If, for example, a member of a heavy metal band released a solo recording of acoustic folk duets it may potentially damage the band brand, and so should cease.

Fans may treat some musicians as icons. Holt (2003: para. 1) says icons "are built according to principles entirely different from those of conventional marketing." Unlike mere brands, icons "forge a deep connection with culture," competing not just for market share, but "for culture share." He says iconic brands enable people to experience powerful myths:
that attempt to resolve acute tensions people feel between their own lives and society’s prevailing ideology... Icons don’t target consumer segments or psychographic types [they go after veins of intense anxieties and desires running through society. Unlike conventional branding and mass music], ... icons don’t mimic pop culture; they lead it [by making] sense of confusing societal changes, [and they] repair the culture when it’s particularly in need of mending (Holt 2003: para’s. 7,39).

They can speak as rebels and draw upon a certain political authority. Holt’s viewpoints on icons dovetail neatly with the perception of specialist musicians. They can be rebels, as we have seen with Punk, fighting political causes as with South African anti-apartheid music, and deeply connected with culture, as we’ve seen with Public Enemy and rap or hip hop music. Creating icons, Holt believes, is not so much about "getting close to the consumer" as it is "a cultural historian's understanding of ideology as it waxes and wanes" (ibid.: para. 47). Holt concludes that icons must:
1. Learn to target national contradictions instead of just consumer segments;
2. Create myths that make sense of confusing societal changes;
3. Speak with a rebel's voice (ibid.).

In other words, it’s not as easy to maintain an image as it would seem, and it may be unlikely that iconic musicians view themselves in the same way as their brand. Their challenge may be to differentiate between their personal and professional lives, or to ‘turn off’.

Crisis management activities are important to the maintenance of iconic brands. For example, at times it may involve creating crises, or explaining and troubleshooting others such as illness or injury, poor reviews, paparazzi photographs, or illegal activities of musicians. For example the singer of Australian band ‘You Am I’ responded to poor reviews of a performance in December 2004 by an open letter on their website that apologised, claiming he was under the influence of alcohol at the time and intended to redeem himself. Whether or not this was true, the crisis management strategy was to perhaps reinforce his branding (myth?) as a ‘wild rebel’ trying to redeem himself.

Brand management involves the management of advertising. A lot of popular music
lends itself to subversive advertising. Trevor Beattie, a creative director, says "you have to let people discover brands for themselves. Ironically, too much advertising can be the first problem. You've got to keep it low key and get it talked about" (Rogers 1998: para. 17) and Rogers argues that in non-mainstream channels, the brand owner is not in control. Beattie believes that the answer is in the medium. "You need to put ads in the 'wrong places' and make people think they discovered it" (ibid.: para. 19). If an entity has diversified, they should use consistent advertising across all operations. The Ministry of Sound logo is an example of consistent advertising.

The influence and context of local cultures is important to brand management in global markets because cultures differ by location. For example there can be backlash against Americanisation of music in some cultures. In Asia songs with one sentence as the sole lyric are popular, whereas it would be deemed boring in other cultures. In Germany austere electronica music (for example ‘Kraftwerk’) is popular whereas the genre never gained traction in the United States. When targeting a global market the local market idiosyncrasies need to be considered.

The use of a musician to promote a product or service is financially lucrative for the musician, if carefully managed. Vince Lawrence, founder of music production and brand consultancy Slang Musicgroup, said "Artists know who they are and who their fans are. That’s what makes an artist valuable to brands: the fact that they have such a visceral connection with a particular segment of the public. There’s nothing like that," (Moran 2008: para. 28). An example may be ‘Rolling Stones’ guitarist Keith Richards being used in an advertising campaign for ‘Louis Vuitton’ luggage, because “if you’re selling leather bags, why not hire one, too?” (Nudd 2008: para. 1).

Promotion: emerging systems
Premkumar (2003) argues that as a sole operator going direct to consumers, the musician may incur the cost of advertising, promotion, computing and communications and website maintenance. He believes musicians do not have the advertising power of the labels, which may be true for mass market channels (to be discussed in the promotion section). However if the musician were signed to a major label, these costs
are most likely on-charged anyway. The musician may not have the promotional expertise of label specialists but dealing directly with a musician might be more satisfying, and consumers may be prepared to pay a premium for the experience.

According to artist manager Rick Sales, "Record companies sell little pieces of plastic, they don’t care about the artists behind the plastic." (G-Man (sic) 2004: para. 10).

Emerging promotional opportunities in the music sector:
1. Canvas a variety of formats, including mobile tracks, video downloads, vinyl and computer game themes; and
2. Focus on music as an experience, or service, instead of a product, and so it is vital to maintain the wellbeing of the musicians, and manage user communities.

Justin Timberlake’s album ‘Future Sex / Love Sounds’ created 181 products, of which 140 were digital. Nineteen million units were sold, of which CDs comprised only twenty per cent (IFPI 2008a, Sawyer 2008). Sony BMG CEO, Ged Doherty noted:

just five years ago, you’d release a handful of products from every album, meaning 3 singles, a couple of 12-inch remixes. Maybe up to about 10, ... you used to get a lot of money from a small amount of products. Now, it’s 181 and it’s pennies: 1p here, 5p there, another £2 there (Sawyer 2008: para. 19).

While many of these are music products, most can be considered promotional products. For example, ring tones are not necessarily acquired for their musical quality, but rather to remind the user of the song. Warner Music found twenty three ways to market one sixteen-track album - for a total of 403 SKUs (stock keeping units) (Pearlstein 2007). The figure below shows most of the SKUs come from digital media.
Figure 15: Music stock keeping units by media

Source: Pearlstein 2007: figure 1.

More specifically, the SKUs included the following formats:
The table above suggests that once music is digitised the promotional (and revenue) opportunities increase. A smaller market need not be a constraint for niche musicians, who can use targeted promotional tools and grass roots activities. They are well
positioned to benefit from the shift by promoters to spot selling, or targeting at an individual level. That is, consumers are loyal (enjoy and purchase) to niche music in their favourite style. The musicians need not undertake a mass promotional campaign. For example they may use internet radio (and internet television) that can be accessed worldwide.

Regarding brand diversification opportunities, in 2007 the band ‘Nine Inch Nails’ promoted their musical offering ‘Year Zero’ via a global interactive game involving an online scavenger hunt that included real world clothing and hiding USB drives at concerts. As with most computer games it became addictive and fans that did not play most probably felt like they had missed out on something exclusive. Similarly singer Avril Lavigne, faced with dwindling interest in her music, released her it in a comic book download targeted at mobile phone users in Asia (Pearlstein 2007). While ‘Nine Inch Nails’ and Avril Lavigne are mainstream musicians, these examples are relevant to niche musicians. Instead of lobbying for mainstream magazine or newspaper attention, musicians can create their own zines (self made magazines) and distribute these for free as a promotion tool or for sale as merchandise at performances or other outlets. Zines could include artwork, photographs, fan contributions, lyrics, road stories or notes on the music and their influences, and most importantly contact details (for example a website link). The content could be a formal representation of their more popular blogs or forums, and may assist to develop and manage the brand.

Consumer research is critical to promotion, according to the MTV Networks CEO, Tom Freston (Beatty and Hymowitz 2000), and this might be undertaken informally. At another extreme, the band ‘Bare Naked Ladies’ (BNL) invited three thousand fans to a five-day cruise with the band and management. The fans were all invited to informally socialise with the band during the cruise, and were invited to a meeting with BNL management to ask questions, offer input and hear what was planned for the band (a formality similar to an annual general meeting of a listed company). The band manager said:

It really becomes a collaborative process ... I think I know what the band should do, but I’m not going to address it with them until I know what the fans want them to do. The A&R person inside the label used to be your champion. It’s like
having 3,000 dedicated A&R people (Jaworski & Richards 2008b: 2).

A key emerging challenge for musicians is findability (Kelly 2008). Historically artist and repertoire agents would discover musicians to sign to major labels, who would then promote them via traditional channels to consumers. As the number of music channels increases and the importance of traditional media wanes, how will consumers find music they enjoy? There are many online music sites that enhance findability via recommendations or friend music profiles, such as Last.fm which makes recommendations to users based on their listening history, and social network sites such as Myspace also assist by showing which musicians a user has ‘befriended’.

Alternately specialist musicians could use a location-based approach to promotion. Cities may enjoy iconographic status for their unique music and cultures, as discussed previously (Florida 2007). For example, Seattle was known as the epicentre of the grunge music wave; Manchester as the incubator for dance music; San Francisco is linked with Woodstock; and Memphis, Gracelands are linked with Elvis Presley.

Musicians in Detroit (home of Motown) have taken a location based approach to promotion and collectively formed a site, ‘Online bands’, to promote local bands and their city to the world.

To be findable, firstly musicians need a website. Initially they may solely use a social network site, or choose to maintain their own, with redirection profiles on other sites. Musicians who build their own websites may need to consider:

1. Musicians mistake creativity for functionality, designing websites that are creative but not functional (for example, high bandwidth and clutter). An example of this is the German band ‘Cobra Killer’ website which scrolls sideways;
2. Musicians should not ignore fans and their needs. At a minimum a database of fan email addresses should be maintained. Musicians should interact with their audience frequently, or alternately infrequently but in memorable ways. SPAM legislation may impact whether and how musicians email fans;
3. Advertising on websites needs to be managed. Banners can be bought or traded to help fund the site, but may also damage brand value, so if used they need to be appropriate. Ensure search engines link to the website. And the band website should promote and link to other websites (such as aggregators); and
4. Musicians must remember to pay and renew payments for the online space they rent. Sites that have not been renewed are often passed on to either gaming or pornography providers, in which case fans may get a nasty surprise (Scott G (sic) 2004).

Traditionally, investments are made by major labels to create music videos, which then compete to be aired on specific programs at specific times on television. Musicians now can cheaply produce music videos and upload them to YouTube for instant global availability. For example a key platform for music videos in Australia is ‘Rage’, a program that runs late at night on weekend television. However instead of watching ‘Rage’, many consumers now can find and watch the same clips at any time on YouTube. Musician websites may contain links to the YouTube clips; similarly fans can distribute links to the clips via their social networks.

Instead of constructing their own web presence (via a band site, YouTube clips etc.), musicians may crowdsourse their fans to assist with music promotion. To do so they may need to consider the following criteria:

1. Community;
2. Customisation;
3. Choice tools,
4. Channel; and
5. Competitive value (Vaccaro and Cohn 2004).

The development of a community around music and/or musicians, and the ability of consumers to customise their music experience are emerging as key elements of new models. Central to this is the notion of user generated content, and in the right channel, musicians may provide consumers with the right tools to generate content. Doing so may provide a source of competitive value.

May and Singer believe that musicians cannot match the marketing strength of the major labels (May & Singer 2001), but label staff may rarely match the enthusiasm of fans. Fans may create hundreds of fan websites dedicated to musicians and their content can rapidly increase exponentially as friends tell friends. For example, Chris Isaak is a musician signed to the AOL Time Warner label. Fans worldwide have created their own Chris Isaak fan pages, and one displayed the email address of Chris Isaak's
drummer, who was happy to hold email conversations with fans and meet them in person during tours. The official label site had no such details. Instead of allowing unmanaged fans to create hundreds of websites that potentially no one will read, fans may be targeted by musicians to more usefully undertake tasks as required. However, despite the ‘many hands make light work’ claim, this may not be a time saving activity, and the management of user communities may become a fulltime occupation (Thompson 2007).

The major labels appear to have been slow to respond to the user generated content (UGC) phenomenon. It is a global trend with forceful momentum, as evidenced by ‘you’ being awarded Time magazine’s 2007 ‘Person of the Year’ (Grossman 2006). UGC is forcing companies across sectors to change their operational structures to compete with new leaner businesses that have captured consumer attention. Thirty six per cent of Australian users regularly engage in participatory media including blogging, RSS, social networking or podcasting (Nielsen/Net Ratings Australian internet and technology report 2006-7). A cScape Customer Engagement Report (2007) found forty two per cent of companies plan to apply UGC to their websites in 2008, and twenty three per cent use it already, as can be seen in the table below.


<table>
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<tr>
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<th>% 2007</th>
<th>% by 2008</th>
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<tbody>
<tr>
<td>UGC</td>
<td>23</td>
<td>42</td>
</tr>
<tr>
<td>Corporate blogs</td>
<td>17</td>
<td>35</td>
</tr>
<tr>
<td>Podcasting</td>
<td>18</td>
<td>33</td>
</tr>
<tr>
<td>Videocasting</td>
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<td>35</td>
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In the basic sense UGC may simply involve consumers:

1. Writing a review in a blog or social network bulletin or online chatboard about a live performance;
2. Putting music widgets on their website;
3. Reworking music and uploading it to sites;
4. Recording live performances, editing and uploading them to video sites (for example YouTube); and
5. Photoshopping pictures (creating reality) and making them publicly available. An obvious example is MP3 blogs, where consumers review (and link to) music MP3s they discover. Making the MP3s available is often illegal, but does serve a promotional function and opportunity to source new music. Another example is Joost, which is a platform for video content where users can upload concert and backstage footage, music videos and other multimedia. Joost shares advertising revenue with content owners. A band may choose to link to this user content from their sites.

Musicians have not fully explored the potential promotional benefits of using consumers, via user generated content and crowdsourcing activities. A key driver of UGC is consumer motivation and a primary motivation with music content is social networking. Wikipedia is a prominent example of UGC, and the Wikipedia founder and CEO, Jimmy Wales, people “contribute because it’s fun, because they want to share, because it’s social, or to show their expertise” (McNichol 2007: para. 23). Wikipedia is another type of online content, but strong synergies exist between music and online social activities. For example, sharing online band footage engenders social prestige for the content owner. The musician may be the hub, through which various interactions and collaborations between consumers revolve, and the content may or may not be about the music, but the music provides a platform from which consumers socialise. This is an opportunity that musicians could profitably exploit via premium pricing. For example, they may allow their online community a higher level of access (backstage video footage, recording footage, demo’s, pre-release tickets etc.). Community participants may share personal information. This helps the musicians to understand and target their community, and may be attractive to niche advertisers or sponsors. For example communities sponsor musicians signed to Artistshare in return for access to their private websites including blogs etc and can interact directly with the musician. Fans pay for the privilege of closer access.

For the purpose of this study, crowdsourcing relates to outsourcing tasks formerly undertaken by the band (or their suppliers) to fans. Because fan bases are, to some extent, known and smaller with specialised musicians, the term ‘fansourcing’ may be more appropriate. Fans have skills they may offer at no cost, although there is a time
cost for coordination of activities. For example fans may contribute artwork and
design, prepare media releases, advise on appropriate industry contacts, performance
venues and accommodation options. A fan who created designs for a band was
described by the band manager: “She’s an avid fan, and she reached out and said if you
need any AOL icons or banners for any of your bands, I’d love to do it for you just out of
the love [and] she does great work and she’s quick” (Jaworski and Richards 2008b: 3).
Another option is ‘Nimbit’, an online merchandise widget that musicians can add onto
any of their websites (or their fans can add onto their sites or blogs) to sell
merchandise from one storefront. If a musician updates their product range or concert
calendar, changes are automatically made across all sites. However ‘Nimbit’ takes
twenty per cent of sales revenue for the service.

To attract and organise fans who may assist with music promotion, musicians may
need, to some extent, to trust and accept that the output of consumers may be
unpredictable and of inconsistent quality. They need to relegate control to some extent
(Rogers 1998). If content released by fans is questionable, bands may negotiate
solutions rather than control them. Wikipedia founder, Jimmy Wales advises: “some
sites have a lot of controls to prevent bad behaviour. But they end up preventing
spontaneous good behaviour... if the community gets mad at us, they can just leave and
take the content with them. That alone keeps the relationship honest” (McNichol 2007:
para. 45, 26). However legal issues regarding UGC include the:
1. Security of minors;
2. Privacy;
3. Defamation;
4. Inappropriate content; and
5. Copyright violations;
and active management is required to address potential negative impacts.
Transparency also benefits musicians as a way to build trust and loyalty with fans
(Casteifranchi & Tan 2002). It is disappointing, or phoney when a fan emails a band via
their website only to discover that they are not dealing with the band but the label
marketing staff.

The online brand of musicians must correlate with reality and with key messages of the
musician. Musicians need to monitor consumer content and be flexible, nimble and fast
in responding to any content that is inconsistent with their brand. Clive Thompson, a technology commentator, believes this is not an approach that can be used by mainstream musicians, who are:

creatures of mass marketing, carpet-bombed into popularity by expensive ad campaigns and radio airplay. They do not need the online world to find listeners, and indeed, their audiences are too vast for any artist to even pretend intimacy with (Thompson 2007: para. 12).

He believes this is a trend that is “catalysing ... under-the-radar acts that have always built their success fan by fan” (ibid.). Consumers are increasingly obtaining their music online, and “it seems likely that the artists who forge direct access to their fans have the best chance of figuring out what the new economics of the music business will be” (ibid.) This includes “a newer and more curious life-form” (ibid.: para. 13) whose entire business model is online.

Thompson suggests “perhaps there’s no way to use the Internet to scale up” to mass markets and “the only bands that sell millions of copies will always do it via a well-financed major label promotion campaign” (ibid.: para. 32). Jonathan Coulton, a specialist musician, (in Thompson 2007) wonders whether an Internet-built fan base inevitably hits a plateau. Many potential fans are fanatical users of the internet but many more aren’t, and the only way for Coulton to reach them is via traditional advertising (which he can’t afford) or “courting traditional media attention, a wearying and decidedly old-school task” (ibid.: para. 32).

Managing UGC can be a significant time cost, which is emerging as an important issue for musicians adopting UGC strategies. Niche musicians with smaller, more dedicated fan bases are effectively positioned to harness UGC and can frequently communicate with fans to maintain interest levels, relevance and engagement. Doing so increases fan loyalty and consequently attracts advertising revenue. The value of UGC lies not in the quantity of contributors but the number of people who find the contributions engaging. The box below contains a case study of the user generated content experience for musicians, as described by Clive Thompson (2007):
A tattooed and heavy drinking rock guitarist Tad Kubler is responsible for the online presence for his band. Fans at gigs chant his online screen-name, “Koob.” He regards fan interaction as an “obligation that is cultural, almost ethical” (ibid.: para. 19) saying “if some kid is going to take 10 minutes out of his day to figure out what he wants to say in an e-mail, and then write it and send it, for me to not take the 5 minutes to say, dude, thanks so much — for me to ignore that?” ... “I can’t” (ibid.: para. 20).

Tad has concerns, claiming part of the allure of musicians is their untouchability, or “shadowy glamour” (ibid.: para. 21) and remembered that as a child he’d study lyrics to glean insights into the personalities and lifestyles of band members. “That’s all I wanted when I was a fan, right?” he said. “To have some small contact with these guys you really dug. I think I’m still that way. I’ll be, like, devastated if I never meet Jimmy Page before I die” (ibid.: para. 19).

Conversely a strong online presence may feel like being onstage 24 hours a day: “I’m like, I want to keep some privacy, some sense of mystery. But I also want to have this intimacy with our fans. And I’m not sure you can have both” (ibid.: para. 17). Tad questions whether online musicians may ruin their aura by blogging, asking whether someone can still idolise a musician when they know what they had for breakfast. His online blogging rules include: he doesn’t post about his home life, doesn’t mention anything about his daughter or girlfriend; he doesn’t describe any of the “ill-fated come-ons he deflects from addled female fans who don’t realise he’s in a long-term relationship”; and post in the morning, when you’re no longer drunk.

Thompson discusses the new challenge of dealing with fans who can trade information and misinformation. He argues musicians are used to dealing with journalists, who operate under ethical guidelines such as honesty, integrity and privacy, but fans represent a “new wild-card form of journalism” (ibid.: para. 23). For instance when drinking and chatting with a fan after a show, the keyboardist of Hold Steady told the fan that he had heard that Bruce Springsteen liked the band. The next morning his comment was published on a fan blog and had already received twenty five comments.
“So now he carefully polices what he says in casual conversation, which he thinks is a weird thing for a rock star to do. “You can’t be the drunken guy who just got offstage anymore,” he said with a sigh. “You start acting like a pro athlete, saying all these banal things after you get off the field” (ibid.: para. 23)


The traditional one way ‘push’ promotional message is becoming less effective in the digital realm. Future promotional opportunities may involve continuous relationships between fans and band, without intermediaries and across a variety of formats. This presents a new challenge for musicians. If musicians do successfully harness and manage fan relationships, the cost chain may look more like that of the table below. It highlights costs that are minimised by alternative approaches. For example, by recording at home using software musicians may avoid major studio costs; digital distribution may replace the costs of physical distribution; and crowd sourcing fans and internet promotion may replace some costs of traditional promotion. These are low cost alternatives.

Table 25: Cost analysis summary one

<table>
<thead>
<tr>
<th>Production</th>
<th>Distribution</th>
<th>Publishing</th>
<th>For Promotion use</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital - MP3 / AAC</td>
<td>Internet / wireless</td>
<td></td>
<td>Fans and low cost dissemination channels</td>
<td></td>
</tr>
</tbody>
</table>

The emerging promotion opportunities discussed may enable musicians greater autonomy, for example, they may choose to self promote. There are many challenges for musicians who self promote and these include:

1. Knowing what they don’t know. Although it seems to be common sense, it cannot be assumed that musicians know even the fundamentals of marketing, especially inexperienced musicians;
2. Building contacts. How can a musician access the contacts, email addresses and contact policies of various media outlets – locally, nationally and internationally?

3. Preparing media releases. It costs nothing to write and email media releases, but it is a skill to make them newsworthy;

4. Targeting markets. How can emerging musicians correctly identify their target market, for example, global or local, age and socio-demographic ranges? They may do this informally through social networks, but may also miss opportunities;

5. Managing critical reviews. Self-marketed bands are an unknown to music journalists. Musicians on major labels have the benefit of an introduction from label staff whose business is to maintain relationships with music journalists and market the band to them. Lazy journalists may simply cut and paste promotional briefs received from labels about bands into their articles. In contrast, if a band is unknown to the music journalist they may receive, via the media, a full critical assessment without context, which may be risky;

6. Branding. Preparing a promotion plan with a consistent brand requires skill. A plan may cover: interviews and industry contacts, packaging and advertising, promotional media and ancillary products; and

7. Timing the promotion plan to the music distribution plan. The promotion plan must be communicated to broadcasters, print media and venues in sync with the release of music or tour. The aim is to generate demand and then respond with supply the product or service. If musicians create expectations and then do not deliver on them (tour delays, music bottlenecks) they risk being forgotten.

Key points

Traditional promotion

1. Limited opportunities exist within broadcast media – television, radio - because all musicians compete for limited spots;

2. Television and radio tend to broadcast to mass markets, and to retain a mass market they tend to avoid specialised or experimental music;

3. Professional production and placement of promotional products (music video, posters etc.) is high cost and relies upon established professional promotion networks;

4. There is no substitute for ‘in person’ appearances; and

5. Brand management is important.
Emerging promotion approaches

1. The internet facilitates direct promotion and deeper reach to a global market outside of mainstream broadcasters for specialised musicians;
2. ‘Fansourcing’ saves financial costs but incurs a time cost; and
3. Emerging challenges and opportunities include: deeper contact (virtual intimacy) between fan and band, user generated content, customer relationship management.

**Performance: traditional systems**

![Music sector: high potential level of musician control](image)

Live performances have traditionally been an important part of the value chain, but primarily as a promotional activity to increase sales of music products (Hutchison, Macy & Allen 2006). Touring was not seen as a core function of major labels (and was usually outsourced to events companies). It was often ‘loss leading’ (Simpson 2006) and any efforts labels made were with the ultimate aim of music and merchandise sales. Musicians received profits, if any, made on tour. For the purpose of this study, live performance was considered important enough to warrant separate analysis, initially because musicians may spend a high proportion of time touring. Over the duration of this study, revenues from live performance have become more important. There is comparatively little academic analysis available on the business of touring. The information provided in this section is supplemented by observation at music performances and from informal networks of industry professionals.
Performance activities include:

1. Live performances onstage and via broadcast media (as opposed to promotional interviews);
2. In store performances at retail outlets; and
3. Touring, which includes the following activities, that are primarily logistical:
   i. Venue booking, scheduling and stage management;
   ii. Ticketing transactions;
   iii. Promotion (administration and placement of media releases and kits, show posters, advertising, interviews, updating website);
   iv. Itinerary preparation for example: accommodation (including catering, laundry); transport and freight arrangements (for equipment and personnel); schedules including maps, addresses and contact details;
   v. Equipment hire or purchase;
   vi. Management of tour staff – sound mixers, lighting, security, roadies;
   vii. Merchandising;
   viii. Accounting and budgeting;
   ix. Troubleshooting (medical, transport, lost crew or items and other logistical issues) (Connolly and Krueger (2005).

International touring adds in another dimension of freight, visas and passports, currency handling and language challenges. Tour management is an important yet specialised activity. Perhaps because of this, specialised companies that focus purely on touring and performance management have become major businesses in a volatile yet rewarding sub sector. A ‘well-placed industry insider’ claimed Australians bought about 750,000 concert tickets worth about $160 million in the five months to November 2004. However over seventy five per cent of those sales were attributable to three global acts (Scatena 2004).

It is difficult to identify a representative generic breakdown of music revenues by activity within the music value chain to highlight the financial importance of tours. Artist manager Andy Gould ranked income streams for American musicians in descending order as “touring, merchandise, music publishing, and record sales” (G-Man 2004: para. 23). Note that this is musician income, not label income. ‘Flanzbaum’ of
OnlineGigs confirms the ranking:

I am not sure what the exact numbers are, but in the last few years live touring dollars are surpassing record sales as the real money maker in the music industry. The music is essentially free, but the magic of the live show is priceless (Freeman 2004: para. 18).

In the United States during 2002, thirty one of the top thirty five musician income-earners gained most revenue from live concerts, and much of the recording revenue for these musicians probably represented an advance on a new album, not on-going royalties from CD sales. As depicted in the table below, for the top thirty five musicians as a whole, income from touring exceeded income from record sales by a ratio of 7.5 to one (Connolly and Krueger 2005: 71). The data is from 2002, before the entry of iTunes and legal downloads which have increased the commoditisation of the music product, so the amount for recordings may be less as at 2008.

Table 26: Income sources for top musicians who toured the United States

<table>
<thead>
<tr>
<th></th>
<th>Live Concerts</th>
<th>Recordings</th>
<th>Publishing</th>
<th>Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income average of</td>
<td>12.7</td>
<td>1.7</td>
<td>1.3</td>
<td>17.4</td>
</tr>
<tr>
<td>top 35 musicians (US$m</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>pre-tax, estimate 2002)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Connolly and Krueger 2005: 71
Note: More recent statistics could not be obtained.

In the United Kingdom, performance revenues are increasingly supplanting revenues lost from music sales. Page (2007) illustrates this in the figure below, which compares revenues in the UK primary and secondary (auction) ticket markets with recorded music sales. It shows that as revenues from music products decline, performance revenues increase, and Page predicts this pattern will continue. The secondary ticketing market is central to this and it will be discussed later.
Ellis (2003) is sceptical of the impact of live performances on music and merchandise sales. He uses this reasoning:

1. Assume one hundred and twenty people attend each show, of which ninety are seeing the band for the first time;
2. One third of those may want to buy the product, half of those can afford it; and
3. This totals fifteen sales per show, or fifteen years of three shows a week to equate to sales reaching gold record standard.

Ellis doesn’t consider the impact of consequent social recommendations, but provides other flow on benefits including: to build confidence; to attract media attention; promotion; to sell merchandise and for pleasure. His basic analysis highlights the financial conundrum of performance.

In 2002 some music labels introduced 360-degree contracts with musicians, in which the labels receive a percentage of touring, merchandise and/or sponsorship revenues. These may be extended to the variety of revenue opportunities as discussed previously in the promotions section of this chapter. These were historically income streams that were reserved for musicians (Arts Law Centre of Australia 2008), whilst the label generally focussed on CD revenues. Rather than profit from the music product, 360 deals seek to profit from the music brand. The 360-degree strategy is that labels act holistically across the career of a musician, and contracts are for a longer duration (for example, eight as opposed to three years). Labels act as tour promoters, personal
managers and more, but in reality it seems to be a repositioning in the value chain, potentially at the cost of specialist suppliers such as independent tour operators and booking agents (who book performances in venues on behalf of bands). As mentioned, traditionally major labels viewed touring as a promotional activity and outsourced operations to tour operators. In 360-degree deals, musicians are advanced lump sum payments, which traditionally would finance music production, but additionally finance tours, and in recent years live performances have become large-scale events requiring significant infrastructure and logistics. In some 360-degree contracts the labels have returned ownership of music catalogues to musicians and this has ramifications that will be discussed later. The Robbie Williams 360-degree contract renewal with EMI is a much-publicised example (Gibbons 2002).

Recent years have seen the increasing use of premium pricing and new services for live performances. Touring companies have tapped corporate entertainment markets and premium seat ticket prices as a new revenue source. The November 2004 Australian tour by The Eagles charged AU$560 per premium ticket. Michael Gudinski who arranged the tour justified the prices by arguing, “Opera is more than that. Prince ... had people paying $1000 to sit on the stage” (Scatena 2004: para. 29). Not only do premium prices ensure good seats, they offer enhanced services. A front row seat at the Melbourne performance by opera singer Andrea Bocelli cost $1495, but it also included a “silver service, three course pre-show dinner, a parking spot, complimentary wallet and, of course, a pillow” (ibid.: para. 40). Promoters are also testing the consumer propensity to pay for premium services, for example offering premium tickets that include access to the music rehearsal as well.

Tours in mass entertainment venues are financially high risk and tend to have thin profit margins. Michael Coppel, an Australian tour promoter, says that to stage an average full-scale, Australia-wide tour by a top tier international musician now costs between six to ten million dollars. At least one million dollars is spent directly on tour marketing (ibid. 2004 prices). To illustrate, the Eagles were paid AU$1.3 million per show. ‘The Darkness’, a United Kingdom rock band allegedly paid a “six figure sum,” on pyrotechnics alone for one performance (Hamilton 2004: 36). With such excess it is noteworthy that 360-degree contract deals generally deduct the cost of touring before musicians receive any profits (Lathrop 2007), as with music recordings.
recording agreements also stipulate that tour support is recoupable against future
types of musician royalties (Krasilovsky 2007: 22).

Large-scale performances are often heavily choreographed and the performance is the
same regardless of venue. Fans attending on different nights will be less likely to make
repeat purchases of live recordings where each costume, song, dance step, timing and
even adlib comments made by performers are repeated during each performance.
They are substitutable. American musician Chris Isaak performed two shows over two
nights at the Regent Theatre in Melbourne during 2006. On the first night he asked the
four thousand attendees to hold up their hands if they were going to the second show.
He openly joked he wanted to know if he could get away with doing the same show
again so he could take the day off. The next night’s performance was a replica.
Sometimes the timing within performances cannot be flexible. For example the band
Rammstein use pyrotechnics as part of their performance and if the keyboardist, Flake
Lorenz, makes a move at the wrong time onstage he can “get fireworks going off in my
face” (Fialik n.d.). Sometimes the only unscripted spontaneity occurs when there is a
technical glitch.

Musicians have traditionally held a love/hate relationship with touring; where the
mundane aspects of touring contrast with the thrill of performing live. For
inexperienced musicians, while they build their fanbase the costs of touring often exceed revenues generated. Tour administration may be uncoordinated and informal
when handled by inexperienced musicians. They often learn about touring from
informal social networks. Music directories (‘Online Gigs’; the ‘Australian Music
Directory’) may assist, but may not compensate for experience and up to date advice.
Accommodation options may be limited and risky. Community radio can often help by
billeting bands and crew in (safe) staff homes for free (or for services in kind such as
free show entry). This may pose risks for musicians or home owners/ tenants but
generally is a good way to tour. Radio station staff may select accommodation based
upon the genre of music played by musicians (that is, they won’t place an acoustic folk
band in a heavy metal household). Musicians may also find free accommodation
options via a start-up website, ‘Better Than The Van’, which is a “community of free
places to stay for bands on tour” (Better Than The Van: 2008), however the traditional
practices of promoter billeting may be safer.
Musicians are more prone than most travellers to equipment and personal theft. Perhaps this is due to ‘fame envy’ or a tendency to mingle with a few drinks after shows, leaving equipment unattended. Many bands have a rule that someone remains with the equipment after performances while the rest of the band sells merchandise or networks. Unfortunately for most touring bands equipment and personal effects are not insured. Nor is insurance viable for the risk that venues, illness, injury or bad weather may cancel bookings. Australian insurance costs have escalated in the years to 2007, in particular public liability costs (ACCC 2005).

Tours may be physically and emotionally exhausting for musicians, who are finite, non-substitutable resources. Fatigue, transit boredom and disharmony from constant contact may affect musicians who tour together. Similarly, disruption to daily lifestyles and the absence of support networks may affect musicians on tour. Because cities are widely dispersed in Australia, musicians may need to spend much time together driving between towns, or have complex transport logistics. This is less of an issue in Europe and North America. Performances may become repetitive during long tours, and because musicians are in transit while on tour, creative boredom is a risk. There is also less time and inclination for new music composition.

An example of the potential damage from touring may be that experienced by the 1980’s Australian band ‘The Sunnyboys’. They enjoyed a reputation for partying and performed songs like ‘Happy Man’. Performances were very well attended and received critical praise (Guilliatt 2004). However, perhaps due to financial mismanagement, the costs of touring created large debts. A reputable Australian promoter assessed their debts and recommended that the only way to pay their debts was to keep touring (ibid.: para. 18). The constant touring (and partying) allegedly exacerbated the singer’s minor predisposition to mental illness, and led to violent, self-destructive behaviour, alcoholic bouts and self-medication. This led to poor performances, increasing debt and worst of all the illness took complete hold of him. Twenty years later in an interview his brother (and band member) noted that he sees similar behaviour in other touring musicians today and that much of it is covered up (ibid.). When it does become apparent, the media, by highlighting the rock behaviour exacerbates it as part of the rock myth, which creates other pressures as described in
the promotion section of this chapter. In 2004 the singer of ‘The Vines’ attributed mental illness to his repeated attacks on fans during performances (ibid.: para. 37). ‘The Darkness’ acknowledged poor performances and attributed them to mental exhaustion from constant touring. The singer complained that after they won an award at a major awards night they should have been allowed to network (party) and relax with their peers but instead had to get onto a bus for their next performance (Vernon 2004). Similarly, musician Nick Cave described the mental exhaustion from touring: "To sustain hatred is a very difficult thing to do, year after year. It’s exhausting" (Knabb 2001: para. 21).

Touring exposes musicians to the real world, that is, they garner immediate fan feedback and critiques and may come into close contact with fans. This is most often cited as a benefit but can occasionally be negative. There is a remote risk that fans may become violent, and this can often be determined by genre of music. For example ska music can attract skinheads who, as a stereotype, can be violent. This can lead to the musicians (although not responsible) incurring loss of reputation amongst venues and consequent lost bookings.

The quality and declining number of performance venues is another risk. Some venues are converted spaces and not conducive to live performance. They may:

1. Have access challenges, venues may be up stairs and require the musicians to lug heavy equipment manually;
2. Be old or dirty with inadequate facilities;
3. Musicians may risk personal harm from faulty wiring or fluids (Indie Initiative 2005);
4. Have sound problems and volume constraints; and
5. Pose other challenges.

Sometimes performances can have technical glitches, and inexperienced performers may suffer embarrassment, whereas experienced performers may rely upon a stock of practiced conversation onstage during technical downtimes onstage. For example, musician Tim Finn was miming onstage during a live national broadcast at the Countdown awards in 1983. The tape to which he was miming stopped and he continued to mime to silence. Upon realising he stopped, asked the sound staff to rewind the tape and hit play again, then waited while they did so, before commencing
again from the start, all live on national television (Vilignal: 2008). Musicians are also at risk to electrocution onstage from faulty wiring and fluids (Indie Initiative 2005). The declining number of small performance venues in Australia also poses a risk to tours. As mentioned in the sector overview chapter, many pubs and clubs are under financial pressure. Small live performance venues are similar to business incubators, in that emerging performers may experiment, innovate and hone their skills in a comparatively encouraging environment. Small performance venues facilitate artistic experimentation, nurture culture and social interaction.

Consumers may purchase scalped or forged tickets and upon discovery be denied access to venues. Scalping is the practice of purchasing tickets to events and then reselling them at higher prices, via online sites such as eBay or in person pre-show at the door to the event. It is a form of arbitrage in that the scalper forecasts tickets will become scarce and believes people will be prepared to pay a higher price for them. By purchasing tickets earlier in seated venues, scalpers may be able to obtain premium seats, and so increase the likelihood of reselling at higher prices. As a practice scalping is criticised heavily. Attempts by scalpers to resell tickets on eBay and other online mediums have been curtailed by vigilant venue managers, event organisers and digital ticketing initiatives.

While scalping is a disreputable practice, it can indicate the market price of tickets. Scalping represents an open (albeit discouraged) economy so scalped ticket prices reflect real demand. It also reflects the price of timing on an event. That is, once the event is over the ticket is worthless, and closer to the event the public is more aware (for example via advertising or social promotion) of the event and therefore demand and subsequently price increases. It can also leave scalpers carrying unsold worthless inventory when they overestimate demand.

A study by the United Kingdom Department for Culture, Media and Sport Committee (UKDCMSC) found up to forty per cent of tickets in the United Kingdom were being sold on the internet and identified “evidence of distasteful” and “dubious or suspect practices” (Churcher 2008: para. 16-18). The committee took issue that musicians or performers received no cut on the profit made by secondary ticket sales, and the Resale Rights Society, which represents ticket resellers, said it supported a levy being added to
resold tickets. However this too was criticised because levies are not added to other products resold on the internet (for example second hand items on eBay). Another proposed technical solution involved adding photos of ticket owners onto each ticket at the time of sale. This would require pre-registration and may be administratively burdensome, although it has been used successfully at the United Kingdom Glastonbury festival (Churcher 2008).

**Performance: emerging systems**

As mentioned, music tours have traditionally been an important part of the value chain, but primarily as a promotion channel to increase music sales. Touring is now emerging as an important distinct part of the value chain, perhaps to offset declining revenue from music products. Yet there has been very little innovation in the fundamentals of touring. It still requires transportation of people and equipment, support staff and a physical presence, with the caveat that performers are a finite, non-substitutable resource. However live performance offers immediacy and intimacy – each performance is a unique event to those in attendance. This uniqueness may create revenue opportunities. Some new music genres or equipment are easier to tour with. For example electronic music may sometimes minimise freight costs, it just requires a DJ and their computer. Event equipment (speakers, lighting etc) can be hired in each location and to suit specific venues.

Outsourcing the management of tour logistics may benefit inexperienced musicians who do not have informal advisory networks. Alternately it would benefit musicians if the experiences of informal musician networks were aggregated, filtered and made available. Sonicbids.com is a service for the creation of digital media kits and can be used to connect with tour bookers, promoters and licensers worldwide. Musicians of similar genres who have toured before can recommend appropriate venues for that genre, key contacts, accommodation, and describe experiences. Another approach may be to crowdsource advice and assistance from fans as has been discussed previously.

Connolly and Krueger (2005) describe a model that assumes that the bigger an audience at a performance, the more likely the experience will be enjoyable, and opportunities for premium tickets in mass entertainment venues have been described.
However niche musicians may also charge a premium for smaller, intimate performances. Musicians may also enjoy these performances, because in larger venues they tend to only see the first few rows unless the house lights are on. Alternately musicians may become irritated when they are performing to smaller audiences and can hear their audience socially chatting during songs.

Because musicians are finite non-substitutable resources, it’s important that they are physically and emotionally fit during tours. Being fit may improve the quality of performances, and consequently reviews. To alleviate tour boredom and repetition, tours may be marketed as ‘events’ in unique settings. Examples include: performances in the historic Spiegeltent; interesting locations such as wineries; river cruise boats, cinemas and farms; restricting ticket numbers in smaller venues; or integrating performances into festivals. The choice of venues is important, and considerations include the size, location, refreshments, venue reputation and payment terms.

Musicians may research who has performed in each venue. Venue fees are important, for example whether the venue takes a percentage of merchandise revenues, or if the fee fixed or variable according to ticket sales.

Music promoter Michael Coppel recommends making the performance feel as if it is an once-in-a-lifetime experience (Scatena 2004). If a band does not tour often, their performance is a rarity, and a premium may be charged on ticket prices. However consumers may be influenced by their perception of pricing fairness. If they perceive the musicians are charging unfairly high prices they will not purchase tickets in protest, and the brand of the musicians will be damaged. Singer John Farnham held a national ‘farewell’ tour before retirement in 2002 yet continues to perform live (Miles Ago n.d.) and appears to leverage off the expectation that each performance may be his last.

Music festivals are events that spread the risk of touring because the customer base is widened by many acts. Festivals also have other benefits including:

1. Allowing musicians to network with other musicians (this is rare for constantly touring musicians);
2. Ancillary products (music compilations of featured performers, festival merchandise);
3. Brand enhancement (for example bands that perform at the Coachella festival gain the cachet by association with that festival);
4. Cross selling to a wider customer base, particularly of consumers who may not have paid to see the performer; and
5. Sometimes contracts allow for headlining side-shows (that is, performing a show elsewhere in the same town, which mitigates transportation costs because the festival organiser has already paid for their transport to the town).

Festivals can potentially charge a premium fee because consumers can see many performances for less than the sum of attending all shows separately. Outdoor festivals carry additional risks of poor weather, and audio quality challenges.

Innovative ancillary products and merchandise may be cross promoted at live performances. They provide an opportunity to grow email lists (of attendees); to promote websites for other selling opportunities; and new products may evolve from live performances. A performance could be recorded on digital video and copies sold straight after the event to the audience. The musicians may even autograph copies. Copyright and privacy issues may require consideration (the venue may object, or audience members may not want to be recorded) but these might be managed with notices in the venue and at point of ticket purchase. In 2004 a video recording service, ‘Smash Touring’, commenced in Australia. It would film live performances and copies were available for purchase immediately after a show. Smash Touring ceased operations soon after launching, however it was replaced by Listenlivenow and Mashcam. The recording of performances offers a new and compelling revenue opportunity for musicians, especially for niche musicians. It also improves fan loyalty. American band, the ‘Grateful Dead’, allowed fans (called Deadheads) to record their shows for non-commercial use, and this engendered loyalty: “part of the reason Deadheads were so obsessed with live concerts was that they did participate in some weird, mysterious way” (Barlow 2003).

Niche musicians may perform more flexibly in smaller venues, and so each performance differs and attendees may purchase recordings from different performances. Because performances are smaller scale, musicians can afford to take higher risks. For example, they can perform different songs or perform songs differently, wear different costumes and performances may not be choreographed. The
level of planning each night may simply be a sound check and preparing a list of songs to perform. How the songs are performed may be entirely unplanned and dependent upon ‘feeding off’ spontaneous crowd reactions and interactions. Spontaneity and intimacy can result in uniqueness, musicians cannot be substituted (for example, singer Jimmy Barnes cannot be substituted) and so smaller, intimate performances may command a premium price. This includes live performances that are unique ‘once off’ events, cannot be replicated, and contain risk-taking (for example technical faults, performer error, spontaneous audience interaction.).

A fan may desire to purchase several recordings of performances on a tour as different spontaneous experiences occur each night. Most consumers would enjoy a keepsake recording of a special night – it is irreplaceable. A fan may purchase the recording of a performance to spot themselves in the audience, and they may cut and add that snippet to their social network sites. Doing so increases fan loyalty via personalisation and intimacy and also promotes the tour.

At a festival attended by American band, Phish, Apple donated an internet centre where fans could download free onto CD a selection from 154 Phish songs. Sixty thousand consumers attended the festival and two thousand Phish CDs were burned (Spellman 2004; Schiesel 2004).

Clothing, earplug tins, bags, band branded sun block and other lifestyle items that fit with the branding of the musicians can be offered as merchandise for sale. Another flow on effect from touring is promotional – most bands will experience in increase in hit rates on their websites when on tour, as fans research them, and then seek more information and contact following a performance. This can be increasingly important if website hit rates are linked in some way to revenues (for example from advertising).

Live performance ticket auctions are legal alternatives to scalping practices. Ticket auctions have been used in Australia, for example during ‘The Police’ 2007 tour where the best seats in venues were available at auction, and where bids were made and remade up until a set time when the auction closed. The premium profit went to musicians or event organisers, as opposed to intermediaries. However in practice this system may also be manipulated. Bidders may use auction software at any time during
an auction to automatically trump the highest bid in the last seconds of an auction (within a set upper limit). In these circumstances diehard fans who are prepared to pay any price may be trumped by anyone using auction software. If the use of such software becomes prevalent, tickets will not sell until in the last few seconds of an auction. Given this knowledge, the arbitrage effect will not be as significant than if it was for a sold out tour. In the event of a sold out tour scalpers are positioned to profit heavily from the resale of tickets.

Social network sites such as Myspace are starting to monetise the sites. Musicians may aim to take a percentage of this revenue opportunity too. For instance, Myspace will have a ticket sales function. A band Myspace page may list their forthcoming shows. Consumers (or Myspace friends of the band) may click on the show they wish to attend and order tickets. Myspace owner News Corporation (2008) is effectively supplanting Ticketmaster and other ticketing agencies with this route. It may appear simple and convenient to consumers. And, because the music is the driver behind News Corporation gaining a percentage on the ticket price as a transaction fee, News Corporation should, in theory, in some way reimburse the musicians. At the time of writing, it is yet to be seen if this occurs.

Using fans has been discussed in more detail previously. Relying upon fans to coordinate tours is risky but a positive example occurred when the rock band ‘Marillion’ posted a note on their website claiming they could not tour the United States “due to a lack of record company support.” Fans worldwide “rallied” together to raise $60,000 to underwrite the United States tour, and ‘Marillion’ “undertook its largest North American tour since 1991. Since then, ‘Marillion’ has been able to tour and record several more times all based on direct fan support” (Spellman 2008a: para. 1). Spellman however does not discuss if and how the record company supported this effort.

Fansourcing approaches may be effective if: the use of fans is centrally managed; musicians know their fans; and use fans for distinct well-defined tasks. Musicians may analyse their fan base to identify the locations with the highest density of fans to tour. A band may plan a tour route that is logistically feasible, and then seek assistance from fans in each city, for example advice on venues or putting up posters. Delegation of
activities is easier when musicians know their fans, for example after continuous interactions. Finally, if a band is working together, the tasks of each member must be clearly defined so no two members are asking similar things of fans.

Key points

Traditional performances
1. In person appearances cannot be substituted (therefore can charge a premium?);
2. Touring is rewarding: generally musicians enjoy live performances;
3. Touring is costly: traveling may be physically and mentally punishing;
4. Large scale performances may be tightly choreographed, contain elaborate sets and costumes therefore higher cost. It follows that performances rarely divert from their routine;
5. Performances to smaller audiences are more intimate and may be flexible; and
6. Ticket scalping is a detrimental practice.

Emerging performance approaches
1. Performances may be recorded in real time and sold after a show;
2. Performances may be streamed via the internet;
3. Fan bases may be analysed to highlight highest density locations and so most potential for ticket sales to live performances;
4. Secondary ticket auctions; and
5. Premium performance pricing: for example higher price tickets for closer seating.
In early 2004 the Melbourne band, ‘Jet’, released a song ‘Are you gonna be my girl?’, which sold over 3.5 million units worldwide (Jet 2004). Their success was attributed to the song being used to advertise Apple’s iPods, and also Vodafone (UK), Budweiser beer, video games, film and television shows, and other media channels (Wikipedia 2008). These placements raised the band profile and consequently CD sales (Lee 2007). This is an example of successful publishing (licensing).

For the purpose of this study music publishing is defined as the activities for commercial exploitation of music. It involves the management of copyright, licensing and royalties. Publishing includes: registering songs with copyright collection agencies; seeking and negotiating licenses to sell or use the music; protecting music from unauthorised use; and the collection, distribution and accounting of income (Simpson 2006). For this study copyright is defined as the legal, exclusive right of the creator of a creative work to control the copying of that work, and “subject matter other than works” (broadcasts, audio recordings, digital transmissions etc.) (ibid.: 155). It includes the right to reproduce, broadcast or make an adaptation of the creative work (ibid.). Traditionally music creators (composers, musicians) assign their copyright to publishers, who may be subsidiaries of major labels or related entities. Major label executives refer to their assets, not as music product or musicians, but as “copyrights” (Burgelman, Christensen & Wheelwright 2004: 384).
describes the four types of music publishing, followed by four types of publishing deals. It then assesses the costs and benefits of self-publishing; discusses current issues in music publishing; and explores emerging publishing opportunities.

Copyright

The key piece of Australian copyright legislation is the Commonwealth Copyright Act (1968). The Copyright Act is based upon the Berne Convention, an international agreement, and provides automatic protection to Australian citizens, companies and residents (Australian Copyright Council 2002). The duration of copyright varies by country and music type. In Australia it is generally for the duration of the creator’s life plus seventy years (Arts Law Centre of Australia 2006). To qualify for international protection under the Universal Copyright Convention, especially in the United States, any reproduction should contain the copyright symbol ©; year of first publication; and owner (UNESCO 2005).

There are five general types of copyright protection:
1. Sheet music (the right to publish);
2. Mechanical (the right to reproduce);
3. Controlled compositions (the right to make an adaptation);
4. Performance (the right to play in public – live, broadcast or synchronised); and
5. A combination of the above (Simpson 2006).

Sheet music copyright refers to the right to reproduce a song onto sheet music, or the right to publish. The composer generally owns copyright. Mechanical copyright relates to the license to record a song, or the right to reproduce a song. The copyright is on the song (which may perhaps be in sheet music format or a demo). That is, if a musician wants to record a song, they will need a mechanical publishing contract to do so, and this will be negotiated with the composer of that song. The copyright on a song is treated as both a musical work (the music) and literary work (the lyrics). In many cases the musician is also the composer, but a contract is required to this effect. A contract will stipulate that the musician passes on a portion of royalties received from that song to the composer. A royalty is a percentage of income (for example from the sale of a song) which is payable to a copyright owner under a contract with someone
who is using the copyright owner’s work (Australian Copyright Council 2002). For example, this is often around 8.5 per cent of the dealer price (not retail) of the recording sales.

A controlled composition refers to the right to reproduce a song, for example to put it onto a CD or make a digital copy. The performer of the recording owns the copyright. In Australia recording (mechanical) and production (controlled composition) copyright is governed by AMCOS, the Australasian Mechanical Copyright Owners Society Limited. AMCOS collects royalties and distributes them to musicians/publishers.

Performance copyright relates to the right to perform a song in public. For example this may occur during a live performance, or on radio in a shop. This also includes synchronisation licenses, which is the licensing of music to be used with visuals or other audio in advertisements, film soundtracks, computer games, DVDs, mobile phone downloads and other mediums. The song performer owns the copyright. In Australia this is governed by APRA, the Australasian Performing Rights Association Limited. APRA measure and collect performance royalties (including internet performance) and distribute them back to musicians/publishers. APRA and AMCOS are independent companies, however APRA manages the affairs of AMCOS and their offices and staff have merged. Radio broadcasters maintain logs of broadcasted music for royalty payments; whereas television performances supply reports based upon designated survey periods and live performances are monitored individually (Simpson 2006). This administration is currently a cumbersome and time consuming task for broadcasters (CISAC 2004a), and costly, for example APRA deducts about thirteen to fourteen per cent of income from its members for expenses (Simpson 2006: 208).

In most cases, musicians do not own the copyright to their music. Musicians often sign over copyright to a publishing company, which, as mentioned, is frequently part of, or allied with, a major label. Royalties are used to repay advances provided to musicians by labels, and only when these advances have been repaid in full do musicians receive royalties. For example when Paul McCartney wanted to print the lyrics to ’Eleanor Rigby’ (a Beatles song he co-wrote) onto a tour program he paid Michael Jackson to do so. Jackson had purchased Beatles music catalogue from ATV Music for US$47.5 million (Spellman 2008b). Generally the musician will sign over the copyright ownership to the
publishing company who will manage it and disburse payments. There are several problems in this approach, which will be discussed.

Royalties are negotiated depending on various factors including whether or not the musician is established (Allen 2007), and generally range between nine to twelve per cent of the retail price of a CD, although the Copyright Act 1968 (ss 54-64) stipulates in the absence of an agreement that the mechanical royalty rate be 6.25 per cent (the ‘statutory rate’) of the retail price (Simpson 2006: 199). AMCOS subsequently negotiated a rate of 8.25 per cent of the Published Price to Dealer (PPD) because retail prices vary (ibid.). Contracts may include:

1. Escalations where a higher royalty is received on higher sales;
2. Different rates for different types of sales (record clubs, internet, retail); and
3. May not be paid until production and promotion costs are recovered.

This royalty goes to the publishing company which then allocates it as contracted. The process of royalty payments is slow, for example, APRA royalty payments are based on six monthly accounting periods and take up to six months after that to be paid (Simpson 2006).

In addition to being slow to pay, most publishers retain a portion of musician payments to cover unsold CDs as a reserve. In Australia the maximum royalties that can be held in reserve is thirty five per cent for singles and twenty five per cent for long play CDs. ‘Singles’ generally include up to six songs on a CD. ‘Long play CDs’ are generally ten or more songs. This practice would not be required with digital distribution (e.g. internet downloads). To address this, half the performance and broadcast royalties collected by the APRA now go directly to composers (Simpson n.d.). However many contracts stipulate that royalties be paid “out of the publisher’s share”, which would be out of the remaining fifty per cent. Harris and Colegrave (2004: 81) argue many publishing deals try to minimise the number of songs on a CD that they need to pay royalties on, for example only ten out of twelve songs on a CD.

Synchronisation licenses for commercial use of music, such as advertisements, have become a lucrative opportunity for publishers. It is also a ‘lumpy’ yet rare income source for musicians, for example, even unknown musicians can reap US$40,000-60,000 for performance rights to a song, whereas established musicians may earn
“seven figures” (Steinberg 2007: para. 9). The musician ultimately receives only a portion of those revenues after passing through other elements in the value chain.

Synchronisation licenses are complex deals, and generally necessitate the use of lawyers to negotiate on the copyright owners behalf with the publisher. Deals are based on territory (where the music will be heard), media type, usage (background music, prominent?), length and version (a cover of it or translated?) to name a few considerations (G-Man 2003). Because it is more difficult to sell synchronisation licenses (because opportunities are rarer and competition high) publishers may charge a higher percentage of fee than other licenses, often five per cent of gross receipts. To capitalise on synchronisation licenses, publishers need to package and sell songs to advertisers, film companies, mobile phone companies etc. and the greater the network of the publisher (who they know and their ‘finger on the pulse’) the greater chance that a song will obtain a higher profile, and therefore potentially a higher success rate. The composer cannot be expected to know people in the media industry and their needs, however in theory a publisher does. An emerging threat to this field of publishing is that some agencies are being created to compose songs and jingles that sound similar to popular songs, enough to have the subliminal effect of reminding the listener of the popular song. Such tunes are different enough to avoid paying royalties, and the royalties on the similar songs are lower (and require far less input).

Another role of publishers is to register details of songs in each country where that song may be used and royalties received. The commission is usually between ten to fifteen per cent of total royalty income collected by the sub publisher. Royalty collection agencies have reciprocal agreements with their counterparts in other countries. For instance the UK collection agency sends payments to the Australian APRA and vice versa.

New production methods such as digitisation mean that controlled composition costs are negligible but publishers still charge a fee for controlled compositions on digital formats. In other words, publishers may still withdraw from musician royalties a fee for CD manufacture and distribution, on internet downloads whose costs are minimal.
Finally, the synchronisation of music needs to be carefully brand managed. Musicians have traditionally “had a difficult time assessing the ultimate value of creative control compared to fundamental need for royalties” (Pfahl 2001: para 19). Too much exposure can ruin the credibility of a musician, as can be seen by this comment by a participant on Mono, an Australian music chatboard:

It’s cool to hear these songs on ads and such and some great songs have been on ads (Search and Destroy/the Stooges - Nike, Start me up/the Rolling Stones - Microsoft, Are you gonna be my girl/Jet - iPod & that phone ad, some song by Sting - Jaguar, etc, etc) i guess because of publishing deals and lots of money, but isn’t it dangerous to overkill a song, like Moby - he was the biggest thing in the world then he put all of his songs on ads, soundtracks, everything and sure he would’ve made a shitload of cash but it really just ended up killing his career. It sort of really dated his songs prematurely (Mono 2004).

And from the musicians’ perspective, this comment was made available by the band ‘My Friend the Chocolate Cake’ to explain the use of their song in an AMP commercial:

As you may be aware "The Romp" has been licensed to AMP for an ad campaign. We in The Cake have never been in favour of this kind of activity in the past, arguing that it places a song in the wrong context. For example if "I've got a Plan" was licensed to a life insurance company we'd all never be able to listen to the song in the same way again, and given that it's a song that means a lot to a lot of people that would be inexcusable. This may be the case with The Romp as well, although we feel that as far as ad campaigns go, it’s relatively tasteful. The reason we have done this is that David is organising The Morning Star Campaign for early next year (Concert date February 28th at the Melbourne Concert hall, simulcast nationally). The campaign will include a concert, CD and book and is aimed and raising the profile of the plight of the West Papuan people, trying to link it to the similar situation in which the East Timorese people were over the past twenty years. The money raised from the "The Romp" licensing will fund this campaign. We reckon we can rationalise our prostitution in this way!!!!!! Hope its not too annoying (MFTCC 2004).
Basically there are three types of publishing deal, being:

1. Administration;
2. Single song; and
3. Exclusive term publishing agreement.

An administration deal is generally used for experienced and established composers. Such musicians don’t require intensive publicity because they have an established fanbase and are less risky for the publisher. It comprises a fixed fee of anywhere between 7.5 to twenty five per cent of gross income. A single song deal is as implied, a deal only for a single song. This is used where the song is to be marketed (for example on iPods, soundtracks) or is a hit single. In an exclusive publishing agreement, the publisher can receive between twenty to twenty five per cent of gross income (Simpson 2006). Exclusive term publishing agreement is an agreement where the publisher has copyright to all output of the musician for a stated duration.

A more favourable form of publishing deal is where the musician can lease their copyright to the publisher. That is, the publisher can exploit the copyright for a few years and then it reverts back to the musician. In this way, a musician may enjoy the large-scale promotional efforts of a major label and the publisher will receive royalties for the contract duration, but when ownership passes back to the musician who will receive full royalties (if they’re prepared to administer them). This would benefit musicians who may have a steady stream of royalties over a long term (for example, the composer of the ‘Neighbours’ theme, who incurs a royalty each time it is played).

Foreign versus Australian protection.

As mentioned Australian music and lyrics are protected by copyright in most other countries, provided they have the © symbol. However, musicians may not know if their song has been played and royalties are being held. For example, John Greenan co wrote Johnny O’Keefe’s song ‘Real Wild Child’ and Buddy Holly later covered it. From this he received royalties for twenty years and then they ceased. Years later Greenan noticed a new O’Keefe CD compilation hadn’t attributed him as a co-composer. His lawyer then discovered that the Buddy Holly catalogue had been purchased by another company which was holding $10,000 for Greenan because it did not have his contact details
There is no global music register, therefore the countries in which the song may be played need to be identified and then the registry of that country contacted for information on their copyright processes. Even in Australia there are separate collection agencies for the different types of copyright. A global list of collection agencies can be found at the CISAC (International Confederation of Societies of Authors and Composers) website although the self-publishing musician would then need to contact each collection agency separately. This is an improvement on the process since 2005, when only CISAC members could access this list, according to the CISAC website.

Self publishing

In the Greenan 'Real wild child' song example, it is worth noting that the song has grossed roughly $2 million. Half of that went to the publishing company, with the remaining million split between the three composers. Shane Simpson believes that in Australia, composers tend to get between sixty five to eighty per cent of royalties, however this still allows publishers to get between twenty to thirty five per cent (Lamperd 2004). Can musicians and composers self publish, and what are the costs and risks?

In theory it is a simple process for a composer / musician with a recorded product to self publish in Australia. Firstly they join APRA (membership is free) and list their music with them, via forms that can be downloaded of their internet site. APRA or AMCOS become the owner of the public performance, broadcast and cable transmission rights (Australian Copyright Council 2002). APRA collects the license fees and then twice yearly pays copyright owners. There are some exceptions to this including operas or entire dramatic and musical works. For composers there is a similar process via AMCOS to collect fees from use of their compositions. Depending on type of license, both AMCOS and APRA are relatively interchangeable despite being separate entities. The APRA website links to AMCOS.

If an unsigned musician wants to retrieve copyright payments from foreign entities it becomes unworkable. There is no collection agency that provides global or territorial coverage, so they must contact each collection agency separately. As digital music
becomes more prevalent this should be do-able however it appears regulatory and system roadblocks remain. Until it is addressed musicians go unpaid for some royalties and foreign collection agencies may hold funds on their behalf. Similarly if music is performed/ played via the internet there is no agency that collects royalties, as at the time of writing. This agency would need also to be global. In 2007 a London based global collection agency called Merlin commenced which collects copyright for independent music labels, however Merlin deals with independent labels, not musicians directly.

Secondly, the musician may want to exploit any opportunities for their songs. The musician who created the music is probably in a better position to identify opportunities for it, but may not have the contacts of a publishing company. Similarly a musician may be sensitive to any inappropriate exploitation that may devalue the song or entity. A plan for exploitation of the song should be developed and put into effect. This could include:

1. Distribution of free promotion copies to radio stations;
2. Posters;
3. Touring;
4. Viral marketing through chat boards; and
5. Other innovative low cost methods.

Musicians need to identify any potential for sales overseas, and whether to register with the relevant foreign agencies. If global chatboards and viral marketing is used demand could easily and quickly escalate, particularly if songs are sold by digital download. This is discussed in more detail in the music promotion section.

Finally, because as the band is a business, with an ABN and quarterly Business Activity Statements, accounts will need to be prepared and managed, royalty payments made and other administration undertaken that is traditionally handled by publishers. Band members may negotiate the ratios of royalties each member will receive. The agreement might stipulate whether the royalties are paid after all expenses (for example marketing) are reimbursed. This needs to be in a signed contract. The contract should contain triggers and termination mechanisms (for example if a band member leaves whether they continue to receive performance royalties etc). Music producers may also require a portion of royalties in lieu of wages (Simpson 2006). An outside
party (lawyer) may be required to draft contracts because when there are one or two songwriters in a band, they receive the bulk of royalties (mechanical and controlled composition). This creates income inequity within the band and may trigger interpersonal discord. Bands can negotiate royalty allocation. Some may decide to split royalties evenly amongst members regardless of their input on individual songs.

Litigation may be required in order to protect against or recover funds from copyright breaches or misuse. Such litigation is expensive, time consuming (for example trying to identify an online offender), potentially brand damaging, complicated and may or may not succeed. For example, the management of U2 sued a group called Negativeland for sampling a U2 song. It is estimated that the legal action cost U2 more than they would have received in licence fees from Negativeland (Simpson 1999).

New genres of music borrow (samples) use other songs. Sampling infringes copyright if a substantial part of a song is reproduced. ‘Substantial’ need not refer to the duration of the excerpt, but whether it is ‘an important or distinctive part of the original’ (Australian Copyright Council 2002), which can be widely interpreted. This becomes particularly contentious in some music genres that rely heavily on borrowing and mixing sound bites. To seek permission for each sample would be administratively excessive. To minimise the administration burden, music libraries (for example Sounddogs) contain sound slabs that users may borrow for a fee that includes the copyright processing. Another solution is for musicians of similar genres to form virtual online cooperatives that are copyright free to members, but copyright remains for anyone outside the cooperative. In such a model members can sample and share their music freely with peers.

Another solution is that musicians simply make their music freely available on the internet. The public can download as much as they like. If consumers appreciate the music downloaded they might mail a cheque to the musicians, or make some other form of payment. This donation or patronage approach may be exemplified by the initial strategy of American band, the Grateful Dead, of open access for non-commercial use, community building, and “music as folklore.” Pareles argues this may reflect: “copyright law was designed for sheet music and discs rather than the web” (2005: para. 9). However relying on altruism and patronage is risky because funding is
dependent upon the whim of a patron, or small number of patrons. Secondly music is not a charity, it is a service and product and should be treated as a business, not a charity. Other service providers do not rely upon donations, and nor should musicians.

A key challenge with copyright is that royalty payments pass through a variety of channels before they reach musicians. As at March 2008, legal action is pending from musicians over advertising revenues received by the major labels from YouTube, and proceeds from piracy legal action that the major labels have received. Three of the major labels settled legal action taken against Napster, Kazaa, and bolt.com for copyright infringement in 2007. Napster alone paid US$270 million (Lauria 2008). Musicians claim that these have not been passed onto them. “I don’t know any artist who has gotten a royalty statement (from their label that includes YouTube money),” said music attorney Chris Castle (cited in Sandoval 2008: para. 3). Music managers say part of the problem is that the record companies are not transparent about their financials. They say artists haven’t been made privy to the financial terms to the deals the labels are striking with YouTube or other websites. Jay Rosenthal, the legal counsel for the United States Recording Artists Coalition argued:

This is endemic to a lot of areas ... The performers really don’t know how they get paid. You just assume you get 50 percent of something. What we want to know is what kind of metadata do they get from these services to show this is what is played. Otherwise if you don’t, then the labels sit on their (butts) and don’t pay the artists because they don’t know how...what’s happening here are old contracts are colliding with new technologies. I’m not saying the labels are wrong for not knowing how to pay. But what’s wrong is not sitting down and figuring it out all the while they don’t pay the performers (ibid.: para. 22).

Brian Caplan, a music attorney said “the bottom line is the labels will feed themselves any rationalisation to keep as much money as possible for themselves and not share it with the artist” (ibid.: para. 17). “Sources” at the major labels claim, again, that the labels have not yet decided how to distribute the funds. They also claim that after deducting costs of legal action there was not much to pass on to musicians (Lauria 2008: para. 9). A source argued “record labels are experts at transferring money around and putting the onus on artists managers to find it” (ibid.: para. 12). Artist
manager Irving Azoff argued “they will play hide and seek, but eventually will be forced to pay something. The record companies have even tried to credit un-recouped accounts. It's never easy for an artist to get paid their fair share” (ibid.: para. 14). A greater transparency and granularity of financial statements and accounts by the labels for their musicians may alleviate such criticisms.

**Publishing: emerging systems**

Digital rights management

Technology companies are pursuing a technical solution to digital copyright. Digital Rights Management is used on Apple’s iPods to allow secure distribution of content. Initial attempts were “cumbersome” to use (especially when the alternative was a free illegal fast download) (Palmer & Cox 2007: para. 5) however a key success factor of the Apple iPod is its ease of use. It requires that each musical creation is assigned a M13P (Music Industry Integrated Identifier Project – similar to a barcode) identifier by CISAC monitors the use of digital music. Such tools require global software interoperability standards (MPEG-21) (CISAC 2004b). This might explain why the global rollout of iPods was slow. The use of a global barcode to each musical work may present a global solution to tracking royalties on the internet. Software can also be purchased to manage the process of publishing and tracking songs. For example, at Songtracker software can be purchased which the company claims can manage copyright, contacts, contracts, correspondence, licensing, administration, and royalties. For performance licensing, CISAC is also trialling fingerprinting of broadcast music to automate the process of collating records for royalty payments (ibid.).

There appears to be no collection agency that administers royalties from online music performance broadcasts. Such an agency, again, would need to be global. Shane Simpson (n.d.) predicts that in the future composers and publishers will no longer be able to rely on mechanical royalties or retail sale royalties for income. He predicts that these royalties will have as much relevance as sheet music royalties today. This viewpoint is similar to John Perry Barlow who predicted “the death of copyright” arguing “no law can be successfully imposed on a huge population that does not
moral support it, and possesses many easy means for its invisible evasion” (2003: paras. 3, 24). Simpson (n.d.) believes some form of transmission license will exist instead, and individual copyright owners will not have the resources to effectively administer their own copyrights, and so the role of publishers will morph but continue.

A company called Martian Method allows musicians to publish, sell music, and collect payments, either on their own website or from the central website. It aims to be easily accessible with a low barrier to entry. Founder Charlie Chan argued, “we see people who might only sell to 500 people, but those albums are valid. ITunes probably will not want to deal with all those musicians. That’s the thing about online publishing — you don’t have to sell a lot.” (Mackenzie 2004: 30). The site includes an interface for musicians to view sales information. Copyright payments are made virtually instantly to copyright owners. Martian Method publicised it received an “unsolicited seven-figure offer” (ibid.) to be acquired by a large technology company. There are similar entities overseas, for example Mudda, but others have not survived, such as hitmusicinc.net.

Royalties on CD sales (or any product where the payer owns the copy) are higher than performance or broadcast royalties (where use is transient and not retained). If revenues from music product sales diminish (music becomes free) it makes sense that broadcast/performance royalties increase. This strategy is slightly similar to that adopted by Adobe Acrobat, wherein consumers enjoy free copies of Adobe Acrobat, but premium copies can be purchased. Hypothetically in the future music may be free to consumers for personal use, but any commercial broadcast, placement or performance requires royalty payments that over time will increase to alleviate income lost through loss of CD sales. In reality vested interests in the media sector may eventually secure copyright frameworks for non-commercial use via a technological solution. Regardless of whether a technology solution is available, such a collection agency would need to be global, and further roadblocks to its operation include country currency and regulatory (taxation etc.) idiosyncrasies. Leonhard (2007) argues that copyright payments for use of music on digital networks should be paid by ISPs, portals, and online networks on a flat utility rate that covers all content and use, provided users watch advertising daily. A hypothetical progression on this model is described in the conclusion. It is not
introduced in this chapter because it is not emerging, it is not in operation anywhere, and is an outcome concept from this exploratory study.

Another approach is Creative Commons (CC), a non-profit organisation that was formed in 2002 (Creative Commons 2008). Creative Commons provides copyright licenses that facilitate certain uses of content, with some rights reserved. It does not charge for use of their licenses. Its aim is for flexible copyright, for example, it provides a framework in which consumers and content owners can interact, copy, distribute, sample and remix music (ibid.). Each creative work is recognised by metadata that contains license status. The concept of creative commons perceives music as flexible, evolving, interactive and creative, as opposed to a static product (ibid.). It is slowly becoming a global standard on a country-by-country basis. The creative commons approach is perhaps a key platform for the future, as evidenced by the band ‘Nine Inch Nails’, who released an album 'Ghosts I-IV' as a free download via their own website in March 2008. The project was licensed under a ‘Creative Commons Attribution - Non-commercial - Share Alike’ license. This means the music is open for non-commercial use provided users:

1. Must give credit to Nine Inch Nails;
2. Do not offer for sale any part of the album; and
3. Have to release it under a similar license.

‘Ghosts I-IV’ was a thirty six track instrumental record, and was available in a variety of download options and as a CD. The options were a:

1. Free download featuring the collection’s first nine tracks;
2. US$5 download featuring the whole album;
3. US$10 two-CD set (either via the website or in retail stores after a month); or
4. US$75 deluxe edition, including a hardcover book and a data DVD and a Blu-ray disc featuring high definition recordings and a slide show; and
5. Ultra deluxe limited edition version for US$300, which features the same items as the $75 version, but also signed and numbered by ‘Nine Inch Nails’ member Trent Reznor (NME 2008).

The ultra deluxe version sold out within twenty four hours, generating US$750,000 gross revenue alone. Two days later the download website was crashing frequently from demand. First week sales generated US$1.6 million from 800,000 transactions
(including free downloads), despite the album being entirely available on P2P sites (Buskirk 2008).

Key points

Traditional publishing
1. Publishing is complex, heavily regulated and requires specialist advice;
2. Musicians often assign copyright of their music to Publishers;
3. The royalty payment process is slow and complex;
4. To recoup royalties incurred in foreign countries is complex; and
5. Litigation is often required to recoup funds from copyright breaches.

Emerging publishing approaches
1. Digital rights management;
2. Some internet based royalty collection agencies exist that feature royalty micropayments immediately after transactions;
3. One global registration agency for digital music? Creative Commons? and
4. Transmission licenses may be excluded from traditional publishing contracts.

**Value chains conclusion**

Key findings of the value chain analysis are summarised in the table below. It highlights:
1. Emerging opportunities of digital music;
2. Issues in both the traditional and emerging operations; and
3. Key elements of the value chain that are most exposed to digital changes.

Digital technologies most heavily impact on the production and distribution of music, and opportunities exist in publishing, promotion and performance. Only the live performance of musicians is least threatened by a substitute offering in the digital environment. This is further discussed in table sixteen.
**Table 27: Traditional versus emerging music value chains**

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<thead>
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<th>Traditional</th>
<th>Emerging</th>
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<tr>
<td><strong>Production</strong></td>
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<tr>
<td>High fixed costs form a barrier to production</td>
<td>Digital technology - minimal manufacturing costs</td>
</tr>
<tr>
<td>Upfront payment systems lock in musicians, but upfront payments are required to fund the production</td>
<td>Emerging technology facilitates immediacy and simplicity and creativity in that ideas can be captured quickly</td>
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<tr>
<td>Label owns and controls most elements of production</td>
<td>No artefact (unless consumer burns a CD)</td>
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<tr>
<td>Many people involved in the process</td>
<td>Less people involved in the process. Can be one person</td>
</tr>
<tr>
<td>Highly structured, formal, time consuming</td>
<td>Can be unstructured, work when suits in real time</td>
</tr>
<tr>
<td>Complexity of process requires lawyers and accountants as well as production staff</td>
<td>Creation and sharing of new sounds for example looping</td>
</tr>
<tr>
<td>Formulaic, static</td>
<td>Interactive</td>
</tr>
<tr>
<td><strong>Publishing</strong></td>
<td></td>
</tr>
<tr>
<td>Artist usually doesn’t own the copyright - the Publisher does</td>
<td>Some internet based royalty collectors</td>
</tr>
<tr>
<td>Royalty process is slow</td>
<td>Digital Rights Management</td>
</tr>
<tr>
<td>Advertising revenues lucrative but rare</td>
<td>One global registration agency? ISBN Style system? Creative Commons?</td>
</tr>
<tr>
<td>Highly complicated and heavily regulated</td>
<td>Transmission and other ‘for profit’ use licenses</td>
</tr>
<tr>
<td>Requires lawyers, accountants, publishers</td>
<td></td>
</tr>
<tr>
<td>Litigation required to recoup funds from copyright breaches</td>
<td></td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td></td>
</tr>
<tr>
<td>Forecast sales required to estimate CD pressings. This leads to returns of unsold stock</td>
<td>No forecasting required, no costly returned stock</td>
</tr>
<tr>
<td>Slow and costly, requires logistics and retail infrastructure</td>
<td>Instant, global, mass market</td>
</tr>
<tr>
<td>Push approach</td>
<td>Pull approach</td>
</tr>
<tr>
<td>Comprises about 46% of CD price</td>
<td>Concept that it should be free</td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td></td>
</tr>
<tr>
<td>Costly and potentially damaging to musicians</td>
<td>Recording show in real time - Customers purchase it as they leave</td>
</tr>
<tr>
<td>Conversely musicians enjoy performing, and fans would greatly prefer a live performance to a digital one</td>
<td>Digital real-time performances (for example via internet) to global audiences</td>
</tr>
<tr>
<td><strong>Promotion</strong></td>
<td></td>
</tr>
<tr>
<td>High cost - video production, promotional goods and distribution of hard copy promotional items</td>
<td>The internet enables a specialised musician to directly promote to a global target market.</td>
</tr>
<tr>
<td>Reliance on promotional expertise and networks of professionals, brand management</td>
<td>User generated content and fansourcing may save financial costs but have a high potential time cost</td>
</tr>
<tr>
<td>Limited opportunities for specialised musicians in broadcast media</td>
<td>Customer relationship management is important as virtual contact deepens between fan and band</td>
</tr>
</tbody>
</table>
The table below updates the summary of the cost analysis previously provided in table twenty five, with suggestions for how emerging opportunities may replace traditional practices. Digital media technologies minimise the need for production and distribution infrastructure. The next element to be impacted by digital opportunities may be promotion. Musicians may use fan communities and social networks to generate content and a buzz, or word of mouth promotion. Doing so may minimise promotion costs. As with production and distribution segments, these costs may become negligible, although the may be a rise in the cost of time musicians need to spend managing such activities.

*Table 28: Cost analysis summary two*

<table>
<thead>
<tr>
<th>Production</th>
<th>Distribution</th>
<th>Publishing</th>
<th>Promotion</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital - MP3 / AAC</td>
<td>Internet / wireless</td>
<td>Forego product acquisition royalties, but ...</td>
<td>Fans and low cost dissemination channels</td>
<td>New types of performance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>use publishers for lucrative licensing opportunities</td>
<td>New revenue streams</td>
<td>New revenue streams</td>
</tr>
</tbody>
</table>

‘Six forces’ scenarios

Findings from the value chain analysis can be framed using a Porter’s ‘forces’ framework of global music trends. This may suggest how specialist musicians can compete on cost, differentiation and/or uniqueness. The following discussion relates to the sector from the perspective of a musician.

Porters five forces included: new market entrants, suppliers, customers, substitutes and competitive rivalry. The forces framework by Michael Porter can be used to assess the impacts of competitive rivalry, which ultimately impacts the viability of sector participants. The role of regulators and complimentary offerings are other influences worthy of consideration within the current music sector. Some forces model analyses also consider trends in public opinion, but for this study the public are considered buyers (Karagiannopoulos, Georgopoulos & Nikolopoulos 2005).
The diagram below shows how this sector may appear under a Porters analysis.

Figure 17: The six forces of the music sector


Each force provided in the figure above is expanded below.

1. New market entrants are having a high impact due to the fall in barriers to entry in the key segment of music production. Digital technologies enable anyone to record and release music cheaply. The removal of production, manufacturing and distribution barriers has allowed unsigned musicians to enter the market. The major music labels have been slow to respond (Barlow 2003) and new innovative entrants, such as social network sites, may become the major label of the future. Social networks have facilitated easy access by musicians to global markets, and allowed the discovery of musicians by consumers (a pull rather than push approach to marketing) The market incumbents (major labels) have focussed on the music product segment of the music sector, because traditionally this has been the primary revenue source. They have reacted adversely, via legal action, particularly copyright protection, payment mechanisms, and litigation (Barlow 2003). These have been generally unsuccessful, primarily because:

a) Regulatory and legal processes are slow to respond to rapidly evolving markets;
b) Negative publicity incurred;
c) Piracy continues despite high profile successful court actions; and
d) Before iTunes, no legal alternative to file swapping gained market traction.

In addition the incumbents are attacking their potential customers. Incumbents have also attempted to acquire and smother new entrants; for instance, Napster was purchased and stalled by litigation while competing products expanded into the market created by Napster. Incumbents have also copied the successful strategies of others, for instance the Sony BMG plan of a portal for unsigned bands to upload their music appears to be an attempt to replicate the success of social networks (Sherwin 2007). They have failed to respond appropriately to these innovations and lost market share.

New entrants are entering segments of the music sector, including promotion and performance. For example, technology firms have commenced music distribution activities. This includes Apple (iTunes), mobile phone ring tone providers, computer game suppliers etc. To address this, the major labels have initiated 360-degree contracts with their musicians, where they take a percentage of revenues across all musician activities in all segments. Avalon (2008: para. 11) believes this may mean that musicians pay two sets of commissions, in addition to the percentage that a label normally takes, and musicians may not want to pay twice so may not contract to outside vendors. If so, this would potentially remove a layer of specialist service providers (tour agents etc.) currently in the sector. Labels may also forge alliances with technology and/or telecommunications companies to initiate utility pricing for listening via internet streams to music catalogues. The major assets of labels are back catalogues (copyrights) and promotional networks, and so new musicians are increasingly questioning their usefulness (Papagiannidis and Berry 2007). 360-degree contracts allow the labels to expand potential opportunities to be useful to musicians.

2. Suppliers are being replaced. The number of bricks and mortar retailers, recording studios, manufacturing plants and other high cost infrastructure entities is declining. The number of legal digital music outlets online is increasing. As at April 2008 Apple was the leading music retailer in the United States (Neumayr 2008). The major labels were slow to respond to digital music opportunities, possibly due to the risk of cannibalisation of their traditional business models, specifically physical products and pressure from retail suppliers. Many initiatives made to date appear to have been
intended to defend existing operations (Stern and Deimler 2006: 334) and traditional suppliers are being investigated for collusive pricing (as at April 2007) in the United States.

The major labels can cross-sell music into other entertainment media within their business, that is, Warner music may appear in Warner films. The major labels have created label music portals where unsigned artists may place their music for discovery. For instance, music in the Sony portal from an unsigned musician may be licensed for use in a Sony film. This exposure would be an attractive incentive for unsigned musicians to upload their music into the Sony portal, but Sony then owns the rights to that music.

There will always be dominant incumbents in the music sector but in the future emerging innovative suppliers and intermediaries may challenge their dominance. These include companies from other sectors including:

a) Technology (for example Apple);

b) Software (for example YouTube);

c) Communications (for example mobile phone suppliers); and

d) Media (for example News Corporation with Myspace).

It is normal practice for incumbents in any sector to be challenged by innovative startups, but to date the strategic responses of the incumbents have been slow and in some instances have not reflected the structural impact of innovations in digital music.

3. Consumers are having a high impact on the sector. A new generation of consumers that grew up with free music via P2P sites are now maturing to an age group where they have disposable income. But, as evidenced by the continuing popularity of P2P, and as discussed previously they typically continue to believe that music should be free, perhaps because of a perception that it costs very little to produce and release, and secondly that payments for music go to a system and not the musician. Their entertainment expenditure is on newer channels, such as computer games. It could be argued that this has resulted in a decline in musician incomes, but in actuality musicians signed to major labels rarely saw significant returns from product sales because their costs of production were high and advances to cover these costs needed to be repaid. Consumers today typically have low attention spans (Seely Brown 2002)
(attention economy theories will be discussed later). An opportunity for musicians is that they can now target global markets cheaply, and a few potentially may sustain incomes from micropayments off a global fanbase (Anderson 2007). Consumers have increased power in this market via social networks: they have forums to communicate their opinions; they participate in social networks, music recommendation, blogs; and have even created new genres of music (mashups). The role of journalists in traditional media as music tastemakers has diminished because increasingly consumers rely on peers and friends in social networks to recommend music. Traditionally the output from major labels was a higher priority to music reviewers and media than non-label music because major labels invest heavily in marketing.

4. Complementary sectors are emerging from the technology and telecommunications sectors. Media and advertising remains complimentary sectors, however emerging within them are new opportunities, including social networks, which can provide a platform for music discovery and promotion by consumer communities. Traditional media is diminishing in importance as evidenced by the increasing rate of music magazine closures (Harding 2008b), MTV doesn’t play music videos anymore and retailers such as Target are shrinking the retail space devoted to music (Jaworski & Richards, 2008b).

More specifically, complementors include:

a) Technology sector;
b) Social networks;
c) Digital games;
d) Telecoms, ring tones;
e) Internet service providers;
f) Hospitality sector, events management;
g) Tourism;
h) Advertising;
i) Media (film, television, internet and radio); and
j) Musicians signed to major labels increasingly must have other entertainment offerings – such as the ability to dance, cross sell products etc.
5. Product and technology developments are having a high impact. Home recording technologies have created new music genres (electronica, rap, hip hop, mashups). Secondly the internet has facilitated easy access to global markets and digitisation has removed the need for manufacture and distribution of physical products. Consumers are becoming more comfortable with online payments as a result of the maturation of digital payment mechanisms and increased security. Significantly, piracy has eroded royalty income from product sales. Digital rights management, the major label response to piracy, backfired (Craver 2000; Palmer & Cox 2007). DRM efforts have been cumbersome and adversely impacted consumers and consequently the reputation of music labels. However DRM theoretically facilitates the management of digital rights.

6. Regulators cannot keep pace with change. The ability for regulators to control this sector is diminishing because the legislation that covers intellectual property is complex. The regulation of royalty payments, copyright, piracy and intellectual property is complex and requires expert advice. Therefore legal action is costly and slow. Many innovations in the music sector have been illegal, including P2P, music streaming and personal copying of CDs (in some countries). Sector incumbents are protected to some extent by a strong, well funded lobby group (the IFPI). The manufacture of compact discs is environmentally polluting, involving plastic, chemicals and waste (manufacturing waste and returns of unsold stock) and to date, taxes on emissions have not commenced.

Musicians now operate in global markets, and negotiating global protection for their music is difficult. Theoretically their music may be played anywhere and so royalties can be incurred across countries. This highlights the need for a global centralised royalty collection agency, with consistent practices and payments. To expedite the process an entity has formed to represent independent music labels globally for royalty collection (Merlin). This still does not cater for musicians who are unsigned; rather Merlin represents independent music labels. Alternately musicians may opt out of receiving royalties on the basis that it is too complex to administer, and seek income from ancillary activities and merchandise. The non-profit Creative Commons organisation can provide multi-country protection against unauthorised commercial
use of music. Environmentally aware musicians have arranged and promoted carbon neutral tours.

7. Competitive rivalry is now volatile and complex. Competitive rivalry has, over the last century, been minimal because the major labels have operated as an oligopoly. The major labels are under investigation in the United States for collusive online pricing (as at April 2007) (Hannaford 2006; Maul 2007). Today the number of mainstream musicians is declining (as major labels invest more resources in fewer acts), and their life cycle is now smaller. This can be seen in the renaming of artist development departments to product development in some major labels. Labels are also seeking alternate revenue streams from provision of services such as sponsorship of tours, increasing their share of royalties’ income. This may mean either musician’s may pay twice for services or specialist providers will lose business.

Music sector fragmentation has changed the nature of competitive rivalry. Rivalry is high, volatile and complex, notably because of:
a) Rapid change in the sector;
b) Removal of barriers to entry; and
c) Competing entertainment options vying for the consumer wallet.
Competing entertainment options, some of which may include a music element, include digital games, films, and social networks. There appears to be two clear operational models, being: musicians who sign to major labels that heavily invest to create a product which targets the mass market, usually in a short lived life cycle; and musicians who target smaller markets with higher value offerings over the longer term. Generally both segments compete in different markets in different ways. ‘Radiohead’ and ‘Nine Inch Nails’ are prominent examples of high profile bands leaving major labels to operate independently.

Attention economy theories, as described previously, treat human attention as a scarce commodity that has value in an environment of overwhelming options for attention. These theories as detailed by Davenport and Beck (2001) and Kelly (2008: para. 13-20), attribute the value of attention to intangibles such as: immediacy, personalisation, interpretation, authenticity, accessibility, embodiment, patronage and findability. Consumer attention is a potential source of new revenue for musicians with smaller
markets, who can offer a higher, more personalised service than mass marketed musicians. To illustrate, musicians with smaller markets can offer immediacy of access and personalisation. Consumers may email or sms the musician directly, whereas emails to a mainstream musician would be read and replied to by a staff member and/or go through various channels of edits before a response is made. Emerging mobile technologies allow the musician to operate wherever they may be, for instance, messages can be sent to consumers as they leave a venue, thanking them for attending a show and giving them a discount code for the purchase of any merchandise online. Or fans can request in real time (via, for example sms) songs during a performance (Jaworski & Richards 2008a: 1). This immediacy strengthens the relationship and loyalty (Kelly refers to this as patronage) for specialist musicians. Mass-market musicians may not be able to offer this level of personalisation; it is not as authentic for a consumer to receive a response from the staff of a major label, or an automated response. If a consumer has immediate contact with a musician, they are potentially more loyal to them. If the musician is associated with a brand, the consumer is more likely to be amenable to a brand. For example, Michael Jackson fans may have increased their consumption of Pepsi after Jackson started to advertise it.

The biggest attention economy challenge for musicians is being found amongst the millions of competing entertainment offerings, which Kelly (2008: para. 20) refers to as findability. There is a value in the ability to be found, and this helps to explain the high valuations on intangible services provided by social networks, and the decreasing relevance of traditional mass-market broadcasting. In a traditional promotion model the major label would use their network and distribution channels to promote an album or band. The fragmenting media landscape today means that musicians need to get across as many platforms as possible for exposure (eyeballs) and to create awareness. The fan base may potentially be used for this purpose, as can distribution aggregators such as Tunecore who will distribute songs across service providers for a small fixed fee (US99 cents per track as at April 2008).

The points above highlight a key finding of this chapter, that is, a shift along the value chain continuum from a product approach to a service approach, because the product of music has commoditised from digital distribution and production. This chapter has highlighted the erosion of elements in the traditional music business value chain, due
in part to a slow or inappropriate response by the major labels to changes in the environment. Michael McDonald, a niche label founder and artist manager commented on the traditional music business:

the major-label artist relationship has not been based on partnership. I always equate it to paying off your mortgage and then the bank still owning your house ... I think the big opportunities aren’t always coming throughout the label anymore, it’s flowing much through management, and sometimes directly through the artists. There was a day when the majors were unequivocally the gatekeepers ... (now) people on both sides are reaching out directly to one another, to the point of sometimes reaching out directly to the artists (Moody 2008: para. 16).

Emerging tools and strategies that may enable musicians to succeed outside of the traditional mainstream music value chain have been identified.
The proliferation and escalation of digital innovation created a wave of 'creative destruction' that impacted most frequently firstly and most heavily on the music sector. Although change may take years to gain traction in the mass market, there has been an underlying shift towards digital content, and this has far reaching consequences. In particular, the price of digital content has eroded, partly as a result of piracy and partly because the propensity of consumers to pay for online content is low. As a result, elements of the music value chain have shifted from a product focus to a service approach with a focus on: intangibles; capturing and holding consumer attention; and providing unique experiences. Some music services offer opportunities for new revenues and/or cost savings. Opportunities for musicians to manage their own operations and sustain success have been identified.

This study was initially motivated by the May and Singer (2001) arguments that major labels have little to fear from current music sector changes, because they just need to adjust to a new business model and secondly musicians lack business skills. This research aimed to address the following questions:

1. What is the nature, cause and potential of emerging business models for music in the context of broadband internet and social media software?
2. Can changes in the digital environment facilitate a financially viable, sustainable business model for specialist music? and
3. If so, can musicians use this model to succeed?

But firstly to summarise the structural changes affecting the music sector. The growth and diffusion of digital inventions, while slow to gain mass-market acceptance, have created market volatility, uncertainty and complexity. The major labels, that
traditionally dominate the sector, have been slow to respond, and their efforts have often failed (for example digital rights management). Structural changes present opportunities for specialist musicians to self manage and sustain careers. Within the context of structural change, the following three sections discuss findings from the three phases of this study: change agents and control; value chains; and musician self-management.

**Case studies: change agents and control**

A review of literature on change agents and incumbent reactions in the music sector was undertaken to identify competitive strategies, or clues for how specialist musicians may compete in the emerging digital environment. It helps to understand factors that led to the past success of change agents when predicting the success of emerging change agents. The case studies provided insights into the impact of ‘creative destruction’ in the past, and placed current changes within context.

Key themes for successful change emerged from the case studies and included:

1. A subversive, or revolutionary approach to activities;
2. A charismatic leader;
3. Leveraging off the quality and creativity of ancillary products;
4. A community or tribal culture;
5. Cost containment and lean ‘bootstrapping’ entrepreneurial approaches; and
6. Using new access methods.

The case studies found that historically incumbents defended their positions using:

1. Suppression, for example using propaganda and/or violence;
2. Financial power to acquire change agents;
3. Financial power to flood the market and dilute the agent’s power with imitations;

and
4. Legal or regulatory action.

Table fifteen in chapter four summarises key points of the case studies noting: change agents; methods of change; and how those affected by the change reacted. For example, The 'Sex Pistols' used a sense of revolution to build a community base. The major labels (sector incumbents threatened by this change) responded by offering
punk bands contracts (a type of acquisition strategy) and then diluted the aggression and deviance of punk music by. Amongst other strategies, marketing products to a mass audience. The themes identified are robust and not time or location specific, they are relevant today as competitive strategies.

The case studies found that although the sector is evolving and continually receives disruptions such as new technologies, the dominant system continues to maintain control. However the dominant incumbents themselves may change, be acquired or replaced, as part of the business cycle. As demonstrated throughout recent history, there will always be a popular mass market. While a mass market exists, entities that service it will therefore exist too, and the scale of the mainstream requires that the companies servicing it are large, and therefore potentially dominant. Conversely there will always be operators whose markets are smaller. Historically those operators have been financially challenged however changes in the environment may facilitate sustainability.

**Value chain summary**

The value chain analysis identified and examined elements of the music sector comprising: production, distribution, promotion, performance and publishing. It compared the differences in traditional and emerging systems. Key findings are summarised in table twenty seven of chapter five, which compared traditional versus emerging trends within the music value chain. It shows that in the current environment digital technologies most heavily impact on the production and distribution of music, and opportunities exist in publishing, promotion and performance. Only the live performance by musicians is least threatened by a substitute offering, because musicians cannot be ‘replicated’ in person. Opportunities to provide premium services linked to live performances are emerging.

To highlight the problem with traditional processes, Hanson, Hutton and Swenson (2003: 8) claim “music is ultimately about the performance of a person or group. It’s a vibe, it’s an emotion ... we as engineers, producers and musicians get so involved in the technology and the process of music production that we lose sight of what’s important.”
Easley, Michel and Devaraj (2003) claim that attempts to control all the channels and formats of music (and ancillary activities) may prove too costly. Musicians may have to relinquish control of their product and focus instead on revenue opportunities in ancillary activities or products.

The value chain highlighted elements in the music system over which musicians have varying degrees of control. Figure nine in chapter six provided an overview of the activities involved in the music system. Musicians are influenced by external factors that are generally beyond their control, and they should monitor these and react appropriately. These include economic, environmental, social and regulatory and technological trends. Despite having little influence over these variables, musicians can still exploit them. For example, musicians have little control over technology developments, however they can exploit new technologies to improve their offerings.

The value chain analysis demonstrated how specialist musicians could compete on either cost and/or differentiation (and/or uniqueness which is similar to differentiation). The following discussion relates to the sector from the perspective of a musician, with reference to figure seventeen in chapter six. Figure seventeen shows how the music sector might appear under a Porters forces analysis (Porter 1998).

In relation to product and technology development, digital technologies enable anyone to record and release music cheaply. The major music labels have been slow to respond to technological changes and this has opened door to door to innovative new market entrants, such as social network platforms, who can be used to replicate the promotion and distribution functions of major labels. New market entrants are involved in other segments of the music sector, such as promotion and performance. The real assets of the major labels now are back catalogues and promotional networks, and so new musicians are increasingly questioning their usefulness.

There are less bricks and mortar retailers, recording studios, manufacturing plants and other high cost infrastructure entities. These suppliers to the sector are being replaced because they cannot compete with models whose costs are negligible due to their use of new technologies. One positive for the sector incumbents, the major labels, is that
they can cross-sell music within their business. For example only Warner music may appear in Warner films. New complementors are emerging, such as video gaming software that uses music.

Consumers, or buyers, are impacting the sector because they are buying less traditional music products (CDs). A new generation of consumers that have grown up with free music via P2P sites are now maturing to the age group where they have disposable income. Typically they continue to believe that music should be free, and their entertainment expenditure is on newer formats, such as computer games. It could be argued that this has resulted in a decline in musician incomes, but in actuality musicians signed to major labels rarely saw significant returns from product sales because generally no payments were made to them until production costs were recouped. Musicians did however enjoy advances on product sales. Consumers today are stereotyped as having low attention spans and there are more available entertainment options (Seely Brown 2002; and attention economy theories discussed below). Musicians may now target global markets cheaply, and potentially can generate sustainable incomes from a global fan base. Consumers now participate in global social networks, online music recommendation activities, blogs, and have even created new genres of music (mashups) using home recording tools that are freely available.

The ability for regulators to control this sector is diminishing because the legislation that covers intellectual property is complex and legal action is costly and slow. Many innovations in the music sector have been illegal, including P2P, streaming of music and personal copying of CDs (in some countries). Environmental issues are increasingly important, musician tours may aim to be carbon neutral, whereas traditional CD manufacturing generates significant pollution. Musicians may now maintain a global fan base, and negotiating global protection for their music is difficult. The non-profit Creative Commons organisation can provide multi-country protection against unauthorised commercial use of music.

Competitive rivalry is volatile and complex, notably because of rapid change in the sector and competing entertainment options vying for the consumer wallet. There appears to be two clear operational models, being musicians who sign to major labels
and those who try to be independent and deal directly with consumers. Generally both segments compete in different markets in different ways. ‘Radiohead’ and ‘Nine Inch Nails’ are prominent examples of high profile bands leaving major labels to operate independently. Attention economy theories apply, which can be generally described as treating human attention as a scarce commodity that has value. According to Kelly (2008: para.’s 13-20) this value can be attributed to intangibles such as: immediacy, personalisation, interpretation, authenticity, accessibility, embodiment, patronage and findability. The manager of an independent band suggested: “One of the things I make all my artists do is sit down, take a couple hours, and respond to all of your fans, … and once they start to get into that process, it’s no longer a chore for them, they really do enjoy it” (in Jaworski and Richards 2008b: 3). Another manager suggested, “you’ve got to have a direct connection with your fans. Cut out the middle man, just go do it yourself” (ibid.). The importance of these activities to musicians in a service approach has been discussed previously, and it is increasingly important that musicians associate developing their fan bases and their brand with value creation.

The points above highlight a shift along the value chain continuum from a product approach to a service approach, because the music product has commoditised via digital distribution and production. ‘Grateful Dead’ member and Berklee Law Center Fellow, John Perry Barlow, described art as a “service, not a product” (Barlow 2003: para. 23). Tapscott and Williams (2006: 26) believe that digital music presents a “huge opportunity to place artists and consumers at the centre of a vast web of value creation.” The following sections highlight how.

Table twenty nine below shows a high level overview of music operations, based on a comparison by Richard Daft (2007) of manufacturing and service technologies. It contrasts the two approaches with the caveat that most offerings are a mix of product and service. Musicians may no longer rely upon product sales for income, so they need to seek alternate revenues from other parts of the value chain. The table below emphasises: touring; increasing consumer access to musicians and their music (and charging premium prices for the service); and closer alliances with complementary sectors. It highlights that emerging opportunities are in music services as opposed to music products. However, at time of writing the bulk of (officially measured) revenues in this sector still relate to compact disc sales.
### Table 29: Key variables in product versus service approaches

<table>
<thead>
<tr>
<th>Product focused approach</th>
<th>Service focused approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production</strong></td>
<td></td>
</tr>
<tr>
<td>capital asset intensive</td>
<td>labour and knowledge intensive</td>
</tr>
<tr>
<td>produce, manufacture, distribute, sell:</td>
<td>ongoing continuum of selling, production, distribution and consumption can occur rapidly. The quality of music available will not dilute or diminish. It will change.</td>
</tr>
<tr>
<td>lumpy versus JIT</td>
<td></td>
</tr>
<tr>
<td>location is important to profitability</td>
<td>location unimportant</td>
</tr>
<tr>
<td>digital rights management included</td>
<td>digital rights management included</td>
</tr>
<tr>
<td>environmental impact of manufacture</td>
<td>minimal environmental impact</td>
</tr>
<tr>
<td>UGC – consumers become producers. musicians may produce music in conjunction with consumers. Consumers may remix and release music</td>
<td></td>
</tr>
<tr>
<td><strong>Promotion</strong></td>
<td></td>
</tr>
<tr>
<td>little direct customer interaction</td>
<td>direct, high interaction with customers UGC – consumers become promoters. Consumers become explorers who can see friends play lists and make music recommendations. Social networking becomes a major promotional force.</td>
</tr>
<tr>
<td>low requirement for relationship management skills</td>
<td>high requirement for relationship management skills</td>
</tr>
<tr>
<td>intrusive, one way push advertising at particular times</td>
<td>Ongoing push and pull conversations with customers, CRM, social networks</td>
</tr>
<tr>
<td>focus on efficiency and cost of manufacture</td>
<td></td>
</tr>
<tr>
<td>tangible offering</td>
<td>focus on customer experience intangible offering</td>
</tr>
<tr>
<td>Brand management is important</td>
<td>Brand management is important. Musicians will also need to let go ownership of their content as consumers increasingly promote them via comments, video uploads, blogs etc.</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td></td>
</tr>
<tr>
<td>import export regulations, third parties required (logistics, retailers etc)</td>
<td>less regulated, less third parties required</td>
</tr>
<tr>
<td><strong>Publishing</strong></td>
<td></td>
</tr>
<tr>
<td>Complex royalty and DRM processes</td>
<td>Intellectual Property ownership issues when musicians collaborate with consumers. For instance if the collaboration results in a product created by both musician and consumer.</td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td></td>
</tr>
<tr>
<td>Perform primarily to sell products</td>
<td>Performance is the offering</td>
</tr>
</tbody>
</table>

Based on: Daft 2007.
In conclusion, there are a variety of emerging opportunities that have been identified within the music value chain. Musicians may be able to exploit some opportunities, and doing so may sustain their careers. The selection of opportunities depends upon a variety of factors, including the aims of the musicians.

“Don’t try to explain it, just sell it” (Colonel Tom Parker, in Tripp 2007). Over the last century the primary revenue source of the music sector has been music products. If musicians seek to sell their music product, there are at least four emerging models for selling digital music, as described in the value chain chapter. They are via:
1. Simple transactions (consumer buys a song);
2. Subscription (consumer subscribes to a music service provider which holds catalogues of music, or a musician website where the subscription includes free access to their catalogue);
3. Advertising supported free services (consumer listens to streamed digital music but firstly listens to an advertisement, or can see advertisements on the music site); and
4. ‘Freemium’ sales (music as a loss leader).

The music product cannot be solely relied upon for future revenues. Other revenue opportunities must be identified.

Expanding from this, table twelve in chapter three provided an overview of some identified music revenue models. It compared the benefits and challenges of the following revenue sources: subscription; utility pricing; retail; freemium; venture capital; advertising; user generated content and performances. Some approaches primarily cut costs and so allow musicians to save a larger portion of revenues, whereas other approaches increase revenues. Some approaches mimic the traditional system in an online environment (for example online retailers of compact discs). Challenges frequently arise from working with dominant players in the system, for example publishers, internet service providers or advertising agencies. Other challenges relate to issues of scale, dealing with growing consumer bases. The most potential for new revenues appears to be in offering services.
Music is an experience
When a sector is rapidly changing and highly unstable it helps to focus on the core product or service offering of that sector. Decisions can then be made around how that core offering/product interacts with the unstable environment. So to navigate the volatile music sector we need to ask: what is music and how does the music sector profit from it? John Perry Barlow (1994) described information as an activity, a life form. Digital music may be treated as information. Music is an experience, a service not a product. Perhaps business models from service industries are more applicable to the emerging music sector than the traditional manufacturing, product focussed models. The next section explores this hypothesis.

If we revisit the music sector prior to the invention of the record player (or earlier, such as pianolas) we can see the core music offering: it is a service, not a product. Sound is not a tangible product that can be sold, we all create sound. But musicologists may tell us that music communicates, it conveys feeling and emotion, it facilitates social events and stimulates memories. It makes us feel good or feel like dancing or helps invoke another era or culture (Hodges & Haack 1996). The Mpeg or vinyl item doesn’t do it, the music it contains does. Prior to the inception of recorded music, music was transient; once it was performed it was over, the sound could not be captured except as a memory (although sheet music recorded notations). Since the advent of the phonograph the focus of the music sector has been on the product medium (compact disc, digital rights management, iTunes etc), often at the expense of the message (music) and messenger (musicians). The compact disc format may become as redundant to society as sheet music or vinyl records – serving a minor specialist market. Consumers have benefited from this, but because the product is changing so rapidly a refocus is required on what music ultimately is.

By making their music available, musicians deliver a service. Playing or performing music is a service. With the exception of recent 360-degree contracts, thinking of music as a product has distracted the major labels. They may have been more successfully positioned today had they maintained a service approach, but rarely in the last few decades have major labels invested in the service aspects of the music sector, preferring alliances or outsourcing to specialist entities. For example they have rarely prominently sponsored social music events such as community dances nor owned
nightclubs and other venues, or managed tour logistics. Instead they have focussed on a process of grooming musicians and pushing the product. The products with highest sales generally attract repeated investment. The consequences of this distraction are evident as the music product commoditises to a price point of zero.

The invention of the record player became the driver for the creation of new infrastructure (recording studios, pressing plants, distributors etc.) around the production and sale of vinyl. The manufacture, promotion and distribution of music became complex and costly and therefore dominated by the major labels who secured the infrastructure and value chain. Doing so created a barrier to entry. Furthermore these companies produced and/or sold the hardware on which music was played, creating vertical integration. These companies include EMI, Sony BMG, AOL Time Warner, Festival and Universal. Over the last few decades a common aim of musicians has been to sign a recording contract with one of the major labels, and this model has significant opportunity costs for musicians. It is commonly asserted that the major labels do not always act in the best interests of their artists in the pursuit or protection of profits. The major labels generally treat music (musicians?) as a product to be packaged and sold. This is primarily because product sales comprised the bulk of revenue, as evident in recent years where artist development divisions in major labels have been renamed product development divisions, with a focus on the music product as opposed to the long-term careers of artists.

The product focus has sometimes been detrimental to musicians who create that product. For example:

1. There are several examples of musicians who have suffered health problems exacerbated by exhausting touring/promotion schedules. A primary driver for tours and performance is to increase product sales. Tight schedules allow no time or space for creativity so composing new songs becomes much more difficult;

2. The major labels operate large corporate structures to provide services to musicians. Musicians may be over serviced and subsequently overcharged by these companies. For instance musicians will be given large upfront retainers and then charged for high quality recording and promotion services when in actuality they can only afford basic services. In addition the high quality production style may not enhance sonic quality or suit their sound. The retainers and production
finance is based upon estimated sales, and if sales targets are then not met the musicians cannot repay their debt;

3. Often the musician becomes the product - the person becomes a brand. Financial and other resources are invested on developing that brand (person), for instance the major labels have PR teams who dress and groom musicians. These brands are then used in advertising (such as Michael Jackson promoting Pepsi). Similarly when investments are made in developing and managing brands, that brand cannot change easily. For instance Tommy Lee uses his edgy rocker brand to sell Apple products and it is highly unlikely that Apple would be impressed if he decided to take a risk and release an album with James Last or Janet Mead. When such alliances have occurred they are usually brand managed beyond the point of creativity into novelty. These examples are extreme and stereotypical but hopefully emphasise that branding and consistency stifle creativity and risk taking in the sector; and

4. It provides some degree of comfort to the major labels to estimate prospective sales based upon prior sales and known entities. So musicians who have a track record, who have recorded and sold before and have a customer base, are easier bets than those without prior sales and so more likely to get finance. They may have pressure to be consistent, to repeat the same style in new work. But unfortunately the health of the cultural sector depends upon experimentation, risk and the mainstream notion of the next big thing. In other words, the sector depends for its vitality upon new ways of conveying emotions, thoughts, social activities or other services. So in order to sustain (and enjoy) a career, musicians should seek to experiment, take risks and face challenges. Yet the major labels reward those that follow a consistent pattern of repeating what was successful previously, until the bored consumer stops buying.

The literature review highlighted that traditional models of copyright protection are less relevant in the digital music environment. A proposal by Jim Griffin of Warner music, discussed in the ‘Distribution – emerging systems’ section of chapter six, is another example of the product focus. Musicians will be remunerated for online downloads of their music via traditional copyright sampling processes such as product sales. However in an environment where the music product has diminished value, it
may be more appropriate to base copyright payments upon the use of music, rather than the acquisition of music. An alternative approach will now be described in detail.

A download is a once off event that doesn’t reflect the service value of music. An appropriate, more optimal model would measure the service that music provides. The value of music is not in a download; it is in the listening to the download. A user may download a song and never listen to it (for instance to complete a collection, or replace vinyl with digital versions). That song has provided no service and consequently it may have no value. Another song may be downloaded once and listened to one hundred times; its value is one hundred times greater because it has provided a service to the listener (enjoyment etc.). A more extreme example is that a consumer listening to a song one hundred times is more valuable than one thousand people downloading a song and not listening to it. Musicians could be more appropriately remunerated for their service if copyright funds were allocated based upon listens/plays rather than downloads. All listens could be measured by a volunteer sample, as opposed to a sample of sales. With a far wider volunteer base this approach may capture the ‘long tail’ specialist musicians who tend to either fall out of the traditional sampling process or who if captured are paid far in excess of their sales.

The technology exists today to identify and measure the listens by consumers of their music across multiple devices (on their computer, mobile phone, mobile music device), for instance Last.fm, Imeem and iLike. Other emerging music tracking services have been identified such as Filter.com, MOG, Mystrands and Social.fm. As at April 2008 it is estimated that these three services (Last.fm, Imeem and iLike) alone have in excess of seventy eight million users worldwide who voluntarily track the music they listen to and make this information public. This estimate is based on data from Quantcast, Compete.com and company media releases. The Imeem network has ninety five million users but not all users may use the music function so a conservative estimate of twenty four million was used. In addition there are hundreds of services where consumers publicly stream their music play lists and this data could also be captured, as could plays of music on musician Myspace pages and other social network services where musicians have pages, such as Secondlife and Buzznet. Widgets or small software programs could be created within music devices to track and report plays, and this could be enabled by the consumer. Consumers may have a higher propensity to
volunteer this information when it is tied into social networks. If it means that the musicians they listen to are rewarded then consumers may also be more likely to support it. If funds were dispensed based upon the aggregated data of all plays by consumers (rather than sample) this would be a more realistic and relevant reimbursement.

The administration of copyright is costly in the traditional system. Royalty collection agencies that collect and disburse funds to publishers and musicians, may take up to twenty five per cent of aggregate funds as administration costs (c.f. Buskirk 2007 for an example of Soundexchange in the United States). Copyright agency registries, for example Gracenote and AMG, charge a fee for access. This creates a barrier for self managed musicians with small markets because the costs of registering their music with the relevant agencies outweigh potential copyright revenues.

A leaner process could be to tie a Paypal-like account code to each song file in a digital registry. An emerging registry is Musicbrainz, a non-profit entity that crowd sources contributions of song registrations. Musicbrainz acts as a metadata repository and aims to become “the Wikipedia of music”, but at the time of writing it was lacking content (Musicbrainz 2008). Similarly Google have formed a non-profit OpenSocial foundation, to promote a universal standard for developer applications across social network sites (Meyers 2008), and this could tap into the Musicbrainz song registry for music related activities. Doing so may encourage the growth of Musicbrainz as a free alternative to fee based copyright agencies. If each song had the payment account of rights holders attached to it (as entered by the rights holders not consumers), then whenever a digital song is played, it is tracked, aggregated and the total fund allocated according to play ratios, into the rights holders accounts. This process is outlined in more detail in the process map below.
Figure 18: A hypothetical consumer service copyright model

Note: where connector lines are dotted it is a once off event.

A basic process by roles is described for illustrative purposes below. It includes examples of entities currently in operation that perform the same or similar roles.
### Table 30: The process of a hypothetical consumer service copyright model

<table>
<thead>
<tr>
<th>Role</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Musician</strong></td>
<td>- registers payment details (for example Paypal account) with Payment agency;</td>
</tr>
<tr>
<td></td>
<td>- registers music to obtain unique identifier (?) with Registry; and</td>
</tr>
<tr>
<td></td>
<td>- releases music into various places in the music pool (anywhere music is</td>
</tr>
<tr>
<td></td>
<td>available online, for example, P2P, online stores, social networks, compact</td>
</tr>
<tr>
<td></td>
<td>discs which later become online).</td>
</tr>
<tr>
<td><strong>Consumer</strong></td>
<td>- registers with an ISP and nominates play measurement entity of their choice;</td>
</tr>
<tr>
<td></td>
<td>- registers with a play measurement facility;</td>
</tr>
<tr>
<td></td>
<td>- regularly makes utility payments (pays ISP bills); and</td>
</tr>
<tr>
<td></td>
<td>plays music and details are recorded by play measurement entity.</td>
</tr>
<tr>
<td><strong>ISP</strong></td>
<td>- registers the consumer to the play measurement entity; and</td>
</tr>
<tr>
<td></td>
<td>- bills consumer and passes funds into the central $ pool.</td>
</tr>
<tr>
<td><strong>Registry</strong></td>
<td>(for example: Musicbrainz, Gracenote)</td>
</tr>
<tr>
<td></td>
<td>- receives song details from musicians and allocates a unique identifier;</td>
</tr>
<tr>
<td></td>
<td>- is linked to play measurement entity;</td>
</tr>
<tr>
<td><strong>Play Measurement Entity</strong></td>
<td>(for example: Last.fm, consumer streaming stations such as Pandora,</td>
</tr>
<tr>
<td></td>
<td>Rhapsody, Social.fm, Anywhere.fm. These track plays by</td>
</tr>
<tr>
<td></td>
<td>consumers across all digital music devices)</td>
</tr>
<tr>
<td></td>
<td>- records and aggregates songs played by consumer.</td>
</tr>
<tr>
<td><strong>Play Measurement Aggregator</strong></td>
<td>(a traditional example is copyright agencies (Australian Performing Rights</td>
</tr>
<tr>
<td></td>
<td>Association (APRA)) who perform roles for broadcasters but via a sampling</td>
</tr>
<tr>
<td></td>
<td>indicative process)</td>
</tr>
<tr>
<td></td>
<td>- periodic aggregation of play measurements; and</td>
</tr>
<tr>
<td></td>
<td>- allocate percentages of plays</td>
</tr>
<tr>
<td><strong>Payment Agency</strong></td>
<td>(traditionally this is performed by copyright agencies (APRA) and publishers.</td>
</tr>
<tr>
<td></td>
<td>Existing entities serving similar functions are Paypal and the global Creative</td>
</tr>
<tr>
<td></td>
<td>Commons)</td>
</tr>
<tr>
<td></td>
<td>- receives play percentage data from play measurement aggregator;</td>
</tr>
<tr>
<td></td>
<td>- receives funds from ISPs; and</td>
</tr>
<tr>
<td></td>
<td>- periodically processes payments to musician.</td>
</tr>
</tbody>
</table>

The process outline highlights that the inclusion of an ISP is questionable. It is convenient to add a utility amount onto a utility bill, but perhaps consumers may deal directly with a payment agency. Similarly the play measurement aggregator and payment agency could be one entity. Market monopoly concerns may also prevent a merger between these two processes.
Privacy concerns are minimised because it is voluntary, consumers can opt in. There are sampling concerns, for example only a particular demographic may opt in, and measuring by plays may negatively impact longer songs, but plays measurement could be refined to record time duration rather than number of songs. A significant impediment to this approach is structural, it minimises the need for traditional publishing and copyright agencies because it removes the need for sampling and focuses on the end consumer rather than intermediaries. It removes the need of traditional copyright agencies to undertake samples. This currently happens on a country-by-country basis.

The consumer service copyright approach could be scaled globally, and recognises that the online music market is global. However oversight of this process could also be seen as an additional function to the existing role of copyright agencies. There may be country specific regulatory impediments, however Creative Commons has been successful at resolving many of these across countries. The major impediment may be consumers. In this process it is the consumer who performs most actions. It is questionable whether consumers would typically opt into such as system and volunteer payments and play measurement. The explosive growth of play measurement services shows privacy is not an issue. For example, according to Quantcast.com (2008), Last.fm site hits grew thirty five per cent in the United States during February 2008. Last.fm commenced in London and Europe is its strongest region. If an alternative approach is the continuation of anti-piracy legal action perhaps consumers may be more inclined to this process.

This hypothetical model also provides an ongoing income stream if the music of a musician is listened to over time. It may be more optimal for specialist niche musicians who engender more loyalty than disposable mainstream music. Some musicians can sustain an income from radio broadcast royalties; this alternate approach could enable them to receive a new income stream of ‘consumer play’ royalties. Most significantly, it emphasises that music is a service rather than a product.

Finally, to summarise findings that relate to touring. Although the major labels have historically received the bulk of their revenues from product sales, it can be shown that musicians in fact generate more income from touring than merchandise. This is
reflected in the *Rolling Stone* financial survey of the top thirty five music acts in the United States during 2002, provided in table twenty six of chapter six. Furthermore, as portrayed in figure sixteen of chapter six, live performance is predicted to be the major revenue source in the United Kingdom of the future, after the year 2009.

The product-focussed model is changing; the major labels now seek alternate revenue streams such as performances and other activities. This offsets lost margins from product sales. For example, Adidas sponsored the 2006 Melbourne performance by Robbie Williams, and Adidas was promoted prominently in the venue. But the primary driver of label change is declining product sales, not a philanthropic interest in stimulating creativity. It is a defensive rather than proactive strategy. In other words, to harness alternate revenues they are tapping into the service aspects of the music sector, such as music performance. In this case they may need to pay greater attention to the welfare of the musicians to ensure they can deliver the services. Music sector employees who continue to treat music as a product may find they are working for telecom or technology companies as digital music products becomes more prevalent and costs of production diminish. Musicians who seek mainstream success will continue to sign to the major labels. However changes in the sector are opening wonderful opportunities for unsigned artists who are willing to experiment.

Opportunities for musicians are emerging: advice for specialist musicians

The current music system involves the processes of: production, publishing, distribution, performance, and promotion. Changes within the current environment may or may not have the potential to remove elements of this system. These changes can include technologies, socio-demographic and cultural shifts, regulation and economic changes, globalisation, the rise of other entertainment options and other competition for the consumer dollar. There are many opportunities for musicians in this emerging environment; for instance it may enable musicians to operate autonomously outside of the traditional process of seeking major label deals. Alec Ounsworth, songwriter for American band 'Clap Your Hands Say Yeah' reflects this saying: “I asked record labels, what exactly can you do for us that we're not doing for ourselves? And nobody had a reasonable answer. So it seemed to me if we could handle it, we could handle it” (Papagiannidis and Berry 2007: 32).
Musicians now have the opportunity to run enjoyable and viable businesses themselves, with greater autonomy. As at 2008, some opportunities to create sustainable businesses include:

1. Digital music which removes the need for expensive manufacture and distribution of physical products;
2. YouTube allows easy distribution of band videos or live performance. For instance, fans filmed a band performing in a venue and two days later the show appeared on YouTube;
3. A critical theme that has emerged frequently throughout this study has been the emerging opportunities within communities and user generated content. For example, musicians might use their fan base to undertake tasks previously outsourced to major labels, public relations agents etc. Doing so requires careful management, a working relationship with fans, and letting go of some control, but the benefits grow with the fan base size and degree of relationship between fan and band;
4. Online communities such as Myspace decrease the need to rely upon major labels for global promotion and facilitate safe interaction with fans. A caveat is that Myspace is owned by News Corporation and may in itself become a de facto major label and change its policies towards musicians; and
5. Emerging software allows musicians to record anywhere anytime with little investment. The quality of these tools is rapidly improving. This allows musicians to break out of the rigid and clinical studio structure, and record when the moment takes them, as often as it takes them.

Publishing activities include seeking royalty payments, and licensing music, for example in advertising. Processes for seeking royalties can be complex and onerous, particularly if music is played overseas. Similarly, as described previously, there have been some major blunders in digital rights management. The need for publishing activities diminishes if musicians choose not to sell music and make it freely available for non-commercial use. Clearly there is an opportunity cost if bands do not use publishers in the current environment. ‘Merlin’, a network formed to manage the publishing rights of independent musicians, appeared to provide a solution to the publishing dilemma for independent musicians. However the membership of Merlin is
restricted only to independent labels, not independent musicians. Independent musicians may choose to use Creative Commons to protect their copyright, however Creative Commons do not actively seek commercial licensing opportunities for content and musicians may not have the appropriate networks to do this themselves. Sonicbids.com is a service where musicians create electronic press kits and use them to connect with tour bookers, promoters and licensers worldwide, although it is only a step in the publishing process.

The long tail and ‘freemium’ economic theories of Chris Anderson (2008) argue that the internet and digital distribution allow online services to carry inventory (music, videos, blogs and comments, text, photographs etc.) at minimal cost, leading to theoretically infinite consumer choice and an optimal matching of supply and demand. The minimal costs of storage and distribution theoretically open up an immediate, global market, albeit one that still needs to be targeted and captured. Musicians and fans worldwide might now enjoy (safe) intimacy and their music can be made immediately available. For example a musician may upload a new demo, and a fan may provide feedback directly to that musician, who may respond in reply. A good example of two way, band-to-fan conversations is Chuck D and ‘Public Enemy’, who interact directly with the public on their website. Although it is yet to be tested in detail, consumers may be prepared to pay a premium for ongoing premium access to musicians.

Virtual intimacy is clearly something that mainstream artists cannot hope to achieve. ‘The Who’ are a mainstream act, and their website is possibly best practice with band members sending emails directly to subscribers, however it is a one-way channel. Fans and subscribers cannot contact the members directly, instead can only chat with other fans etc. This is not a trend that can be used by “corporate A-list stars” who are:

creatures of mass marketing, carpet-bombed into popularity by expensive ad campaigns and radio airplay. They do not need the online world to find listeners, and indeed, their audiences are too vast for any artist to even pretend intimacy with (Thompson 2007: para. 12),
and who instead rely upon PR agents (dubbed ‘weasels’ by virtual community fans (Lee and Peterson 2004)) to manage their online presence. He believes this is a trend that is “catalysing the B-list”, the “under-the-radar acts that have always built their success fan by fan” (Thompson 2007: para. 12). Consumers are increasingly obtaining their music online, and “it seems likely that the artists who forge direct access to their fans have the best chance of figuring out what the new economics of the music business will be” (ibid.) The B-list increasingly includes “a newer and more curious life-form” (ibid.: para. 13) whose entire business model is online.

Thompson suggests “perhaps there’s no way to use the Internet to scale up from the B-list to the A-list and the only bands that sell millions of copies will always do it via a well-financed major label promotion campaign” (ibid.: para. 32). Musician Jonathan Coulton (in Thompson 2007) wonders whether an Internet-built fan base inevitably hits a plateau. Many potential fans are fanatical users of the internet but many more aren’t, and the only way for him to reach them is via traditional advertising, which he can’t afford, or “courting traditional media attention, a wearying and decidedly old-school task” (ibid.: para. 32). His single biggest spike in traffic to his website occurred after he appeared on a television chat show which he noted “proves how powerful old-fashioned media still are” (ibid.). However it is not mentioned whether his website hits translated into revenues.

Musicians may seek revenues from other sources such as performance or sponsorship for additional services. These could include enhanced interactivity with fans (intimacy), such as access to the artist and music creation process (for example blogs, demo’s, YouTube, rehearsals.com, listenlivenow.com, artistshare.com). Fans may be prepared to pay for this. Examples include Sellaband.com, where fans invest ten dollars each in a band until the goal of fifty thousand dollars is reached. The funds allow the band to record professionally and both band and funding fans earn money when it is released (fifty per cent to band and fifty per cent to fans). Twelve months after the album release the musicians obtain complete control of the album. The Sellaband company earns third revenue from advertising, with the remaining two thirds of revenue split between musicians and funding fans. A similar offering named Slice the Pie uses fans virtually as A&R representatives, submitting music reviews to the site. The fans are paid a small token amount for their reviews. Musicians with the best reviews are then
given thirty thousand dollars to record professionally. Specialist musicians are more appealing to advertisers as they allow deeper penetration of targeted advertisements. For instance, the fans of a heavy metal band may be more amenable to Harley Davidson advertisements on the musician’s website/portal.

These examples are worth investigation but may simply be new intermediaries with their own drawbacks. New opportunities are emerging that replicate traditional models in the online environment, so caution is required. The most valuable emerging opportunities are those that allow direct interaction between musician and consumer, because intermediaries tend to increase costs. The key issue in that case is findability.

With a service approach to music the product will change. Instead of spending thousands of dollars on a static product in a studio, musicians may choose to more frequently release musical snippets to consumers (and possibly subscribers). The music might be demo quality but the nature of music may become evolving, fluid and constantly changing – as opposed to the release of one finished product released at the end of the recording process and that will not change. As demonstrated by the rise of mobile music devices and success of music downloads, consumers opt for convenience over quality in music formats. Therefore they may value, for example, the periodic release of demo quality new music over one album released every two years with high quality production techniques (which will then be transferred to their lower quality mobile music devices anyway). This is not an ‘either / or’ choice for musicians, some demo songs may evolve into an album masterpiece and others may fall by the wayside. And fans can listen to the progression (for a fee?). Some artists such as ‘Public Enemy’ are moving beyond this. On their website they have openly released a demo for anyone to download, edit and return to them. It appears to be a satisfying mode of interaction between fans and band and potentially fans may be prepared to pay for this premium service. In the future musicians might do this as often as they write, but initially an enormous leap of faith and trust is required – musicians will be releasing music ‘in the raw’ and potentially exposing their creative processes to fans. Pete Townshend of ‘The Who’ argues new emerging artists may use the internet as “a direct line to the general mass of the populations so they can get some early response to their finished work” (Bordowitz 2004: 220). Most musicians today still seem to be in the mindset of
aspiring to spend hours tweaking and twiddling in the studio at substantial cost (and superior quality output).

Live performances are today filmed by fans and uploaded to YouTube for a global audience. Musicians need to feel comfortable with this. Evidence of this trend can be seen in the large number of mobile telephones being held up to record performance snippets during a show. The fan waving the mobile phone appears to have replaced the fan holding the cigarette lighter at shows. And while the mobile phone is physically much safer than an open flame, it too has the risks generally associated with user generated content. A key consideration is that the musicians cannot edit any recordings. Listenlivenow is a service which professionally records performances and makes them available online.

This sector is rapidly changing and has exciting opportunities for musicians to take control, experiment and reap rewards. In the current environment musicians may not continue traditional operations. They can embrace and harness opportunities or they can remain static and risk a failure to reap their potential. There will always be dominant players in the entertainment sector who manufacture music aimed at the mass market. To become best sellers musicians may need the high quality support services provided by major labels and bear the associated financial risk. But the current environment is causing changes in the structure, ownership and operations of those major labels.

There is much speculation and theorising about how musicians can achieve the fabled fame and fortune. Many new businesses that point to the future have been identified: Myspace, YouTube, Rehearsals.com, Bandmanager.com and Listenlivenow. In the short term it seems likely that many will not succeed and a few may gain market traction. To position themselves to maximise opportunities arising from the changing sector musicians must use a set of business skills that traditionally may sit uneasily with them, according to May and Singer (2001).

Not only must musicians deal with traditional business tasks, such as organising tours and coordinating rehearsals, they are also facing a plethora of new opportunities, such as harnessing fan generated content. Some musicians may be threatened by these
opportunities and uncomfortable with the concept of being service providers, others may identify and embrace opportunities. Some music styles may be more amenable to emerging opportunities whereas others may not adapt. For instance we may not see manufactured pop bands releasing their demos because they don’t write their own music. “I don’t know anything about music. In my line you don’t have to” (Elvis Presley in Tripp 2007). Like all businesses there will always be a role for support functions such as lawyers and accountants, but the role of management is changing.

This study discussed the use of websites by Chuck D. and ‘Public Enemy’ to interact with fans. ‘The Who’ use their website to interact directly with paying subscribers. Users who register (and pay a fee to become a ‘Wholigan’) receive a personal email address, can access free unreleased music and videos, participate in forums, receive communications directly from band members, obtain discounts, access a restricted part of the site (called ‘100 Faces’), and in late 2008 can listen to the entire ‘The Who’ catalogue. They still however cannot directly contact the band members, possibly because they are a mainstream band with thousands of fans, so could not maintain the volume of correspondences. However specialist musicians with smaller subscriber numbers could do so, as well as the other activities on ‘The Who’ site that fans pay for. Another band, ‘Einsturzende Neubauten’, have been releasing music to subscribers via their website since 2002. Their music is of an avant garde genre and they have a small but highly devoted global fan base of subscribers who act as patrons in return for exclusive limited edition music, and live performance recordings. They have generated a sustained business.

‘Radiohead’ are another major global band who in 2006 chose not to renew their contract with EMI and instead released their album, ‘In Rainbows’ online and downloaders could pay whatever they thought it was worth. Instead of setting up a website and directing consumers to it in their media releases, they could have made it a part of the pre-existing ‘Radiohead’ website and directed consumers to their website. By doing so, consumers could see full spectrum of ancillary items and news and this would help forge the bond with the band. A caveat here is that both ‘The Who’ and ‘Radiohead’ are established bands with mass fans and a brand. But these strategies are relevant to, and potentially actionable by, specialist musicians too.
Major labels are changing their business models. Ged Doherty, head of Sony BMG said in 2008 that: “our five tenets are: one, focus on the music above all else; two, the artists are in charge; three, so is the fan; four, it’s a privilege to be able to connect the artist to the fan; and, five, technology is our friend” (Sawyer 2008: para. 23). This is a radical change of policy for a major label, as evidenced by their relinquishment of DRM protection on music and opening up their music catalogues to new mediums. However most changes may be driven by their need to seek alternate revenue sources and plummeting product revenues. The previously discussed proposal to introduce a utility-like fee onto ISP bills for access by consumers to digital music, and the ‘three strikes’ legislative lobbying are examples of the reality of their responses in 2008.

Musicians as managers
As discussed previously, a study was undertaken to test whether musicians wanted to manage their operations, and if so, whether they had the skills to do so. The low response and high dropout rate in the study may indicate a lack of interest in such management tasks, but this is not conclusive. In a separate part of the study, artist managers appeared to understand the value of the tool in decision making, with an artist manager commenting that the model was easy, and industry managers providing detailed feedback to improve the section on royalties.

Of those who did complete the process, the majority of feedback demonstrated that they were very capable of managing their operations in the traditional music system, and do so as a continual process. They found the model overwhelmingly easy to use with comments such as “quite easy to use. I started to input the data before reading the instructions,” “reasonably easy to use and logically thought out,” “initially it was a tad confusing but I got the hang of it after a while,” and “very straightforward.” Only one person commented that he “found it bamboozling” (and he chose not to submit the questionnaire).

Respondents considered the activity worthwhile in relation to managing operations, with all respondents believing it applied to their music activities, and seventy five per cent of respondents found the output meaningful. Comments included “interesting, it made me think about where I am spending my wage. I can clearly see where I am spending the extra money rather than just spending it.” Another commented:
I already use a spreadsheet to track music expenses and income. I’ve been collecting all receipts and dockets related to my music activities over the last few years. I’ve also created my own spreadsheet to track expenses/income so it was mainly a matter of transferring the data to the model provided. The output was very similar to the output I have on my personal spreadsheet. The model you’ve provided is a more detailed spreadsheet that’s very useful from cash flow perspective. It reinforced my decision to start tracking all expenses and income regarding my music activities several years ago.

Musicians with the ability to manage were identified, however their expertise tended to involve basic management and traditional music business models. Feedback on enhancements to the model included advice concerning education costs, mail out per unit figures and CD unit sales.

Nearly all respondents failed to view the ‘Musical map’ model as a decision making tool, instead they perceived it as a financial tool, to be used for accounting after they have undertaken actions. Seventy five per cent of respondents answered that the model did not make them think of alternate options. One respondent commented that it was handy because he was doing his tax at the time and another commented: “a large part of managing your own music career is learning to manage your finances.” Another participant mentioned: “It’s beneficial for musicians to treat their project like a business from a financial perspective. I think that record keeping is very important.” However another complained: “$4/hour cash doesn’t constitute income, it just stops my bank balance going backwards.”

Three respondents did see future possibilities after using the model. One respondent wrote “there are many things that have made me rethink how I plan to manage my career. Whilst the model was thought-provoking, it isn’t a huge influential factor shaping my current activities.” Another commented: “As a financial model it is very comprehensive. If you wanted to have a complete business model there would be other factors you’d need to consider,” and another commented “there’s certainly no harm in doing it and when you’re starting up and independently managing your music career
it’s important to think about your financial circumstances in order to make appropriate risk assessments and suitable decisions.”

This study has identified musicians who operate independently in the current music system. Like any small business owner operator, musicians still need business advice. In the current environment they may sustain successful careers outside of the dominant music system, however the bulk of musicians may use advisers to exploit the many opportunities available in the emerging music system. This is similar to companies using external consultants, and the advice may come from:

1. Experienced artist managers;
2. Managers who are experienced and/or aware of emerging technologies and services;
3. Mentoring communities of experienced musicians together with musicians who monitor emerging opportunities;
4. Colleagues; and / or
5. An incubator environment of a variety of the above advisors and peer musicians.

This may be explored in a separate future study.

Those who did respond clearly demonstrated that they are comfortable and competent with the administrative tasks involved in managing their careers. However no one claimed they enjoyed it, with the best feedback including that it was “a routine task for me in relation to administration,” and “certainly challenging.” Despite the perception that it is boring and needed for tax purposes they do see the value in the financial approach to decision making. However it cannot be shown that the assessment of financials is a guiding factor in their decision making, it may be that they make decisions for other reasons (such as pleasure) and manage their accounts as a necessary evil after the activities have concluded. Comments included “it is important to know where everything is going but it was very time consuming and as a muso I would have rather used the time on different stuff. I make enough money from my craft to live and I have a fair idea where it goes.”

In summary, the ‘Musical map’ study highlighted a low interest in business management activities, as reflected in the comments and high dropout rate. However it
did identify musicians who are capable of self management, and like any small business owner, they may choose to hire outside advisers when appropriate.

**Emerging operational models**
The value chain analysis highlighted a shift along the value chain continuum from a product approach to a service approach, because the product of music has commoditised from digital distribution and production. This is particularly evident in mainstream music. However specialist musicians differ from mainstream musicians in at least two ways. They generally have more time to personally manage their operations and secondly their music is specialised. Specialised music in niche markets can usually command a premium for access to the music and musicians. Mainstream music tends to be formulaic, for the masses. These two factors are a competitive advantage for specialist musicians.

Recent changes in the sector have highlighted that opportunities exist for musicians to take greater control of their careers, and consequently achieve experiential and financial benefits. A number of themes have emerged, but they do not apply across all genres of music or markets so should not be perceived as advice. There is no single business model that is optimal across all specialist music entities. Instead, many emerging opportunities have been identified, from which a selection can be combined to best fit a specialist music entity.

The music sector of the future will be a completely different landscape to that of today. Revenues must come from alternate sources because consumers are less inclined to pay for standard digital music products and this has traditionally been the major revenue source. If revenues from the music product decline, it should follow that costs to the music product should be cut. Such costs may be minimised by using digital media to produce, distribute and promote music.

The good news is that music is ubiquitous and there will always be a market for musicians and music. To move into this future landscape, musicians need to let go of some closely held practices and reposition their operations to harness alternate revenues. The first and hardest step is to let go of traditional business practices. Specialist musicians who sell fewer products, but have more dedicated fan bases can
take higher risks and may find it easiest to make the transition. Because specialist musicians offer niche products and/or services they may be able to command premium fees. The remainder of this section describes options that musicians may consider in the self-management of their careers.

It is notable that only twenty five per cent of participants in the ‘Musical map’ study performed regularly. This may be due to a lack of venues however it highlights the revenue opportunities for participants. According to literature, in the future performing will be a primary revenue source for musicians, as can be evidenced in major label 360-degree contracts where labels seek a percentage of performance revenues to offset declines in their product sales. Notably in October 2007 performer Madonna did not renew her contract with Warner, instead signing with Live Nation, a concert promotion company. Touring can be tedious and risky. Musicians with a smaller market should consider innovative spaces or themes for performances, to make touring more interesting. This may break the ‘airport to accommodation to radio station (or other promoter) to dark dingy venue to airport’ cycle of touring, where hotels, airports, radio stations and venues are nearly all the musicians see. Their itineraries have minimal space for free time in which they may explore and experience the cities they visit.

Innovative performance spaces may include: art galleries, wineries or breweries, farms, disused buildings, alleyways, theme parks, skate parks, boats, BBQ’s in parks, football ovals, ten pin bowling alleys, roller skating rinks, restaurants, and racing car venues etc. Secret shows in people’s homes or speakeasies occur, where invites are sent only to fan lists and numbers are strictly limited. This practice is supported by an earlier conclusion that being subversive, performing in venues that are not mainstream traditional venues, may help specialist musicians. Different venues may also provide an ambience that is conducive to the music. Premium pricing may be charged for such events, and better still if the band organises it (or gets fans to help) then they pocket that premium. Such venues pose audio challenges for musicians, but the experience will maintain their interest levels and the uniqueness of theme or venue will keep fans coming back. An example is Steve Lucas, who has played for thirty years with band ‘X’. In 2007 he performed at the foot of the Himalayas in Nepal for a cancer fundraiser. He
commented, “the euphoria I felt during the concert is unlike anything I have felt at a gig.” (Donovan 2007: 1).

It is important to maintain a digital presence, and most musicians have this, via standalone, social network or music community internet sites. Musicians may sustain their careers by facilitating and maintaining a strong community around them. This does not mean exclusively communication between musician and consumer, it includes consumers communicating with consumers, and sometimes the musician needs to step outside of the communication chain. Not all communications needs to be approved. Musicians may also use their fans for tasks that traditionally record labels have undertaken at cost to the musicians, for instance promotion. If fans take photos or upload rough performance videos to YouTube musicians should communicate with them, harness their eagerness by linking to the videos etc on their website. If musicians do successfully harness their user base for promotional activities, their costs may diminish and this may improve financial sustainability. To use fans for promotional activities requires tact and strong interpersonal skills, for instance, if the video shows a side to the band they’d rather not promote, then the band can contact the fan thanking them and asking them to try better next time, or words to that effect. Doing so via an internet-like medium is easy, safe, instant, global, personal, targeted and cost effective.

In addition to savings to be made in the promotion segment, there are also revenue opportunities. Advertisers are increasingly targeting niche markets that closely fit (and so are more receptive) to products/services they sell. Specialist musicians represent niche markets. Provided it is done tactfully advertising/sponsorship can generate significant revenues. Mainstream examples include Elvis Presley with Nudie Suits, Alcohol companies with musicians, Tommy Lee with Apple computers and John Farnham with Coca Cola as examples. Another example is the placement of advertisements on musician websites. In the future musicians might negotiate with companies for advertising. For instance, a band might negotiate with an airline to receive frequent flyer points for each click on their site. Ultimately this could pay their tour airfares. The caveat on this opportunity is that musicians who self manage will need to invest time in identifying and targeting advertisers, or may choose to outsource this (or again their fans may assist). Unfortunately many advertisers still exclusively use intermediary channels (such as publishers), so independent musicians will not be
considered. However independent advertisers may be identified and targeted directly by independent musicians in the current environment.

Music that is available via websites it typically perceived by consumers to be free. Musicians may need to let go of the practice of charging consumers for digital music. Giving fans what they want increases demand for more offerings, and they will tell their friends and the promotion may grow exponentially and quickly. Musicians can then seek alternate revenues by, for example:

1. Making gated communities of their websites (as ‘The Who’ did – although this will be more successful a strategy for musicians with smaller markets because they can offer virtual intimacy);

2. Sell premium formats of their music; and

3. Advertising, merchandise and ticket revenues, sponsorship, etc.

Sales of a premium music product may offset the forgone revenues of free digital music. Ancillary products (t-shirts, zines etc.) are vitally important to specialist musicians as promotional tools and income.

A scan of musician pages on social networks shows that they network with musician peers and mentors, seeking informal advice on touring and other music-related issues. Musicians need to know when to seek professional assistance. This is a skill that comes with experience, but generally as their business grows they will need accounting and legal advice. Artist managers may be able to help grow their business. These are all functions that record labels provide however for smaller markets the use of general practitioners may suffice and ultimately be cheaper. This study has identified musicians who can manage their operations in the traditional music system, however they may miss emerging opportunities that can be used to their benefit. In a volatile industry they may need to manage in a multi-product, multi-channel environment that can be overwhelming. Strategic advice may be sought regarding which channels to use, what to sell, and pricing in the emerging music system.

The recording and manufacturing of music, although becoming cheaper, is a major expense. Sales rarely recoup the investment made, especially if recorded in a professional studio. Consumers have typically demonstrated via file sharing they will not pay for digital music, and the growth rates of digital music show they are
comfortable with its quality. It may be aesthetically rewarding to hold a CD in one's hand, but ultimately the purpose of music is to communicate experiences and emotions, and digital dissemination is cheaper and equally effective for musicians. Musicians should consider making at least some of their music available to consumers for free. Perhaps a more appropriate copyright system is one where musicians may receive an ongoing revenue stream of royalties from consumer use of their music, rather than consumer purchase. Artwork and liner notes can also be made available for download via the band website. These continue to be important peripherals, primarily because they acknowledge those who worked on the music, lyrics and artwork. This is one reason why fans will still purchase a CD even if digital music is free and available. The CD could be made into a premium product with additional information, artwork and/or personalisation.

Musicians might not give away their music to all, perhaps only to consumers for non-commercial use. They might still use publishers and seek royalties and licensing fees for public performance. Public performance includes if a song is broadcast on commercial media or in venues, or most lucratively, if it is used in advertising or films. The Creative Commons license is a good example of non-commercial protection, where content can be made available free for personal use, but with restrictions on ‘for profit’ use. The successful release of an album by the band ‘Nine Inch Nails’ in March 2008 is an example of the use of a Creative Commons license. Consumers could download nine songs for free non-commercial use, or pay a premium fee to purchase rare items for non-commercial use.

From this example it appears that a future approach may be ‘freemium’ tiered pricing. The freemium concept can be described as ‘sell more for less, and sell less for more’. Scarce items, for example those that require a connection with the musician, attract premium pricing. Items that require no effort on the part of the musician to sell may be free and ubiquitous. This is similar to art products, someone can photocopy a picture for free, or pay for an autographed print, or buy the original at a premium price. ‘Nine Inch Nails’ had already achieved success via the traditional music system and enjoy a global dedicated fan base, which is perhaps why their approach gained media attention. The success of this approach will be best tested when a musician who has not already achieved success via the traditional music system attempts it. New musicians may
release free music in order to promote themselves in order to build a fan base. However they could still release premium priced (signed, rare etc.) products that fans could invest in and later sell when the musicians have achieved success. They will need to release premium priced products to build their niche brand. This is similar to investing in art. It also treats musicians as artists, with respect. Conversely it also satisfies the public demand for free music.

Generally in the unlikely event that a commercial entity wanted to use music in the Creative Commons scheme, they would contact the musician and negotiate terms directly. Yet in reality most commercial entities use publishers. A musician in the ‘Musical map’ study noted advertisers or other commercial entities don’t like to speak with musicians directly; they prefer to speak with their management. This perception is a subtle but key stumbling block that prevents musicians self-publishing.

In the foreseeable future musicians will still need to use publishers to place their music in advertising, films, video games or broadcasting. A study by Mol, Winjberg and Carroll (2005) found that major labels created more value from publishing, not because of their scale, but because of the relationships they maintain with other sectors, namely broadcasting. This is very much a closed shop and it will become increasingly so in the mainstream market. For instance, Village Roadshow, a film production company, has set up a music subsidiary whose purpose is to license music for their films and they have aligned with major label Warner Music. Clearly Sony games will use Sony music; Sony musicians may also act/appear in Sony films etc. Advertisers and film producers are rarely going to seek out specific music for their work, they will instead go to publishers who will push their recommendations. If a musician does not have a publisher, then they will not be put forward. The larger the publisher the more likely that they will be approached; however the degree of competition within a publishing stable for recommendation will consequently be higher. Similarly independent film producers can use the music of specialist unsigned musicians in their films. Unsigned musicians could target independent producers for licensing opportunities. To identify and locate such opportunities is difficult and requires either that the musician has a profile so that the music is known by filmmakers, or the musician relies on networking. Doing so would require a significant time investment by musicians for a remote chance of success, however success brings a large financial payoff.
Historically independent labels did not have the resources to track royalties and push licensing opportunities. However ‘Merlin’ a global collection agency that represents independent labels means that musicians who are signed to smaller independent labels can receive mechanical royalties, although this is a moot point if music becomes free for personal use. Merlin only has independent music labels as members, not unsigned musicians. At the time of writing there is no global collection agency of mechanical royalties for unsigned musicians, nor is there a publisher to actively manage licensing (synchronisation royalties in films etc) for unsigned musicians.

Digital music has other benefits that to date remain under explored, being that music can become flexible, fast, musicians can release music as often and as roughly as they like. It need no longer be a static product, locked as reflecting a point in time. It can become dynamic, updated and reworked as suits. How many times has a musician recorded a product and then wished they’d made tweaks? Releasing music digitally they can do so, just replace the song online with new improved versions. With reference to the example of Boston, a band who spent over four years to record an album, instead of releasing an album they could simply have made music available on a website and updated versions as they rerecorded the seven hundred drum takes over four years. They may never even have to finish it, and could still be recording and re-releasing it today. Public Enemy take this a step further by posting demo tracks to their website and asking fans to manipulate the songs and upload them back to the band. This kind of interaction locks in fans and keeps them coming back to the website. Website eyeballs are another path to potential future revenues and advertising.

Once musicians begin to experiment, they may be pleasantly surprised at the emerging opportunities; different ways of doing things and hopefully alternate revenues will begin to flow. This study has identified many musicians who have sustained careers and often moved between major labels, independent labels or their own labels. One musician who has sustained success outside of the major label system is Ani diFranco, who commenced her own record label in 1994 with fifty dollars. She has released nineteen albums and tours constantly. When approached by major labels with contracts she declined, preferring her independence. Her label now has several employees. A final example is Jonathan Coulton, whose business is discussed below.
Jonathan Coulton shows a way forward?

Jonathan Coulton is a home-based musician who successfully uses the internet to maintain his business. His approach is innovative and he has sustained success. Most information about his activities came from a profile by Clive Thompson (2007). In mid 2006, a year after he began his music career, more than three thousand people, on average, were visiting his website every day, and his most popular songs has been downloaded as many as 500,000 times; he was making what he described as “a reasonable middle-class living” of between three to five thousand dollars per month (Thompson 2007: para. 1).

Coulton’s cash flow comes from:
1. Forty one per cent digital-music sales, three-quarters of which are sold directly off his own website;
2. Twenty nine per cent CD sales;
3. Eighteen per cent live performance; and
4. Eleven per cent T-shirts, often bought online.

He has discovered that his fans do not want merely to buy his music:

They want to be his friend. And that means they want to interact with him all day long online. They pore over his blog entries, commenting with sympathy and support every time he recounts the difficulty of writing a song. They send e-mail messages ranging from simple mash notes of the “you rock!” variety to starkly emotional letters (ibid.: para. 2).

Coulton responds to every contact and spends up to six hours per sitting daily communicating with fans. He “relies on his fans in an almost symbiotic way” (ibid.: para. 3), “his fans need him; he needs them” (ibid.: para. 5). This includes:
1. Music Production - When he couldn’t perform a guitar solo for a song, he cursed his “useless sausage fingers” (ibid.: para. 3) in his blog and asked listeners to record their own attempts, then held an online vote and pasted the winning solo
into his tune. Another fan reformatted Coulton’s tunes for use on karaoke machines.

2. Distribution - Coulton has forgone a record-label contract; instead, he sells music directly to fans. He offers most of his music free on his site; however fans may choose to pay for his songs. For physical CD sales, he uses CD Baby, which charges $4 of the album's price, a much smaller cut than a traditional label would take for warehousing, payment processing and shipping. CD Baby also places his music on the major digital-music stores like iTunes, Rhapsody and Napster.

3. Performance - When Coulton performs, he:

upends the traditional logic of touring. Normally, a new Brooklyn-based artist like him would trek around the Northeast in grim circles, visiting and revisiting cities like Boston and New York and Chicago in order to slowly build an audience, playing for 3 people the first time, then 10, then (if he got lucky) 50. But Coulton realised he could simply poll his existing online audience members, find out where they lived and stage a tactical strike on any town with more than 100 fans, the point at which he’d be likely to make $1,000 for a concert (ibid.: para. 4).

4. Promotion via fansourcing - “Coulton’s fans are also his promotion department, an army of thousands who promote his work worldwide” (ibid.: para. 4). They know fame can come through viral word-of-mouth, when a friend forwards a website link, swaps music or posts a mobile phone concert video or blogs.

5. Promotion via email - Coulton’s e-mail volume has grown to as many as a hundred messages a day. During peak volumes, his “replies have grown more and more terse, to the point where he’s now feeling guilty about being rude” (ibid.: para. 2).

6. Promotion via fansourced videos - More than fifty fans have created music videos using his music and posted them on YouTube; at one gig many of the audience members had originally come across his music via one of these fan-made videos. For example a fan made a video for his song “Someone Is Crazy,” which was a collection of scenes from anime cartoons spliced together and offered on YouTube:

“She spent hours working on this ... and now her friends are watching that video, and fans of that anime cartoon are watching this video. And that’s how
people are finding me. It’s a crucial part of the picture. And so I have to watch this video; I have to respond to her.” He bashed out a hasty thank-you note and then forwarded the link to another supporter — this one in Britain — who runs “The Jonathan Coulton Project,” a website that exists specifically to archive his fan-made music videos (ibid.: para. 5-6).

7. Promotion via fansourced graphic art - A fan who is a professional graphic artist draws an illustration for each of Coulton’s weekly songs, for no charge.

8. Management advice - Coulton uses a booking agent and a talent agent (Coulton 2008) and also crowd sources for advice. On his online discussion board Coulton asked for advice on how to increase revenues - fans responded with tips on touring, managing the media and opinions about what kind of songs he ought to write (ibid.).

In conclusion, Coulton perhaps foreshadows the increasing importance of digital activities in music management:

People always think that when you’re a musician you’re sitting around strumming your guitar, and that’s your job ... But this” — he clicked his keyboard theatrically — “this is my job ... Maybe this is what my career will be,” Coulton said. ... Slowly building new fans online, playing live occasionally, making a solid living but never a crazy-rich one. He’s considered signing on with a label or a cable network to try to chase a higher circle of fame, but that would mean giving up control. And, he says, “I think I’m addicted to running my own show now (ibid.: para.’s: 7, 32).
8: CONCLUSION

Demand for music products and services continue to thrive. However musicians in the traditional music system do not financially benefit from their musical efforts because firstly, they receive high advances (loans) which must be repaid before any income is received, and secondly costs and revenues are spread via a network of middle operators, such as music labels, distributors, recording and production, retail stores etc. This minimises opportunities for musicians to enjoy sustainable careers, unless they sell high volumes of music product and offer ancillary services.

The music sector is volatile and record labels have been slow to respond to changes in the digital environment. This study has highlighted emerging business models in the music sector that may allow musicians to enjoy sustainable careers. An emerging product model of interest is that of ‘freemium’ pricing, and the most interesting emerging service approach involves greater interaction with fans, flexible concepts of music and a greater recognition that music provides an experience. New technologies that are used to: capture live music performances online in real-time; facilitate faster and safer interactions with fans; and music production are emerging as important. Thirdly, declines in the cost of music production and distribution will minimise the need for high advances of funds, and allow music content to become more fluid and flexible.

The first question for musicians is whether or not their goal includes targeting the mass market. Doing so may require them to sign to a major label. If their music is more specialist or niche, there are a variety of approaches they may take for a sustainable career. There is no single business model that is optimal across all music entities. Instead, many emerging opportunities have been identified, from which a selection can be combined to best fit a music entity and their goals. At the time of writing these
emerging elements of the music system demonstrate that specialist musicians can use emerging business models to self manage and enjoy long term careers. It identified musicians who are capable of self management and do have “business savvy” (ibid.), but questions whether the bulk of musicians wish to do so, or would prefer to use a manager (who may or may not be independent). As with other sectors, those who self manage may seek advice from professionals, for example accounting and legal services.

This study has far reaching implications. It has identified emerging areas of interest in the music sector, which may be of interest to current sector players. The findings can also be applied to other media and content sectors. Furthermore, some elements of this study are relevant to niche service and product suppliers.

**Future research**

Further research will strengthen the results of this study. More specifically, in relation to the ‘Musical map’ study, further research could be undertaken to:

1. Understand the high dropout rate of musician participants. This may be due to disinterest in the task, which indicates musicians typically are disinterested in management tasks. Another approach may be to add a glossy interface to the decision making model, as opposed to excel, making it appear easier and simplistic (perhaps as a series of questions rather than a spreadsheet of inputs), and then run the test again. This may identify if the ‘boring, complicated’ model itself was to blame for the dropout rate, or whether it was simply that there was no incentive (such as a prize) to motivate responses;

2. Explore why musicians are interested in these tasks. Is it because no one else will do them? Would they prefer an artist manager to do them? Would this be a more effective approach? and

3. Explore how the skills of participants were developed - through experience? Is this the best way to learn?

There are additional opportunities to examine the social functions of the music system, and their relation to musician self management, that have not been addressed in this thesis.
There are several areas for future research into emerging business models, including the applicability to specialist musicians of the following concepts: user generated content, customer relationship management, the long tail, and incubators. These are discussed below.

User generated content
User generated content is a form of social currency, consumers swap files or concert footage to maintain social networks or meet new contacts. The one way promotional message from musicians is being replaced with continuing relationships. If musicians do successfully harness and manage their customer relationships, their cost chain may become that as depicted in table twenty eight of chapter six. The use of fan driven content may facilitate a sense of community and this has been shown to be a key success factor for specialist musicians.

Digital media has already eroded the activities of production and distribution, and perhaps the next activity in the value chain to be eroded may be promotion. If musicians can connect with and use their fans they will minimise promotion costs. As with production and distribution, promotion costs could be minimised, although time costs may rise. If musicians will not have time to manage their customer relationships they need to weigh the benefit of immediacy and honesty with fans versus the artificial construct of someone else acting on their behalf (which may damage relationships with fans). A solution is to have a smaller (premium paying) customer base or a larger band (with each member contributing).

Customer relationship management
Managing fan-generated content is an element of customer relationship management (CRM). When ‘Radiohead’ released their album, ‘In Rainbows’, downloaders could pay whatever they felt it was worth. A clever add on tactic was to capture the email addresses of those who downloaded ‘In Rainbows’ to create an instant e-community of consumers who appreciate the band. The email lists could then be used for marketing other ‘Radiohead’ (and ancillary) offerings. The list of email addresses could potentially be more profitable than any revenues incurred from music downloads. In the future consumers may alternately use RSS feeds, or similar, to monitor updates, news and activities of favourite musicians. Instead of a collection of music, they may collect musician websites (that they may or may not subscribe to).
The internet raises many issues for specialised musicians who use it to interact with consumers. The paradox of online networking is that if a musician is very good at it, their audience grows rapidly and becomes unmanageable to the point that they cannot provide the one-on-one contact that was previously possible. Some solutions are available to handling the potential deluge, for example the use of software robots to approve friend, fan or subscription requests and other automated administrative tasks. But the degree to which, and way musicians interact with their audience within different contexts of scalability needs to be examined. Similarly the psychological impact on ‘ultra connected’ musicians also needs to be examined. Thompson (2008: para. 23) notes that the intimacy of the Internet has conversely made real life interactions less intimate and more guarded. He claims musicians “bemoaned the relentless and boring slog of keyboarding” and feeling like they are onstage twenty four hours a day (ibid.: para. 25). This is not simply an issue of recognising when they need to hire staff or additional resources, it is more complex because the direct personal contact is a key differentiator that specialised musicians can offer. It provides a competitive advantage over mainstream musicians.

Further research into emerging CRM models and their applicability to musicians who self-manage is required. Topspin offers (for a fee or percentage of revenue) content management and customer relationship management tools for musicians to deal directly with customers. It may be worth investigating as part of an exploration into CRM opportunities for musicians.

Long tail theories and their applicability to niche musicians
Long tail theories argue that the internet and globalisation, amongst other changes in the environment, have eroded distribution and inventory costs and facilitated a business environment dominated by a mass of global niche markets, rather than a world of national mass markets. The music sector is fragmenting, as evidenced by the observation that independent labels comprise about thirty per cent of the total market (IFPI 2008). In contrast, this study found that there would always be dominant entities in the music sector while there is a mass market for ‘mainstream’ music, because generally a mass market requires mass-market operators, whose influence tends to
dominate the market. The major labels are the current incumbents but this may change, for example, the independent labels mentioned previously have grouped under an entity named ‘Merlin’ and, whilst independently the participants have little control, in aggregate as Merlin they comprise thirty per cent of the market and have the potential to be a dominant force.

The long tail theory argues that scarce resources may command premium prices and ubiquitous resources tend to be priced down (commoditised). This emphasises the need for niche musicians to differentiate their product - to seek elements of uniqueness and promote them. Empirical investigation into the concept of ‘freemium’ pricing and how it dovetails with long tail theories may highlight a sustainable strategy for niche musicians.

Copyright models for music services to consumers
Similarly further exploration into the viability of a consumer service copyright model, and how it may be put into practice, may reveal a new ongoing income stream for musicians. It seems fairer for musicians to be rewarded based upon the playing of their work rather than the acquisition of it. This type of revenue stream may sustain musician careers for as long as consumers play their music, providing a revenue stream similar to that of broadcast royalties, but from consumers.

Music distribution strategies
Further study is required to model the financial costs and benefits of each distribution strategy (transactional, ‘freemium’, advertising supported, subscription etc., as discussed in the emerging distribution models section of this thesis). An assessment the potential of ancillary revenue opportunities within each distribution model would assist musicians to understand the implications of their choice and make better decisions.

Incubators
The May and Singer (2001) claim that artists don’t stick together needs to be explored in more detail. The internet and other media technologies now allow musicians to
safely interact directly with other musicians. A scan of musician pages on Myspace will reveal a great level of networking between them, with offers to tour together, advice on where to go etc. So the statement that artists don’t stick together can be challenged.

Another potential area for future research is the concept of bootstrapping or creating, sustaining and developing businesses in a low-capital and low-knowledge environment (Basu & Werbner 2001: 239). This is the scenario for most musical startups, and as revealed in the competitive strategies review, the ability to establish operations with minimal financial investment is vitally important to specialist musicians.

A future business model for musicians may consider incubator-like cooperative environments based around location, music genre, or other interest. Consumers may support the cooperative based on their interests (for example, there may be a ‘garage music in Melbourne’ cooperative, that includes a website where consumers can identify the relevant musicians) and music scenes may develop. Using cooperative or co-opetitive approaches musicians may collaborate, contribute and develop skills. Incubator participants may build their consumer base and then graduate from the incubator into their own self managed business. This could be tested with action research.

A possibility may be to establish a (virtual) collaborative incubator. This approach was rejected for this study because:
1. Of the same factors as an experimental case study described below;
2. It may be too costly; and
3. Of the increased potential for confounding variables (for example, it could not be conclusively proven that success was due to any particular business model).

Other methodologies may be used in future studies, including a longer-term case study of a musician attempting new business models. For example, a researcher may monitor a band as they use several emerging digital services and report a comparison of outcomes. This approach was rejected for this study because:
1. It would need to be measured over several years;
2. Potential for a ‘location effect’, where the music entity location influences the outcome;
3. Only one business model could be tried at a time, which would be limiting; and
4. There would be increased risks for participants.

**Research caveats**

In undertaking this study, many issues arose that required subjective or arbitrary judgements, rejection of sources, or caution. The following section discusses issues encountered and qualifies some judgements made.

**Study scope**

In undertaking the research, wherever possible a global approach was taken because music is increasingly globally available. However sometimes global figures or commentary were not available so instead sources from the United States and Europe were used as indicators. These may not be representative of the global market. A secondary focus was the Australian market, primarily because this thesis is written for an Australian University and secondly because Australia is outside the dominant markets of North America and Europe. Asia, in particular China, is an emerging dominant market and Asian research would have been useful. Language issues prevented access to research there. Asian markets are very different to Australia ones, with a high population density and high penetration of technology and communications in most countries, so were less likely to be used as indicators, because this study aimed to avoid a focus on specific technologies. However because they represent advanced digital economies, case studies on the use of technologies in, for instance South Korea, would have been relevant.

Scope issues were also encountered when discussing musicians, with care taken when distinguishing between musicians who are signed to major labels versus specialist, niche and unsigned musicians. This was further confused by musicians who had been signed to major labels, gained experience, and then left to operate independently. Caution was taken to distinguish between mainstream music and specialist music, because they use different market approaches. This study focussed heavily on popular music because it is a dominant genre, however some forms of popular music are specialist with niche markets (for example garage) and niche musicians sometimes reject any attempt to classify their music. Hence the scope with regards to genres of music and types of musicians was a flexible guide only.
This study was restricted to English language sources only. As mentioned above this meant the interesting and potentially dominant Asian market was to a great extent omitted. It also meant that some musicians who may have participated in the study were less likely to.

Data sources

Many businesses and websites have been discussed as examples. All businesses or websites mentioned were current as at May 2008. This does not imply that they are recommended and/or best practice. Many are very small entities and may not be sustainable. In the volatile music business turnover is high - businesses fail or are acquired frequently. Secondly, emerging digital businesses have been identified that replicate the traditional music business model.

This thesis was written at a time when illegal file sharing of music was rife. Other nations may follow the lead of the French Government as at 2007 and consider legislation compelling internet service providers (ISPs) to report and remove illegal file sharers. ISPs may be forced to monitor internet traffic for file sharing and if a user continues to do so after two warnings they are banned, and their details recorded in a central agency so no other ISP can sign them. If this is copied by other nations it may effectively halt music piracy, and this would have repercussions across the sector.

Street press, or free entertainment magazines and newspapers are a useful source of information about independent musicians. However the quality of street press varies and most isn’t archived in a way that is searchable and as a result research on mainstream media sources were potentially biased and some viewpoints may have been omitted. This issue is mitigated by the internet. This study also used, to a very small extent, informal online chatboards and similar sources for anecdotal clues. Such information cannot be verified totally as authentic, given the large amounts of conjecture, opinion and misinformation in this sub sector. Hence chatboards and the like were used as guides only.
Statistics

Formatopia – most statistical agencies measure music sales in one or two formats. Most statistics in the sector should not be relied upon as they are not comprehensive – that is, they do not cover all formats.

Because of sector volatility, data timeliness versus accuracy was an issue. The most recent data is more obviously indicative of the current scene. However the most reliable data is older, in that time has been taken to verify it. But by the time such data is released the sector had changed again. For example the IFPI receive sales data from traditional retail outlets and major labels, so it’s music market data misses the smaller niche players in this market so it cannot be relied upon when assessing the impact of the smaller players. This is vital in a market with niche entrants, and note should have been made of this in the IFPI (2008b) report. This market share data is from 2000, the year in which the labels were losing sales to start-up internet based music companies. All four forecasts cannot be tracked back as they were in secondary sources citing research that were not accessible.

The Australian Cultural Ministers Council Statistics Working Group and the National Centre for Culture and Recreation Statistics of the Australian Bureau of Statistics took steps to improve the quality and availability of music statistics in Australia. A report released in February 2007 (Cultural Ministers Council 2007) contained a detailed summary of available statistics, however most statistics were several years old. It followed a 2005 scoping study commissioned by the Working Group that recommended a value chain approach to the collation of statistics.

Interviews, questionnaires and surveys

The major issue with seeking opinions and feedback from a target group is that it may not be representative of the market as a whole. Similarly it would have been beneficial to expand the group of respondents to the ‘Musical map’ study to include a greater number of other countries and genres. Although it was publicised and made available worldwide, respondents resided in either Australia or the United Kingdom. In addition it would have been beneficial to analyse the financials of the musicians who participated in the study, however none were submitted.
Purchased research
Companies who charge for their research tend not to provide full details of their methodologies, instead stating 'McKinsey Analysis' or 'IDC Analysis teams'.

Internet sources
Caution was used to verify authenticity when relying upon data off ejournals and industry discussion boards. Ejournals or website-based sources were assessed in terms of their duration of operation, citations and the credibility of authors included. Caution was required to identify and treat advertorial as such.
Getting close to consumers

SixFtHick performance at the Tote, 16 February 2007, Melbourne
APPENDICES

Appendix 1: Recording studio prices

Indicator Studio prices
Sydney Sony Studios (Sony Studios 2004; 1212 2004)
Prices as at 20 March 2004:

Package rates
Day rates
1. Lock-out rate for a fourteen hour day with an assistant = $850
   Additional hours = $85 per hour
1. Lock-out rate for a fourteen hour day with house engineer = $1000
   Additional hours = $100 per hour
Note: that the engineer rate is applicable when an engineer or Pro Tools operator is required.

Studio B is a multi-purpose control room with a recording booth capable of accommodating up to four people. This makes it suitable for small-scale recording, overdubbing and voiceover work. The recording booth has a moderately dead acoustic. The multi-track Pro Tools system (24 channels of I/O), Sony digital mixing console and outboard effects make it ideal for music mixing, creation of video and advertising sound beds, general audio production and limited mastering.

Includes the following equipment

EQUIPMENT
This is primarily a digital room, with some analogue front end and outboard units.
Sony DMX-R100 forty eight channel digital console with automation of all parameters. ProTools twenty four TDM recording system (three Mix cards) with twenty four channels of 888/24 I/O. (24 extra channels of Apogee AD8000 are available on request) and dual nineteen inch displays.
Record to multiple external hard drives plus Mammoth high speed, high-density Exabyte backup.
Universal Slave Driver and video card with PAL output for time code and non-linear picture lock.
Rosendahl Nanosync for total system digital lock.
   • Sony PCM 7030 DAT recorder
   • Genelec 1032A and Yamaha NS-10 monitors with Dourrogh loudness meter
   • Sony CDR-W66 CD recorder/player
   • Focusrite ISA 115 stereo preamp and equalizer
   • TC Electronics Finalizer Plus and Sony V77 mastering processors
   • Teletronix LA-2A compressor
   • 2 x Pultec EQP-1A3 valve equalizers
   • Sony DRE-S777 sampling reverb
   • TC Electronics Fireworx and M3000 digital effects processors.
   • Lexicon PCM ninety one digital reverb unit
   • Sony APR 5000 1/2” two track mastering deck
   • Otari MTR 10 1/4” two track mastering deck
   • Tascam 122 Mk III cassette deck.
Appendix 2: Study questionnaire

The questionnaire asked the following questions:

YOUR THOUGHTS ON THE MODEL – PART ONE
This section seeks feedback on your attitude and feelings about the process of using this tool

Have you used Microsoft excel before? Yes  No

If yes, how often do you use Microsoft excel?
Every week
About once every 3 months
Rarely

How easy/complex was the spreadsheet to use? Please describe:

Did you enjoy this process? (for instance, was it boring, challenging, interesting?)
Please describe:

YOUR THOUGHTS ON THE MODEL – PART TWO
This section seeks feedback on the model results

Could the model apply to your music activities? Yes  No
Please explain why:

Was the output from the model meaningful to you? (for instance, did it help you to understand the financial impact of your decisions? or did it highlight issues you haven’t considered?) Yes  No
Please explain why:

Did the output seem wrong to you? Yes  No
Please describe:

Did it make you think of other ways to do your current activities? Yes   No
Please describe:

TECHNICAL ASPECTS OF THE MODEL
This section seeks feedback on technical and data issues when using this tool

Did you have enough data for this model? Yes No
Please explain why:

Was anything missing from the model? (for instance do you have data you consider is important that couldn’t fit into the model? or do you undertake music activities which you couldn’t fit into the model?) Yes   No
Please describe:

Were any categories of the model unnecessary? Yes   No
Please describe:

Did you have any technical problems using the spreadsheet? (for instance, did you get #VALUE results?) Yes   No   A little
Please describe:

OTHER QUESTIONS
Thinking more broadly of the music sector, do you feel this activity is worthwhile?
Yes   No
Please tell me why:

Please add any other comments on the model or your use of the model here:

YOUR DETAILS
Which country do you live in?

Which music genre best describes your music?
Pop           World Music           Rock’n’roll
Electronica   Reggae            New Age
Jazz           Easy Listening
Other – please describe:

For how long have you been active in the music sector (for instance performing, recording etc)?
0-5 years      6-10 years      11-20 years      21+ years

For how long has your current music entity been in operation?
as above
0-5 years      6-10 years      11-20 years      21+ years

Do you perform outside your city?
Please indicate which best applies:
every month   every 6 months   every year   rarely

What is your age group?
18-25 years    26-30 years    31-40 years    41+ years
Appendix 3: Alternatives for musicians, two example scenarios:

Tomorrow a fan uploads to YouTube a rough video off their mobile phone of their favourite band performing live last night. The band may choose to
1. contact the fan and start up a conversation;
2. put a link on their website to it; or
3. get their PR agent to contact their lawyer to issue writs to remove it.

Or

You are a young Australian Death Metal band. You would like to record a song of joy with the Elderly Citizens Choir of Moldova. You would also like to demonstrate your broadening artistic skills by replacing your supersonic guitars and amps set to eleven with acoustic woodwind instruments. Your band may choose to:
Google the choir, find their website, email them their idea and strike up a conversation; ask their people to contact the choir’s people. Their people will probably Google the choir, find their website and email them their idea; or contact their colleagues in Moldova and ask them to contact the choir; or
The idea is immediately quashed because the bands’ major sponsor has invested heavily in their raunchy wild brand and it would be too costly and complex to change.
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GLOSSARY

Business model - (1) an architecture for products, services, and information flows, including a description of the various business actors and their roles, (2) a description of the potential benefits for business actors and their roles, and (3) a description of the sources of revenue (Lechner and Hummel 2005: 41).

CASDAQ - Computer assisted qualitative data analysis

CDs - Compact discs

Demo - ‘Demonstration’ quality of music, a draft, often recorded quickly and cheaply to capture the essence and inspiration of the musician. Not the final product.

Deterministic models - Decision analysis models that assume that decisions made affect outcomes without any consideration of risks involved

Digital Audio - This refers to digitally recorded music, which is stored in a computer as ‘zeroes and ones’. For example if you connect a guitar to your computer and record your guitar playing, the computer stores the sound digitally, as zeroes and ones. A key point is that it is no longer the domain of electronica enthusiasts – any instrument can be recorded and played digitally. Digital audio is superior to tape formats in that it allows easy and fast mixing and editing (or ‘cutting and pasting’). It also vastly increases the amount of music that can be stored (although this is dependent on the hard drive in use).

Digital Data - MIDI (Musical Instrument Digital Interface) was created in 1982 and forms the universal standard for recording. It is a common operating language and physical interface that connects products so that they can communicate. It focuses
solely on digital data as opposed to digital sound. For example it can manage volume or tempo changes and transmission of different notes for multiple instruments. Layers of MIDI are called channels.

Disruptive - Disruptive or disruption in this sense implies an action or product that has altered one or more of the five elements of the music industry structure (being production, publishing, distribution, promotion or performance) to the initial detriment of incumbents.

Incumbents - Those who hold power within the sector, for example, companies commanding market share, political or religious leaders.

Mainstream - Appealing to the mass market, for example top selling music. Although not genre specific, it is exemplified by the Top forty popular music charts. To appeal to a mass audience, the sound tends to be formulaic (based on what has sold before) and is rarely innovative. For the purpose of this study it is the opposite of specialised, although there are a few examples where specialised music has become mainstream.

Major labels - The four multinational music companies who control most published music globally.

Payoff - The return for a decision made.

Probabilistic models - Decision analysis models that assume that decisions made affect outcomes with consideration of risks involved in each decision.

Probability - The level (quantification) of certainty of the occurrence of an event. If certain, the probability is one or zero, if uncertain it is fifty per cent. Where the probability is fifty per cent or equally shared, the risk is highest.

Risk free payoff - Certainty equivalent.

Risk premium - The difference between a decision maker’s certainty equivalent (risk free payoff) and the expected monetary value (EMV).
Sensitivity analysis - The extent to which payoffs change when the assumptions change.

Signed / To be signed / Signons / or Signing - A contractual agreement where a major label lends to the artist the costs for production, publishing, promotion etc. in return for a portion of profits, once all costs have been repaid. The label will also organise and manage these processes, which are usually undertaken by subsidiary or related companies.

Specialised - Outside the mainstream. For example, this music may be localised (for example using instruments or formats unique to an locale); of a genre or style with limited interest groups; and/or innovative by using new processes or tools.

Systems – a system describes a “group of interacting, interrelated, or interdependent components that form a complex and unified whole” (Anderson & Johnson 1997: 2). Systems work within larger systems, that is, the music system operates within a larger economic system.

Uncontrollable factors - Uncontrollable outcomes, impacts of decisions made that cannot be guaranteed or where no data exists.