

DIGITALIZATION OF THE MUSIC INDUSTRY

Artists as Entrepreneurs

Musaddiq Ahmed

International Business
Bachelor's Thesis
Supervisor: Miikka J. Lehtonen
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Objectives:

The main objectives of this study were to explore how artists are approaching their careers, how they are monetizing their creative work, and the implications of digitalization on the value chain. Furthermore, to explore how artists are adapting to new dynamics of the music industry and technology

Summary: Qualitative research approach was chosen in order to gain deeper understanding of the issue in hand. Four independent musicians and one signed musician were interviewed. The findings suggest that artist-entrepreneurs are using web 2.0 in innovative ways to monetize their creative work and build a sustainable career. Furthermore, artist-entrepreneurs have control over the value chain and its various steps, but acknowledge the substantial help record labels can provide.

Conclusions: Artists have several avenues to explore for their careers. The democratization of music has given further incentive to classify artists as entrepreneurs. The saturation of the marketplace has caused higher competition where artists must develop their brand and image in order to stand out, along with taking advantage of web 2.0 in innovative ways to monetize their creative work. The artist-entrepreneur value chain consists of delivering value to the consumers through web 2.0.

Key words: *Music Industry, Value Chain, Entrepreneurship*

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ABSTRACT OF
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1. Introduction

1.1 Background

In the last three decades the music industry has experienced dramatic changes. The preliminary driver of change was technological development, particularly the digitalization of music distribution. Radical changes began emerging with the development of the internet which led to the dematerialization of musical formats, consequently transforming consumption from traditional physical formats to digital consumption provided by streaming services (Vickery 2005).

The decline in the dominant traditional ways of marketing and selling music restructured the music industry and sparked an explosion of new business models (Morris 2013). With digitalization traditional barriers such as expertise and cost were lowered (Kribs 2017) creating new economic and structural opportunities (Morris 2013). No longer was a record deal a necessity to be able to make a living with music nor expensive studio equipment to materialize one's artistic vision. Any aspiring musician can create and distribute their artistic product with the power of the internet.

1.2 Research Problem

Digitalization brought along changes to music production, distribution and consumption. These changes result in shifts in the traditional roles of the music industries key figures which are musicians, record labels, distributors and consumers. "In times of such interconnected networks, when change occurs in one or more of these actors, the remaining actors too must rapidly change and adapt to new norms, practices and business models" (Eiriz et al. 2017). Consequently, the digitalization of music and other media products has attracted attention from several researchers. However, majority of the studies have chosen to focus on the behavior of record companies and consumers (O'Hara 2014). Musicians and how they are adapting and changing their behavior are an area of study that has not been researched extensively. Independent production and distribution are a less costly model for emerging artists to utilize, and with the widespread use of social-media platforms and the development of

co-creative relationships, artists are utilizing innovative ways to launch and sustain their careers (Morris 2013).

This thesis will aim to explain the stance artists have towards digitalization and how they are adapting to the shifting conditions of the music industry. Furthermore, to explore if artists are adapting an entrepreneurial model for their careers and the implications of digitalization on the traditional value chain.

1.3 Research Questions

As mentioned, much has been researched about the implications of digitalization on consumers, record labels and digital platforms. But not about artists and how they themselves have adapted to the change. The research questions will build upon existing literature on digitalization and the music industry and aim to provide better understanding on artists and their course of action in respect to emerging technologies and their careers. Exploring this will naturally lead to the implications on the value chain. This study will attempt to answer the following questions:

1. How have artists adapted to the modern music industry and how do they approach their respective careers?
2. What are the implications of digitalization on the value chain of music?

1.4 Research Objectives

The purpose of the main research question is to determine how and why artists are approaching their career differently due to the shifted dynamics of the music industry. Music is as relevant as ever in modern times, more and more people are constantly exposed to music due to streaming services, and even more are exposed to the creation of music due to technology lowering traditional barriers. Which is why researching how artists deliver value with modern technology tools and platforms is essential knowledge for anyone interested in becoming a musician or a profession

related to the music industry. The second objective is an extension of the first, artists deliver value and how the value is delivered is demonstrated with the value chain. To determine how artists are delivering value, requires determining what the modern value chain looks like, which will be the second research objective. Based on the research questions the research objectives of the thesis are:

1. To determine how artists are delivering value.
2. To determine the structure and functions of the modern value chain.

1.5 Structure of the Thesis

The study is divided into six main chapters. The first chapter provides background and introduces the research problem. The second chapter focuses on previous literature on the music industry, value chain, entrepreneurship and business models. Next research methodology and methods are presented with the limitations addressed. The fourth chapter states the findings and the connections to the conceptual framework. The fifth chapter consists of discussion and analysis. Which will highlight the themes and discuss the main findings in relation to the field of study. Finally, the last chapter will conclude the study by summarizing the main findings and suggesting topics for future research and managerial implications.

2. Literature Review

2.1 Introduction

The purpose of this literature review will be to build a foundation for further research on the music industry and the implications of digitalization on artists. Theories and concepts in the field of music and entrepreneurship will be examined to provide background. First the music industry will be examined from a bird's eye to provide context of the industry. After which the traditional value chain will be examined and compared to the digital value chain. The last topic will revolve around entrepreneurship and business model innovations in order to bridge the research gap.

2.2 Music Industry Overview

2.2.1 History

In 1890 Emile Berliner invented the gramophone, subsequently inventing a way to sell and own music. He started the company called "United States Gramophone Company" which would mark the beginning of the music industry. The business model was based on the traditional demand and supply. Records of artists who were known for their live performances were produced and would sign contracts to provide distribution and licensing rights for their records. During the 1920s the radio became popular, and many thought it would kill the phonograph record industry since it was a free medium for consumers to hear music (Vickery 2005).

The post-war years set off a period of innovation and rapid growth. First the long-playing vinyl was introduced in 1948 followed by the stereo system in 1958. Vinyls allowed for affordable distribution and production of music, so they became the popular choice of music consumption. During the 60s, a disruption was taking place in the form of cassettes. Cassettes allowed consumers to create bootleg recordings from vinyls. Portability of music was the next important innovation to further the growth of the music industry. The Sony Walkman was introduced in 1979. The compact disc was a joint effort from Phillips and Sony and launched in 1982. The CD was superior

in every way to other forms of music consumption and became the largest source of revenue for the recording music industry.

Until 1997, the music industry was evolving alongside technology. Technological advancements from the vinyl to compact disks, allowed consumer electronic companies such as Sony to create new markets for music playback equipment. Labels were able to redistribute old records in a range of formats and aggressively promoted the integration of compact disks due to its lower production costs (Hrachs 2012).

In 1997 the music industry peaked with total domestic sales in the US being 12,2 billion, surpassing the motion picture and video game industry (Hrachs 2012).

Besides other general economic conditions such as leisure time, the strong growth of the music industry can be attributed to a large extent to the rise and fall of different music sale formats. New music formats and playback technologies provided greater music quality and convenience for consumers and led to new growth phases. Vickery argues that even though the introduction of new technology was disruptive to existing music markets and established distribution mechanisms. “A delicate balance exists between new technologies and the supply and use of new creative content.”

When the mp3 was introduced it disrupted and revolutionized the industry (Hrachs 2012). It required 1/10th the storage space per minute of sound compared to compact disks and could be downloaded through the internet with any personal computer. Which led to the creation of Napster. It was developed by Shaun Fanning in 1999. A P2P site where users could upload MP3 files to an online library, which was accessible by consumers for free. By 2001 it had attracted 60 million users without advertisement. As music sharing on P2P sites became increasingly common, the music industry was plunged into an economic crisis. Revenues fell from 5% to 9% in the consecutive years.

Recording Industry Association of America (RIIA) representing the interests of major labels sued Napster, citing the adverse effects the platform had on CD sales. Napster was ordered to shut down their operations in 2002 (Collinson 2018). Even though

Napster's operations were shut down, it marked a revolutionary turning point for music to shift into the digital age.

As the music industry shifted into the digital age, major labels were trying hard to fight against P2P services. No single lawsuit could put an end to piracy, so labels launched their own subscription services. The problem was that most of these services offered limited downloads and streams per month, furthermore the catalogue was limited to only the songs the labels had publishing rights to. P2P sites such as Kazaa claimed to have 180 million files in their library, in comparison to the services by the labels which had on average 10% of the top US singles and 9% of the top 100 albums (Dubosson 2004).

New subscription models where consumers couldn't own the song caused outrage. The backlash allowed Apple to enter the market with a first movers advantage. iTunes was a service introduced by Apple in 2003. It was the first legal service to achieve significant success with using MP3. Instead of buying full albums, consumers had the option to buy single tracks. iTunes adopted the pay-per-song model of distribution, leveraged its online platforms, brand and the iPod. Thus, due to the failure of major labels to adapt, iTunes became the market leader. Once songs are purchased they can be burned into CDs, transferred into mp3 players, without violating copyright and piracy laws.

Digital locks embedded on the tracks let users store and listen to copies of the song on maximum 4 pcs. And allowed them to be transferred unlimited times to CDs and portable players such as the iPod (Vickery 2005). From this it can be theorized that consumers wanted accessibility with music, they did not want to be confined anymore with imposed restrictions. Instead they wanted portability, options to choose, and transfer the songs unlimited amount of times.

The iTunes era marked a significant change. CDs and vinyls were dethroned by digital music. Instead of buying albums, consumers had the option to fill their playlists with single tracks of their choosing. This led to a transition of business models, where instead of owning music in a physical format, it transformed into a model based on electronic exchanges. Spotify was introduced in 2008 and took digital distribution a

step further by allowing consumers to listen to music from any electronic device with an internet connection. This gave consumers access to large catalogue of music and easily accessible compared to the previously download-based models. In 2016 for the first time, streaming generated majority of the American music industry's revenues and is currently the dominant method of music consumption for consumers. (Eiriz et al. 2017)

Each industry actor was affected differently by digital distribution. Record labels lost power in the value chain, consequently less profits. Traditional retailers lost customers and sales while digital music retailers experienced the opposite. Finally, consumers gained new supply channels, greater selection and greater power over price. (Eiriz et al. 2017)

2.3 Record Labels

Record Labels make profit by selling records and promoting artists. Essentially, they turn artistic productions into consumer products. Artists create value and record labels monetize it.

Three traditional major record companies, Sony Music Entertainment, Universal Music Group and Warner Music Group still hold 62,4% of the music industry's total revenue from digital or physical sales of pre-recorded music Metaxas (2018).

In the 50s, 60s and 70s recorded music industry was filled with dozens of record labels which varied in size, location and power. During the 80s and 90s, dominant labels acquired and merged with smaller labels. By 1999 the music industry was controlled by what is known as the big 5. They were Bertelsmann Ag, Emi group, Universal, Sony and Warner. As a result, the industry was centered around Los Angeles, New York and Nashville. Besides having increased chances to attract major label attention, the economic benefits of agglomeration attracted musicians to move into these cities. Such as lower transaction and infrastructure costs, easier access to skilled professionals and specialized services, and learning from the competition to improve oneself (Hrachs 2012).

Remainder of the record industry was formed by independent labels, who often specialized in niche genres. Independent labels do not receive any funding from major labels (Vickery 2005).

During the traditional music industry era, aspiring musicians aimed for a record deal. Which signified job security. Once an artist is signed, the contractual relationship between the artist and the record label is tied to a specific number of albums or a time period. Record labels would receive revenue from album sales while artists from touring, merchandise sales, and personal ventures. Artists were reliant on securing a deal with major labels due to large economies of scale in manufacturing, distribution, marketing and finance costs over time (Peltz 2006).

As Hrachs (2012) states “The major labels controlled every aspect of the production process within their facilities. They had access to advanced technology to press, package, record, market, promote and distribute worldwide. Specialized services such as legal services, music publishing, production, sound engineering and management. As so, musicians were signed based on their creative abilities, and were not required to have skills relating outside their profession such as legal, technical, managerial and entrepreneurial skills.”

Hrachs statement echoes the little bargaining power artists had with labels. Due to labels carrying out majority of the tasks in the value chain, they reaped most of the profits. As artists were entirely dependent on major labels for financial resources and technical expertise, when they did receive a record deal, artists had to give up autonomy. Label executives had the final say on the artistic product. The difference between creative visions often led to clashes between artists and label executives (Hrachs 2012).

Picot et al. (2008) research argue that vertical integration into the value chain by the artists can avoid conflicts between them and record labels. He states that this is what “the artist-entrepreneur does”, by taking over the duties previously occupied by record labels. Such as production, distribution and promotion. The artist does not have to master these tasks alone but rather have control over all these stages.

2.4 Value Chain

A value chain describes how value is created and delivered. Bockstedt et al. (2006) proposed a model based on research and relevant literature on the value-chain analysis, market structure, and digital music characteristics. Figure 1. represents the traditional value creation process before digitalization.

The A&R department (Artist and Repertoire) from labels seek out artists and signs them. The artist creates the content and the label finances the recording and production process. At this point the artists are usually paid an advance payment. Labels have well established relationships with various publicity channels such as press, radio, tv-stations etc. The artist is pushed to be promoted through these channels to gain as much exposure as possible. This is a critical step due to consumers being more likely to purchase albums from artists they are familiar with (Vickery 2005). Manufacturing CDs and merchandise is done with in-house facilities or outsourced. Major labels have access to CD pressing facilities worldwide which allows for economies of scale and global distribution. Major labels have a global network of branch offices that take care of sales, distribution and marketing. Finally, wholesalers receive the album and distribution companies distribute it to retailers.

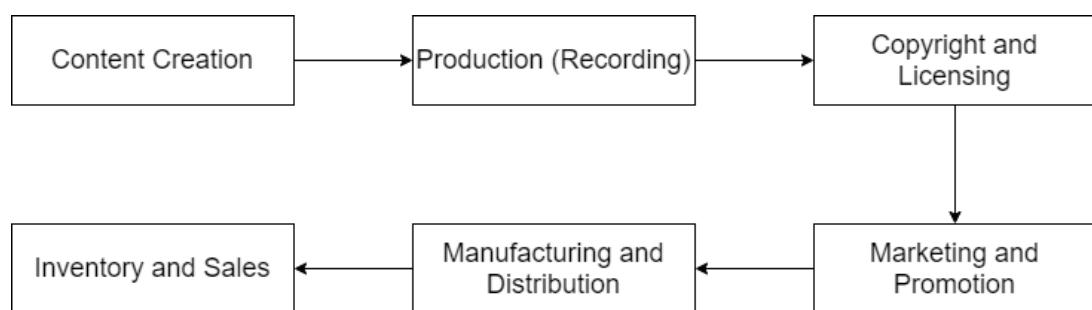


Figure 1. Traditional Physical Value Chain Bockstedt et al. (2006)

Figure 2 represents Bockstedt et al. proposal of the digital music virtual value chain. The authors argue that the disruptive technology of streaming created a lot of new opportunities for musicians and consumers alike. Di Serio's (2010) research states "with P2P music exchange, the supply chain of music was dramatically affected. Music

did not need a plastic disc, packaging let alone a physical store anymore. Music could be acquired from the comfort of one's home, reducing acquisition time and cost to almost zero."

In economics, intermediaries act as a channel for goods or services offered by the supplier, providing added value to the transaction. Disintermediation occurs when intermediaries are removed from the supply chain due to for example the internalization of activities that are traditionally performed by intermediaries (Martins 2014).

The major change brought along by digitalization in the value chain was in the role of intermediaries. Physical retail stores and manufacturers had decreased value contribution in the chain. This is represented with the dotted lines. Music in digital format slowly overtaking the physical format, physical stores, manufacturers and other intermediaries started slowly experiencing disintermediation from the value chain.

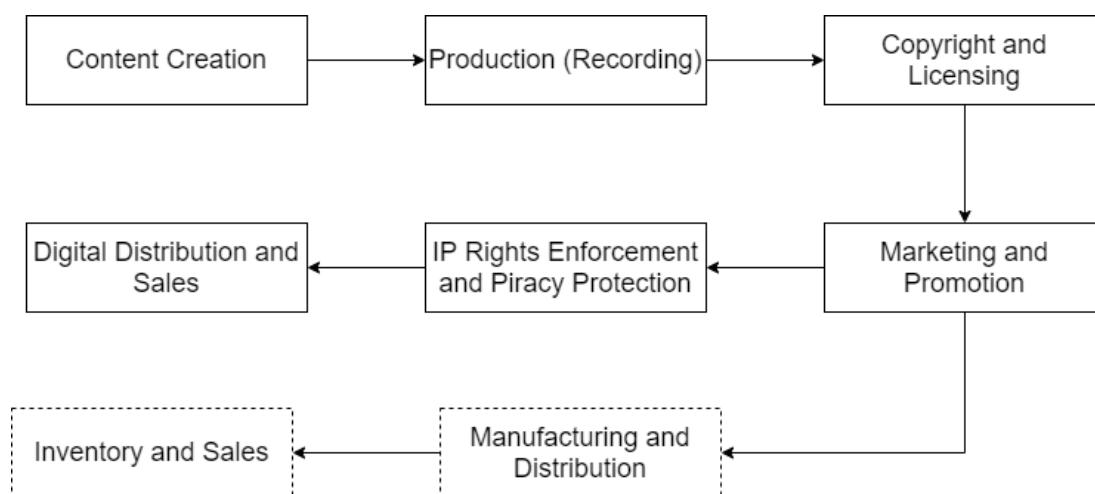


Figure 2. Digital Music Virtual Value Chain Bockstedt et al. (2006)

Di Serio (2010) supports these claims, stating "the rise of Napster being the moment when the physical distribution chain controlled by record labels transformed. Musicians realized the democratization of information via digital media. They were not tied to record labels anymore. With music digitization, distribution and promotion of the artist by a major label was not necessary. Current technology enables musicians the entire process of music development from their own home with the appropriate equipment."

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2.5 Business Models

Business models have existed since the beginning of commercial trade, yet only attracted greater attention with the emergence of knowledge economy. The growth of the internet led to online commerce and outsourcing of activities previously carried out internally within companies (Eiriz et al. 2017). Different approaches to management and strategy were required due to the restructuring of firms and industries. All of this led to the increased study of business models, yet there is still no accepted definition of the concept. Eiriz et al. argue that it is even more difficult to define a business model in the case of musicians because their preliminary object of action is art. However, with the increasing number of artists having to manage their own careers, it is important to clarify the concept of a business model.

The simplest definition provided by Stewart et al. (2000) describes it has how the firm makes money and sustains its profits over time. Teece (2010) expands upon this and states business models demonstrate how a firm creates a certain value and then delivers it to customers. Implying the identification of costs and gains involved in the process of creation and delivery and how these gains are produced. Magretta (2002) states that four questions should be answered when identifying a business model:

1. Who is the consumer?
2. What the consumer values?
3. How to make money with the business?
4. What is the economic logic that explains how value can be delivered to customers at an appropriate cost?

Alternatively, Chesbrough et al. (2002) state that a business model should fulfill the following functions:

1. Describes the value proposition.
2. identifies the market segment and determine how revenue is generated.
3. Sets the value chain structure needed to create and distribute the company's offer and to control the assets necessary to maintain its position in the value chain.
4. Details the revenue mechanism by which the company will be paid for what it offers.
5. Estimates the cost structure and potential profit.
6. Describes the company's position within the value chain and formulates a strategy to develop competitive advantage.

Shafer et al. (2005) analyzed twelve business model definitions in literature and proposed a consensual definition: A representation of the firms underlying core logic and strategic choices for creating and capturing value within the value network.

Baden-Fuller (2013) Technology development can facilitate new business models. Amit and Zott (2001) recognize two vital dimensions in Business models which are value creation and value capture. Value reaction identifies customers and how to engage them. Value capture identifies how value is delivered and monetized. Based on their model Baden-Fuller develops a typology with four dimensions: Customer identification, Customer engagement, value delivery and monetization.

2.6 Business Model Innovations

Online music platforms are continuously emerging with open and decentralized business models. Social media platforms and technologies surrounding it make up what is known as "Web 2.0". Which has been praised for the democratizing effects, allowing anyone with a creative idea to express themselves (Morris 2013). Web 2.0 has absorbed many previous forms of publicity such as promo posters, videos, interviews, demos, radio etc. These platforms take advantage of community

resources to support artists for an autonomous and independent approach to their creative business endeavors (Martins 2014).

One such innovation is the crowdfunding model. Which has the potential to substitute funding from record labels. As the name suggests, crowdfunding is a web-based funding model where individuals engage in a crowdfunding campaign in order to fund their project. Kickstarter, Indiegogo and Rockethub are examples of crowdfunding platforms that have emerged and support creative projects from musicians, filmmakers, writers, visual artists, and other creative endeavours. Ordanini et al. (2009) argue crowdfunding to “create the necessary organizational systems and conditions for resource integration among other players to take place”. Consequently, having the potential to substitute traditional intermediaries such as record labels.

Imogen Heap is musician who is known for her innovative methods to engage her fanbase with the creation process of her music. For her 2011 album “Sparks” she asked fans to send sound samples of everyday sounds. Incorporating these samples into her songs and releasing a track every 2 weeks for 3 months over the next 3 years.

To adapt to the new dynamics of the music industry, record labels emerged with the “360-deal”, a policy of business operation which grants labels a percentage of artists revenue from revenue streams which were previously solely meant for the artist. Such as touring, merchandise, licensing and other potential revenue streams. Essentially, the 360-deal is the record industry’s effort to obtain more revenue whilst combatting the crisis that digitalization has caused for their revenue streams (Metaxas 2018). Furthermore, other intermediaries have adopted the 360-deal such as Live Nation. Signifying that is becoming the dominant contract model in the industry (Karubian 2009).

2.7 Entrepreneurship and Innovation

The study of entrepreneur is a relatively recent academic pursuit and there has not been unanimous agreements on what defines an entrepreneur (O’Hara 2014). Creative entrepreneurship is focused on the entrepreneurial development of ideas and creative works. They are primarily concerned with the creation and strategic

commercial exploitation of creative or intellectual capital. Chell (2008) states that three traits are emphasized among entrepreneurs, “the need for achievement, the internal locus of control, and propensity to take risks.”

In the context of the music industry, an independent artist refers to someone who is not signed to a major record corporation (Martins 2014). Digitalization allowed independent music production to evolve from a niche market into a mainstream model. Before, money and specialized professionals were required for basic productions, now aspiring artists can record with home studios and promote their work globally with the internet. While this has provided the autonomy and creative control that many artists have wished for, it demands a variety of entrepreneurial and technical skills from the artist. Martins argues that administrative burden, work overload, lack of connections and expertise may interfere with focus and creativity. Ultimately compromising the quality of the artistic product.

Von Hippel (2005) states digital technologies have democratized the production of music by making traditionally expensive and specialized activities accessible to a wider range of musicians. Consumers have access to DAW or digital audio workstations with their computers, so the two traditional barriers of cost and skill have been removed in the production aspect of music. Musicians can license and distribute their tracks through online music platforms such as Spotify, which inserts them directly into the chain of global distribution and eroding the power of major labels.

The consequence of this shift is that the time musicians could spend on seeking inspiration and being creative, is used to accomplish tasks from the business aspect. Hracs argues in his paper that independent musicians are moving away from artistic models of creative production, into a more professionalized entrepreneurial model. As Greffe (2004) describes the shift to independent production requires a revised understanding of the skills required for artistic production. Artistic and creative skills must be paired with business skills such as legal, financier and managerial skills. McRobbie (2002) argues that shifting to entrepreneurial modes of creativity is withering traditional beliefs of creativity.

Peltz (2010) states “Artist entrepreneurship is the logical consequence of combining highly motivated artists and technological innovations.”

Casson (1982) describes an entrepreneur as someone “who believes he is right, while everyone else is wrong. Thus, the essence of entrepreneurship is being different – being different because one has a different perception of the situation”. This description fits artists who are rejected due to conflicting creative visions. The artist does not compromise their vision due to a strong self-belief and artistic integrity. Artists are often focused on their artistic integrity disregarding the needs of consumers and labels. To explain this phenomenon, Papandrea and Albon’s (2004) research concluded that money is not the primary motivation. Fame, critical praise, self-satisfaction and self-realization were found to be important non-financial factors for artists motivations. Cowen and Tabarrok’s (2000) research demonstrated the more the artist believed in his creative work, the less he was willing to accept financial rewards for it. The large number of artists who invest time and money to produce and release their music with no guarantee of financial gain support the notion that money is not of primary motivation.

The entrepreneurial process in Moore’s (1986) model is simple and linear, suggesting that innovation meets a triggering event which drives implementation and eventually growth of the business. Afuah (2003) defines innovation as “the use of new knowledge to offer a new product or service that customers want.” O’Hara adds to this definition by stating that “the emphasis is on the commercialization but there has to be an audience interested in receiving the innovation for the innovation truly to take place.” O’Hara’s research concludes that successful entrepreneurial ventures tend to be built around innovation. Entrepreneurship focuses far less on invention than innovation and for entrepreneurship to exist there is no need for creativity or innovation to be present at all. Just an individual looking to exploit an opportunity. Meaning creative works can exist for its own sake without being exploited on a commercial level, they exist on the novel idea first and not the factors influencing whether the idea can become an innovation. Innovation is bringing a new idea to the marketplace in the form of a new service, product, system or process that allows for the commercialization of it. Joseph Schumpeter’s well-known theory of innovation states that entrepreneurs disturb the stationary circular flow of the economy by

introducing an innovation and takes the economy to a new level of development (Usman 2013).

The model by O'Hara summarizes his findings and this chapter. The artist produces creative work which is his invention. The market forces come into play and dictate how the invention can be commercialized. If the individual acts on the opportunity they can innovate their invention which classifies them as an entrepreneur. With democratization of music artists can produce music with relative ease, but in the increasingly competitive market. Reaching the mainstream is the greatest hurdle artists face.

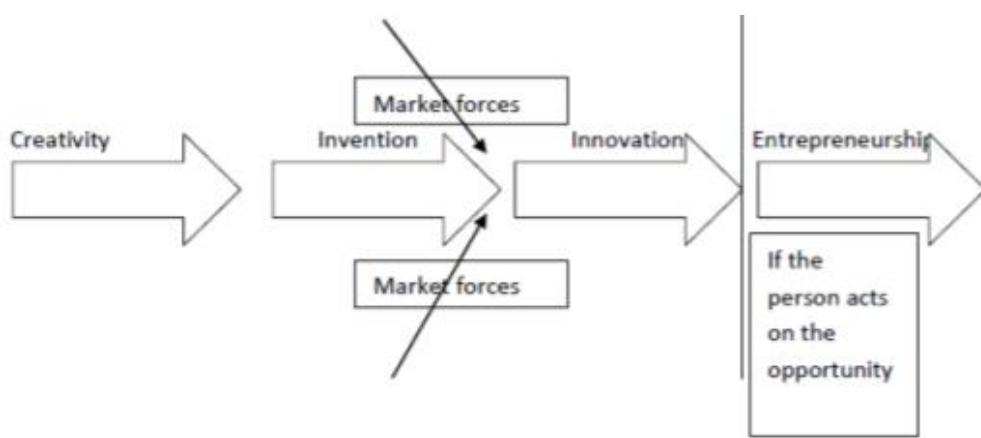


Figure 3. Invention and Innovation O'Hara (2014)

2.8 Research Gap

The implications of digitalization on the creative industries has been numerous. For better or for worse. The rise of piracy and streaming garnered considerable media interest and made way for a plethora of innovations. But much has not been researched about artists and how they position themselves in the increasingly digitalized world. Creativity can be described as a generation of new ideas while innovation can be understood as the exploitation of these ideas (Peltz 2006). In the context of the music industry this can be interpreted as songwriting and composing being the idea, while the commercialization of the music being the exploitation. The research will aim to explore how artists are exploiting and monetizing their works, how they are approaching their careers and why they are more than just creative producers in modern times. Furthermore, the traditional method of producing and distributing

music is no more. This has dramatically changed the value chain as seen by Bockstedt et al. representation of the digital value chain. But with the increasing amount of platforms in web 2.0 and artists exploring new innovations, how has this further affected the value chain?

2.9 Conceptual Framework

The framework will utilize Bockstedt et al. (2006) model of the digital value chain and combine it with Picot et al. (2008) proposition of an artist-entrepreneur integrating themselves vertically into the value chain. Previously record labels would be the ones carrying out majority of the steps in the value chain, but now artists have the possibility to carry them out independently and aim to monetize their work by themselves and deliver it to the consumers. The literature also states from several authors the effects of democratization, artists have the possibility to be in direct touch with their fanbase which is contrasted with the block “Web 2.0”. The dashed lines signify record labels having a different approach to market and promote their artists among with content creation. Furthermore, the value of record labels perceived by artists will be explored to conclude the influence and position of labels in the value chain.

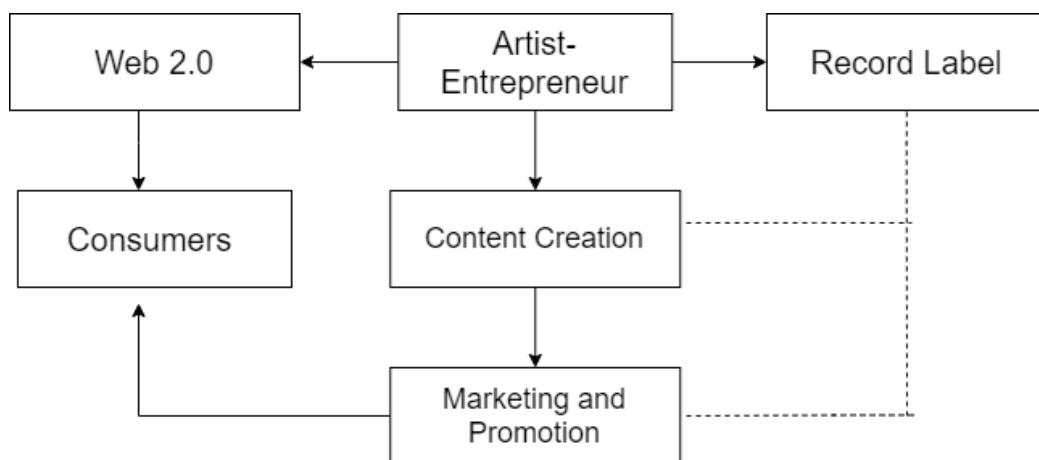


Figure 4. Artist-Entrepreneur Value Chain Ahmed (2020)

2.10. Conclusion

The beginning of this chapter provided background to understand how the music industry evolved into its modern state. The duties and functions of record labels was explored along with value chain the changes brought along with digitalization. In conclusion, this study has suggested the shift from artists to artist-entrepreneur in accordance with digitalization and record labels. As a result, the conceptual framework was presented by synthesizing previous literature in the field of music, entrepreneurship and innovation. Ultimately, the conceptual framework will be the basis used for answering the research questions. Next research methodology and the chosen methods will be discussed.

3. Methodology

This section of the paper will discuss the methodology used in this research paper. First the research method and data collection are reviewed. Next, the interviewees and their connection to the topic. Finally, data analysis will be processed and the limitations regarding the research will be expressed.

3.1 Research Method and Data Collection

The initiation of this research began with reviewing and analyzing existing literature to gain a general understanding of the music industry and what led to the modern dynamics surrounding artists, record labels and value creation. The literature review was built around the most important topics that arose during the research process and the framework was then derived from the patterns and theories that emerged.

After the literature review, a primary research project was conducted to gain insight and explore different perceptions from artists themselves. A qualitative research approach was chosen over a quantitative. In order to extract as much information as possible and gain a more nuanced understanding. All the interviewees were musicians with one of them being signed to a label. The interviewees were chosen because of their connection to the music industry and fitting the criteria of “artist-entrepreneur”. The interviews were semi-structured as to aim for a casual style of conversation. This style of conversation was chosen to be the optimal approach due to the nature of the discussion. Music is very intimate and personal. If the interviewee felt like they were just answering questions instead of having a conversation, it could suppress a lot of the information subconsciously. To conclude, qualitative research is in line with the domain of the research and best suited to answer the research questions.

The questions were developed from the framework. The aim of them was to understand how artists perceive the change in the music industry and if innovations have led to an entrepreneurial approach to their careers. Furthermore, if these innovations are helping them or hindering them. Questions regarding record labels aimed to gain an understanding of what value artists see in them in modern times,

along with their position in the value chain. Artists were asked about their own creation process to establish common patterns and link them with the theory.

Two of the interviews were conducted face-to-face while three were done via Skype. The shortest interview was thirty minutes while the longest being almost ninety minutes. Each interviewee was asked for permission for the interview to be recorded. This allowed for concentration on the interview without worry of not remembering or misinterpreting answers. After the interview the interviewees were asked if they want a copy of the transcript or the thesis itself once it was finished. Finally, if they want to remain anonymous or have details about them and their organization written.

3.2 Interviewees

A total of five people during March were interviewed for the qualitative research. Each interviewee was asked questions in respect to the conceptual framework. Depending on the answers, questions were added or removed to keep an organic flow of conversation. Four of the interviewees were contacted personally and one of them through their social media page. All interviewees gave permission for their names to be used in the research. Each interviewee will be referred to by their surnames except Staboulis will be referred to by his hip-hop moniker.

The first person to be interviewed was Lauri Latvala. A twenty-two-year-old musician, producer, and entrepreneur. Lauri was chosen to gain the perspective of a musician who aspires to make music but also pursue his entrepreneur goals. Furthermore, Lauri has extensive knowledge with music production as well as playing in bands.

The second person to be interviewed was Aris Staboulis who goes by his rap moniker “Ares”. A twenty-year-old rapper signed to Rähina Records. Ares was presented questions related to recording labels and their operations to gain insight into what value they bring to the modern value creation process.

The third person to be interviewed was Kasper Kasurinen. A law-student, musician, songwriter and front man of the band “Planes”. Kasurinen represents a musician with a DIY work ethic.

The fourth person to be interviewed was Sampsia Keränen. A twenty-two-year-old guitarist and chef. Keränen has toured Finland extensively in club and festival shows as the guitarist for the rap act “Lukas Leon” and is currently the guitarist for the band, “Planes”.

The fifth person to be interviewed was Nick Howe. An independent musician, singer and songwriter from the UK. Howe comes from a family of entertainers and has built up a dedicated fanbase with over ten-thousand followers in Instagram and hundreds-of-thousands of streams in Spotify. Howe has extensive experience as a musician considering he played almost two-hundred gigs last year alone. Furthermore, he has worked with top industry names and is familiar with the business.

Table 1. Interview Respondents

Name	Occupation	Represented Perceptions	Age	Country
Lauri Latvala	Entrepreneur	Independent artist, Producer and Entrepreneur	Early 20s	Finland
Aris "Ares" Staboulis	Musician, signed to Rähinä Records	Signed Artist, Record Labels	Early 20s	Finland
Kasper Kasurinen	Student	Independant Artist	Early 20s	Finland
Sampsia Keränen	Chef	Independant Artist	Early 20s	Finland
Nick Howe	Musician	Independant Artist	Early 30s	UK

3.3 Data Analysis

After recording each interview, they were transcribed word by word with extra or unnecessary comments omitted. Four of the interviews were done in Finnish due to

convenience of answering. I transcribed them to English as accurately as possible, thus retaining the original message. The transcripts were analyzed to highlight the main themes and connections.

The data was compared to the literature to establish connections and link it with theory. Answers were also compared amongst each other to identify common patterns and beliefs. Conflicting viewpoints arose at some points which can be attributed to musicians perceiving variables differently due to different experiences and backgrounds.

3.4 Research Ethics

The work and research in this thesis are not stolen from anywhere nor plagiarized. All sources have been given credit and correctly cited. Direct quotes are borrowed and marked as. All respondents were provided background of the research in-hand before being asked whether they want to participate. Furthermore, oral consent in the beginning of each recording for the use of their details and answers was asked. To which all of them replied agreeingly. The data is strictly used for academic purposes. Respondents are aware of the publication of this paper and will be sent a copy as well. The recordings of each respondent are stored in the mobile phone of the author, Musaddiq Ahmed, and will not be shared or distributed anywhere.

3.5 Conclusion of the Research Methodology Chapter

This section concludes the methodology chapter and discusses the limitations. The issues this study deals with are related to artists in the music industry. Specifically, to elaborate on why artists can be categorized as artist-entrepreneurs and how they shape the value chain. Given that music is very subjective, personal and abstract. A qualitative research method was chosen to shed light on the topic.

The few limitations regarding the research are worth mentioning so not to skew the findings section with bias. First off, the world of music is very heterogeneous and has a range of variables such as music genre, popularity, location etc. Due to the scope of

the project, it is impossible to include all these variables. Another one is that researching entrepreneurship has been a subject of debate for long due to conflicting views of what entrepreneurship is. Also, the digitalization of music and its effects on different key players in the industry has not been thoroughly researched by academics.

Another critical limitation regards the sample size. A total of five were interviewed and they do not reflect the viewpoints of many others such as a major label artist. Furthermore, record label executives and musicians who have exclusively made a career from platforms such as YouTube, were not interviewed. Their perception would have added valuable insight to the research. Limitations regarding gender are prevalent, as all the interviewees were male. Females face difference challenges in the industry as their male counterparts and so it would have added a different perspective to the research. The final limitation was uncertainty among interviewees in certain questions. Interviewees did not have experience or knowledge with a certain topic in-hand. The next chapter will introduce the findings from the qualitative research.

4. Findings

This section of the paper will discuss the findings from the qualitative research. They will be divided according to the variables in the framework with “Web 2.0” being present in all the sub-themes. Findings on artist-entrepreneurship, content creation along with marketing and promotion is stated in the first two sub-themes. After that, perception of record labels and the implications on the value chain will be discussed. The section will be finished off with the synthesis of the findings.

4.1 Artist-Entrepreneur

One of the key research objectives was to discover how artists are approaching their careers with digitalization. Howe states that “it is more important than ever to build a community around what you are doing and provide value to the people that listen to your music. Looking after your audience is the key to everything. You can be an average artist but if you’re great with your audience, you can build a sustainable career of the back of that.”

Regarding being an artist Latvala states “It’s a job that never ends, you have to continuously and actively build your fanbase and be involved.” Ares follows-up stating “You decide your working hours, and the working hours are longer than a typical job. You are fully responsible for your own career, no one will force you to do anything.” In terms of creativity suffering due to juggling the business aspect Latvala states “in my opinion it doesn’t ruin creativity. Managing and developing the business aspect of one’s career is crucial to any artist, no matter how big or small.” Concluding that “creativity is about yourself and how much time you invest in it.” Keränen had an opposing view, stating that “managing the business aspect is very draining which can ultimately compromise the artistic product.”

When asked about content creation with technology Latvala states that “I started making music already when technology was a big part of it,” when asked about the changes he has noticed from then he states “tracks are more generic now” and “production has changed with technology but not as dramatically as how it has affected the music business”. Keränen states that “technological advancements have enabled

him to make his own demos which would not be possible before.” Kasurinen remarks “music creation is easier than ever before, but it is double-edged sword, relying too much on technology to create music can be detrimental in a sense that no real knowledge of playing instruments is acquired.”

Howe states with digitalization “there’s two sides, there’s the pressure to constantly create content to keep your fanbase engaged. which can often take away the passion from music.” Another example is with the distribution of music. “In the early days you had to go to retail stores to distribute your music. There was very few retail distributors and you would have to be signed to get mass exposure. Now anyone can get exposed, but with that comes mass competition. In that case it comes down to the quality of your music, so you must be good at your craft. To be successful you must have a likable personality and look after your audience.”

All interviewees expressed the convenience of streaming, Keränen remarks that “access to almost all the music in the world for ten euros a month is perfect deal.” When confronted if streaming is unfair towards artist for consumers who barely make a revenue, Latvala expresses it depends on the record deal. “Many independent artists make good money from it, for example Russ who receives all the revenue from his streams.” Kasurinen believes that “streaming is unprofitable because of the system implemented by record labels. The legal regulations surrounding it have made it so that it is fully to the advantage of the labels instead of the artists.”

4.2 Marketing and Promotion

The second block in the framework consisted of marketing and promotion. In the traditional value chain, the record label would handle this aspect completely. However, with the development of web 2.0, signed and independent artists alike must find innovative ways to market and promote themselves to the saturated market.

Regarding the topic Ares answers, “in the hip-hop industry most people place more importance in the persona than the music itself.” Latvala agrees saying “Artists have always been unique personas which attracts interest in the first place, but specially

nowadays the role of the persona is more prominent and for some artists it might play a bigger role than their music.” Keränen affirms saying “Image is a big factor for an artist to be able to stand out of the crowd.” Latvala believes that “even if a musician is highly proficient musician, if they do not have the image they aren’t nearly as memorable.” Ares concludes “Some musicians are only a persona; others are only technical and skilled. But the artists who can combine both are the ones that become stars.”

Kasurinen comments that “the core of the music business has still stayed the same. Only the platform has changed. There has always been the option to create and distribute your music independently. Now it has shifted to the digital platform where an online presence is vital,” and that “online presence is hard to create without sophisticated marketing and promotion methods.” Kasurinen further comments “methods of becoming successful has changed but the requirements have stayed the same. Before when you had to be an artist at venues, now you might be an artist at YouTube but still you have to market yourself and have a persona to attract interest.”

Regarding distribution, Howe states “it’s easier to digitally distribute, but hard to have a key strategy. There’s different playlist plugging companies that I am trying to utilize to promote my song.”

4.3 Value Chain and Record Labels

Artists can carry out all the necessary and required steps in the value chain which was not possible back in the day when the only way to have access to broad distribution, funding and technical skills was through a record label. Furthermore, making music is accessible to anyone with a laptop. Anyone can build a home studio with simple equipment and distribute their music online and even garner success. One of the key research objectives was to discover what the implications of artist-entrepreneurship has had on the value chain and what record labels bring to the value creation process. Ares was the only artist interviewed who is currently signed to a record label. Rähinä Records is Finland’s largest independent record label. Independent labels operate without any funding from major record labels, thus having a different approach to developing the careers of artists. Ares states that “the value differs from record label

to record label as well as the team you work with,” and “major labels tend to not invest in an artist and just expect a hit song from them. While from his experience in Rähinä Records his team invests in managing his personal life with his career while developing and supporting his artistic vision. Latvala states that record labels “Provide a good push for exposure with their connections. Labels also have resources for proper production such as for music videos, which can be very expensive.” Latvala concludes that “It is very difficult to carry out all the steps of the value chain alone, but not impossible.”

Kasurinen had mixed views stating “With a deal you can focus more on the music, a lot of the time goes into doing things unrelated to making music. Such as acquiring and moving equipment, going to work for funding etc.” but acknowledges that “with a deal there’s a possibility that the artistic vision comes into conflict with what the label wants.”

Ares states that “I wouldn’t have signed with Rähinä Records if I didn’t believe that they would support my vision wholeheartedly,” and “labels shouldn’t interfere with the creative vision of artists due to the chance of ruining what makes the artist unique in the first place. Ares concludes saying “In the end it all comes down to the determination of the artist. If they are persistent with their vision the label cannot force them to change.”

Keränen and Kasurinen both produce their music for “Planes” but outsource mixing and mastering. Kasurinen states “We have control and input over the value creation process where we are not proficient in. Such as mixing and mastering.” but “learning the basics of it will help gain understanding.” Howe supports these claims saying, “like any business it’s good to understand all the aspects of your business but that does not require you to be a hundred-percent proficient in all of them.” This confirms that artists are not required to master all the steps in the value creation process but just have control and input.

4.4 Conclusion

To conclude, digitalization has provided artists significant influence over the value chain. Artists can produce and distribute content online without funding from labels or an array of technical skills. The flipside of digitalization is that artists are forced to diversify their actions in order to be financially stable. Meaning exploring other avenues which do not fit with the traditional description of an artist. Such as discovering innovative ways to monetize one's creative work, engage and exchange services with ones respective fanbase and develop your brand and image. Consequently, shifting artists into artist-entrepreneurs. Social media platforms have enabled artists to build sustainable careers by finding innovative ways to engage their fanbase. Which has turned record labels into another function in the value chain instead of a key figure who carries out most of the functions in the value chain. Artists are hesitant to sign a label deal unless they know for a fact that it is deal authentic to their vision. Nevertheless, record labels provide important resources, connections and exposure which enable the artist much more time to focus on their creative work. The next chapter will introduce discussion and analysis of the findings.

5. Discussion and Analysis

This section of the thesis will discuss and analyze the findings from the qualitative research connecting it to the literature review. The main themes that arose were what actions artists are taking to build their career and how they approach marketing and promotion. The findings supported the artist-entrepreneur framework and its effects on the value chain. With the democratization of music, the competition is higher, and artists have much more tools in their disposal to make music and reach their fanbase. Being able to market your image and brand is essential to establish an online presence. Record labels are not a necessity to the value creation process but provide valuable support and resources.

5.1 The Creative Entrepreneur

“Creativity can be described as a generation of new ideas, while innovation can be understood as the exploitation of these ideas. So, in the field of music creation is content creation. Songwriting and composing, while innovation is the commercialization of these songs” (Peltz 2006).

With digitalization artists had to diversify their actions and explore other avenues to be financially stable. Meaning the traditional role of musicians being specialized performers of music who get paid to record an album is no longer a sustainable business model. The artist creates while the entrepreneur innovates. With emerging digital technologies artists are discovering new ways to monetize their work and themselves as a persona. As Howe states “the nuts and bolts of any artist is their following.” With various platforms and services connecting artists with their fans, artists can exchange value directly with their fans for donations. The service can vary greatly across platforms. Twitch sees a lot of artists doing live singing while simultaneously playing video games and interacting with fans. Patreon allows consumers to access creative works that the artist posts in their page for a monthly subscription fee of the consumers choosing which goes to the artist. Morris` (2013) research concluded that “digital technologies allow artists to be in direct touch with their fans. Cutting out intermediaries has made it cheaper to produce and market music, and potentially more intimate and meaningful relationships between artists and fans. The use of social

media platforms has enabled co-creative relationships making it into a viable business strategy for emerging and independent artists." Howe confirms this statement stating "finding your identity and doing what you love, then incorporating the digital platforms into it and using it to your benefit is incredible. Such as Patreon, Bandcamp, Kickstarter, are great services where you can offer services for your fans and they donate money."

O'Hara's research stated that market forces dictate how inventions can be innovated or commercialized. Howe talks about "exploiting different algorithms in order to reach a bigger audience" and exploring LinkedIn as a potential platform for advertisements. Connecting the two, the market forces from web 2.0 has led to musicians trying to utilize the algorithms of different platforms in the hopes of reaching a bigger audience, thus innovating or monetizing their work.

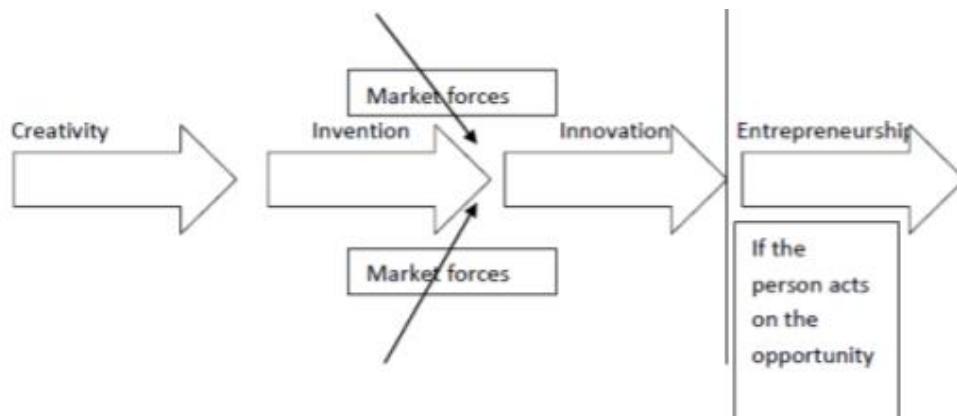


Figure 5 Model of Innovation O'Hara (2014)

Morris` (2013) research furthermore states that digitalization has revealed what has long been a central truth of cultural commodities, which is individuals not only pay for the objects but for the meanings they associate with it. The findings demonstrate that persona is seen as a huge factor in being a successful artist. Suggesting that artist-entrepreneurs must create a brand, which is the meaning that consumers will associate with when purchasing the products or services from the artist. This goes in line with Howes comments "it's more important than ever to build a community around

what you are doing and providing value to the people that listen. It is more of an exchange of value now." And makes a personal example of messaging fans that share his newly released single with renditions of their favorite song.

The negative aspect of web 2.0 Howe cites is "trying to do many platforms as once can spread you thin and turn you into a machine trying to get exposure." Ultimately compromising the authenticity of the artistic vision. The findings suggest that even if an artist is signed or unsigned. They must still identify and perform the traditional functions of a business. Baden-Fullers business model highlights customer identification, customer engagement, value delivery and monetization. Customer identification is attained through style of music and image. Engagement with the fanbase is performed not only through web 2.0 but with live performances. Value delivery is distributed through online music distribution platforms and live performances also. Monetization is attained by exposure which is subjective to each artist and the innovative way of which they can monetize themselves and their music. Howe concludes "Every creative artist needs to be entrepreneurial."

5.2 Artist-entrepreneur Value Chain

The role and relevance of record labels in the modern value chain has been subject of debate. If artists can produce and distribute their music independently, what use is there for a label deal? Record labels still hold value in the sense that they can provide exposure and marketing with key connections while handling the business aspects. As Kasurinen states "it would take a lot for an independent artist to create the same kind of system as established label artists."

Howe echoes the same sentiments saying it is hard to reach the same level of success without the backing of a major label. "Spotify editorial playlists take investments, so they are owned by labels. If you can get into these playlists, it grants you huge exposure." Record labels still have valuable connections and resources that artists need in order to take their career to the next level. However, artists are reluctant to sign a deal unless it is supporting their creative vision and they believe that the label will develop them as an artist. As Howe states he would be willing to accept a deal if

"they would invest and believe in the project the right way, and not take every single royalty."

Record labels changed their traditional business model in order to adapt to the digital era by earning revenue streams from copyrights, licenses, streams and the 360-deal. It will be interesting to see in what way record labels will continue to shift and adjust in the value chain as technology progresses. Kasurinen believes "Record labels might change into services specializing in distribution, legal assistance creating a brand image etc." Resulting, that labels would not have much say in the artistic direction of their signees, but instead act as a service for the artist. Howe supports this claim stating that record labels have become much more than just banks and marketers.

Picot et al. (2008) research argue that vertical integration into the value chain by the artists can avoid conflicts between them and record labels. He states that this is what "the artist-entrepreneur does", by taking over the duties previously occupied by record labels. Such as production, distribution and promotion. The artist does not have to master these tasks alone but rather have control over all these stages.

5.3 Conclusions

To conclude, the analysis suggests that emerging technologies have created the notion of artist-entrepreneurs. Pico et al. defines an artist-entrepreneur as someone who takes over the duties previously occupied by record labels. In the case of digitalization, artists must find innovative methods to be able to gain exposure in the saturated market. Consequently, digitalization has created the artist-entrepreneur value chain which perceives record labels as another variable of the chain. The artists interviewed did not perceive the gain in resources and capital worth losing over artistic autonomy. The next chapter will be the final chapter of the thesis. It will summarize the main findings along with managerial implications and suggestions for future research.

6. Conclusions

The final section of the paper will address the research questions and conclude the main findings. Furthermore, implications for international business will be addressed and suggestions for future research in the field of music. The research questions were:

1. How have artists adapted to the modern music industry and how do they approach their respective careers?
2. What are the implications of digitalization on the value chain of music?

6.1 Main Findings

Digitalization has greatly shifted the music industry and the roles of artists. Before record labels would look for a performer who could monetize themselves whilst handling the business aspect and even songwriting. Nowadays artists need to create a brand out of themselves in order to achieve mainstream success. Since live shows are a large percentage of one's revenue stream, artists must be able to perform skillfully and develop a persona that can connect with the audience. Hracs argues in his paper that independent musicians are moving away from artistic models of creative production, into a more professionalized entrepreneurial model. The findings suggest that artists are already employing entrepreneurial skills such as selling themselves and finding ways to innovate and monetize their product. The reason that they might not classify themselves as an entrepreneur is due to music not being a tangible product for sale. As Howe states, "it comes from the heart" and so treating art as a business can feel unnatural for some.

Exploring the implications of digitalization on value chain was another objective of the research. The research proposed an artist-entrepreneur value chain which places emphasize on creating a brand image and engaging ones fanbase. Findings demonstrate that artists still perceive record labels to be valuable, but they would not sacrifice their artistic integrity for a deal.

To conclude, artists have several avenues to explore for their careers. The democratization of music has given further incentive to classify artists as entrepreneurs. There is no doubt the music industry will once again experience dynamic shifts due to the artist-entrepreneur value chain.

6.2 Implications for International Business

With digitalization the geographical barriers of music are blurred even further. Music has and always will be a prominent figure in the creative industries. More and more individuals worldwide are creating music due to the democratization of music. In regard to implications for international business, this study expresses how digitalization has further shifted musicians to adapt to an entrepreneurial model. Furthermore, the research assesses the role of traditional record labels in the value chain and explores if technology has the chance to further disintermediate the roles of record labels. This study can be useful for any aspiring musician and even established ones, as it discusses in depth how artists are adapting to the everchanging climate of the music industry. The findings of the study provide valuable insight into the general understanding of how artists use technology to their advantage and why they can be classified as artist-entrepreneurs. Furthermore, what the modern value chain consists of and what changes digitalization brought along to it.

It is hard to predict how the shifting market forces will shape the music business in coming years. Artists must be willing to think and work like an entrepreneur. Recognizing the market forces and use it in their advantage to monetize their creative work. Right now, online platforms are the prevalent way to gain exposure. Howe states “

6.3 Suggestions for Further Research

The objective of this study was to research how digitalization has affected artists and the value chain by utilizing qualitative research to gather data from artists themselves. The qualitative research, however, did not include any artists signed to a major record label nor any record label executives. Furthermore, the research was done on a small scale with only five people interviewed. To gain further understanding and results that

can be generalized, a larger scale research with higher ups from record labels and artists who have had a long spanning career from the pre-digital era to modern times is needed. The dynamics in the music business is changing once again with the introduction of blockchain technology. Future research is suggested to explore the effects and implications of blockchain technology on the legal framework of music copyrights and licenses. Furthermore, the sustainability of streaming services is a very controversial and a relevant topic to be researched in detail. Finally, emerging platforms revolving around web 2.0 and the music industry is an area that needs further research.

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Appendices

Questions for the semi structured interview

1. Why do you create music?
2. How is the constant evolvement of technology affecting your music?
3. What value would label deal bring to your process?
4. What makes an artist stand out?
5. Do you believe digitalization is aiding artists or hindering them?
6. What is your stance on the 360 deal?
7. With independent artists they perform a lot of the duties traditional record labels would. Such as production, mixing, mastering, distribution to digital retailers etc. Does an artist have to master all these steps or only have control over them?
8. Many argue that digitalization has eroded traditional creativity and made it more business-like. Would you say your creativity has been affected with managing the business aspect of music?
9. Do you believe as technology progresses artists will innovate to tip the scale ultimately to their favor?
10. How do artists approach now their careers now compared to 15 years ago? Is it enough to be a good artist nowadays? or do you have to act as a brand and have an online presence.
11. Do you believe technology will reach a point where it will disintermediate record labels completely?

