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# Mutually Beneficial Publisher and Artist Regulated Distribution Model for the Niche Music Industry

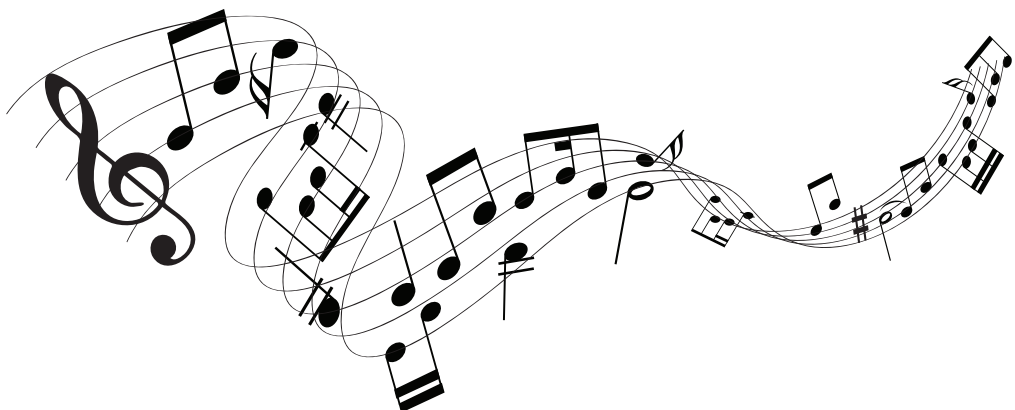
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Alternative Model, Enhanced Engagement

## **Abstract**

Copyright and intellectual protection cannot always answer the requirements for a niche independent or minority language music publisher or artist. This paper assesses the challenges faced within the independent niche and minority language music market, and seeks to establish a model which could generate a sustainable digital income and reap remuneration for creativity. Using Varian's (2005) fourteen business model categorisations as a framework, four types of business model solutions are considered: a price based model; a control model; a bundled model; and finally an enhanced content and relationship model. This paper concludes with a conceptual model which could be mutually beneficial for publishers and consumers of niche music. The niche, independent or minority language artists or publishers will be referred to as micro or SME companies (Small-to-Medium sized Enterprises) within this paper. Micro and SME's as a classification, rather than independent publishers, limits the scope of the proposed model's application to companies with a staff of fewer than 25 and a turnover below £10million. These are companies with limited resources to invest in researching and developing a digital distribution strategy.



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## Introduction

Revenue from recorded music has been declining for over a decade. This decline is a result of several factors. Recently the recession has fronted part of the blame, however, the uptake in Internet broadband technology resulting in a downturn in CD sales, and the increasing competition for music's attention amongst other media online must also share the burden of blame (Gloria, 2011 and Ramprasad et al. 2012). Despite the reported downturn in the recorded music industry's revenue, the International Federation of the Phonographic Industry (IFPI) has consistently reported a continued year on year growth in revenue for the industry (IFPI, 2016). Recent data has indicated that streaming along with bundled offerings has displaced piracy and is now contributing to increased revenue in relation to digital music consumption (Aguiar and Waldfogel, 2017). The industry has not only grown in terms of monetary value, but also in the amount of people participating in the industry. The Internet opened the market to pirates, but equally to amateur musicians looking to self-promote and self-publish. YouTube, for example, is currently streaming around six billion hours of video each month (Mahanti, 2014). A consumer's method of discovering new music has changed greatly with many young consumers turning to YouTube for music videos as a source of music entertainment (Nguyen, 2014). Whilst performance rights societies

have granted licenses to YouTube, the level of revenue returning to niche independent labels via such platforms is largely negligible and does not offer a sustainable business solution compared to previous physical sales.

The current economic circumstances facing the niche and independent music industry are difficult. More individuals are taking a share of the market, but it remains difficult for an individual artist to generate a sustainable income. The Internet has shrunk the physical sales market and made disseminating culture faster and easier than ever before, thus the perception of value for an online product has become a challenge (Cameron, 2016).

## Technology Challenging the Distribution Model

Music streaming, downloading, file sharing and social media applications have all become methods of music consumption, meaning that there has never been an easier time for music consumers to find, download or listen to music. Music publishers fear that without a presence on music websites such as Spotify, We7, Deezer or SoundCloud, their music will not be discovered, used or bought. However, due in large to the oligopoly that the technology companies have obtained, it is difficult for micro and SME publishing companies to secure a digital contract that works in their favour.

Today the opinion held by consumers of the music industry is at best cynical and at worst negative towards an ill respected industry (Halttunen et al. 2010). It's an industry that has enjoyed high profits over the years, and has traded on fashion and consumer driven demand for the latest single / album or music consumption technology such as portable cassette players and Mini Disks. However, consumers now hold the largest influence over the way the music industry can progress, especially with so much music being available for free over the Internet.

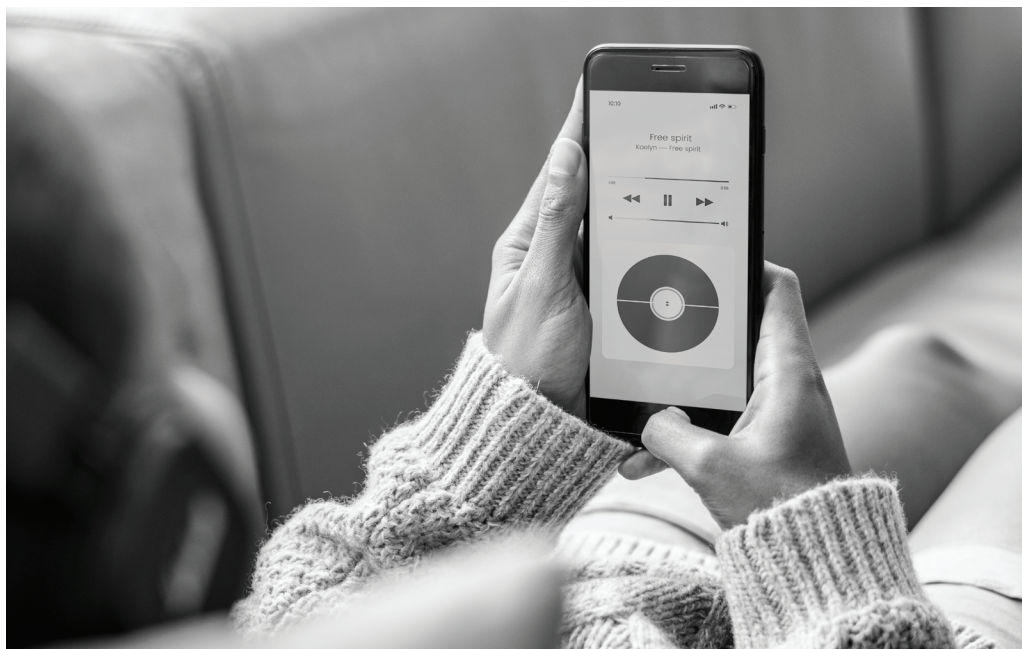
When MP3 as a file format arrived on the market in the late 1990's it was not developed in consultation with the industry. Rather than embracing the new technology, it was feared by the industry and initially dismissed (Leyshon, 2014). In the same period Napster became the fastest downloaded software with estimations about the number of downloads running into billions of tracks a year (Rutter, 2010). As the music industry was not responsible for the

compressed music file technology, its development happened before the industry was able to develop a business strategy to exploit its potential.

Whilst many in the music industry would like to see the return of the controlled and profitable market place for music sales, in reality replication is not possible (Wikström, 2013). Therefore, in order to develop a future business model, it has become necessary to consider the consumer perspective and their role in music distribution.

## Changed Consumer Consumption Methods

The service value chain is common to all production processes, and ultimately the role for the publisher is to add value (Chang et al. 2016). There has been little change in the way that music is created since the



**“The danger in digital distribution as shown in social behaviour research is that consumers don’t feel accountable for their actions when operating online, therefore the guilt of piracy is not felt in the same way as physical tangible theft”**

emergence of the digital era, the difference being the tools which are used to distribute and consume the product. For digital music, the only area that differs from the physical sales model is the acquisition process due to a change in technology (Liao et al. 2010). There is no need to produce plastic covers, burn CDs or stock envelopes for posting digital tracks. However, the remainder of the chain continues to operate in much the same process as vinyl or cassettes had previously (Bockstedt et al. 2005).

Music is a personal experience, and whilst music has previously been sold on the back of social recommendation, it came from trusted sources of friends in established social groups (Luo et al. 2012). The Internet has succeeded in creating an environment whereby social recommendations can influence consumer choice whilst remaining relatively anonymous. The danger in digital distribution as shown in social behaviour research is that consumers don’t feel accountable for their actions when operating online, therefore the guilt of piracy is not felt in the same way as physical tangible theft (Coyle et al. 2009 and Wang and McClung, 2012). Likewise, content has become so ubiquitous online, it is becoming difficult to dissuade consumers from participating in piracy (Halttunen et al. 2010).

For consumers, value is measured via many contributory factors, from positive to negative experiences, benefit or sacrifice, time against energy, and the risk involved in consuming, downloading or purchasing the music. Risk is a changing element within the music industry as theoretically the Internet has the possibility to convert risks back into benefits (Liao et al. 2017). Piracy can be quick and cheap, however if caught may result in prosecution (Higgins, 2011). The biggest challenge for the industry in the future will be to generate a successful digital supply chain based on a trusting relationship.

## **Opportunities Within the Digital Market**

Kwahk and Ge (2012) stated that ‘e-commerce websites should try to encourage users, especially expert users, to share information about their shopping experiences and knowledge’ (2012: 1821). Amazon, for example, invites consumers to share reviews and details about their latest purchases via Facebook or Twitter. The influence of such a shared link is much stronger than if a producer / retailer placed the product directly on a social media platform. A social recommendation loads the product with a higher level of value and demand. Equally Liu et al. (2012) stated that there is a need to understand the products target market before marketing online.

When Napster was launched, it demonstrated a sustained demand for music, but also that people would trade quality for price (Rutter, 2010). Its appeal was the ease of use and the broad range of music available in one place. The music industry continued to work against Napster despite its popularity. Napster was free from the physical container of traditional sales,

and 'outside the packaged unit sale model that the music industry was so focused upon and enthusiastic to control' (Rutter, 2010: 412). The requirement for control is a challenge when music's perceived value comes after a consumer has experienced the product. For an entertainment product, its consumption comes first with value assignment second, which potentially leads to little or no incentive to purchase once the experience has been gained (Poort et al. 2011). Yet, consumers continue to spend and acquire. The challenge in a future model is ascertaining the motivation, then maximising on the marketing mix and consumer relationships. Online distribution has demonstrated a continued market demand, and enables publishers to explore new ways of understanding the consumer.

## **Niche, Independent Music: the Challenge of Technology in Music Sales**

The main challenge facing the micro and SME music industry is applying theory to their business. Whilst micro and SME's are keen to try new approaches, they often have limited resources in respect of staff, time and finances. Another key challenge being to ensure that the music remains protected from file sharing and illegal downloading whilst being flexible enough to promote to potential customers online.

The online market place initially levelled the playing field for micro and SME's (Teece, 2010). E-commerce gave micro and SME's access to a worldwide audience; and with a functional, well indexed website there is the possibility to drive large volumes of traffic to a website. However, since the emergence of the Internet, web developers have been

devising new methods and techniques to enable e-commerce websites to purchase commercial advantage over rivals and gain exposure. SEO (Search Engine Optimisation) processes, multiple registrations of URL's, strategically placed adverts and strong connections between chains of companies co-working on promotions will increase traffic. These processes come at a price, quickly pushing micro and SME's towards a marginal share of the audience once more (Hammond, 2014).

Whilst a major label would be able to withstand the financial impact of piracy and reduced sales for longer, for micro and SME music publishing companies the effect is more difficult to overcome. Managing and adapting to changes in technology and distribution within the wider industry was always going to be a challenge for micro and SME companies. Fighting for exposure online, whilst also coping with diminishing physical sales, makes it a tougher environment in which to be commercially successful (Belk, 2014). Micro and SME's are often unable to negotiate with large digital aggregators such as iTunes for more favourable rates and are forced to accept the given terms. Equally for a micro or SME, allowing their music to be streamed on services such as Spotify, is considered essential for their legitimacy as publishers and artists (McLean et al. 2010). Within streaming services, whilst the level of usage may be significant for a micro or SME, streaming services would not find it viable to accurately calculate the value generated, and consequently they pay a percentage back to the SME based on a nominated allocation of funds rather than actual usage. Due to the many and varied complex routes to market that micro and SME music publishers face, it is difficult to know whether there is value gained by placing their music across all platforms or whether any hope of digital income is diminished through providing free access and a lack of scarcity.

## Aspects of Firm Size in The Transition to Digital

E-commerce has been viewed as an equal playing field for retailers. However, aspects of firm size remain a problem for publishers (Oliveira and Martins, 2011; Christensen, 2013). The major labels are big enough to invest in their own branded distribution routes to market, however they choose to use avenues such as iTunes as they can secure the best deals with an established infrastructure. Micro or SME's are not big enough to get favourable distribution deals with online aggregators, therefore opt to use a third-party distribution channel in order to become part of a larger offering. Third party distribution companies enable micro and SME's to be represented by a conglomerate of small publishers. However, at times in the niche or minority language music sector micro SME's (companies that may only be individual artists with their own label) haven't a large enough catalogue to approach a third-party aggregator making digital distribution financially challenging.

Timing a company's response to change is also a critical factor when entering a new market. An early response could result in high setup costs; meanwhile a late response allows consumers to progress and discover alternative products, making it difficult to recapture their previous loyalty. Gradual repositioning was successful for SME's in the conversion from cassette to CD. However, due to the rapid growth of digital, and the need to invest in new technology and software, retrenchment is most likely the only remaining option for many micro or SME's entering the digital market (Oliveira and Martins, 2011; Christensen, 2013). Radical repositioning may result in isolating segments of

consumers who have been equally slow to adapt. For micro and SME's in a changing market there are many factors restricting their approach, primarily cost. For a micro or SME with a small digital revenue, the rate to recapture the investment is often a primary reason for failing to adapt in the first place (Hracs, 2012).

## Solutions

Varian (2005) reviewed the position of the music industry and categorised fourteen potential business models. However, each of the business models in themselves have problems and according to Varian, 'none is likely to yield any sort of social optimum' (2005: 136). The focus of this paper is to address a business model that could be utilised and controlled by a niche or minority language artist or publisher. Using Varian's fourteen categorisations there are broadly four different business models. Some models address controlling price, others regulate control and access during the distribution process, there are models for bundling the product and finally models relying on enhanced relationships and content. The next section will consider the implications of these solutions before combining the most feasible elements into an engagement model which could be utilised within the micro and SME market.

**“Whilst a major label would be able to withstand the financial impact of piracy and reduced sales for longer, for micro and SME music publishing companies the effect is more difficult to overcome”**

## Price Models

Varian's (2005) price orientated business models suggested either making the original cheaper than a copy, or making the copy more expensive than the original. There is recognition in the model for the reduced production cost enabling a lower price point. However, the reduced price model does not offer an attractive or financially sustainable model to artists. The alternative price model suggested raising the price, then controlling access via digital right management software (DRM). After the disruption to the music industry caused by Napster and the resulting court cases it was thought that digital rights management could create a 'more appropriate [and] practical online music business model because digital rights management (DRM) is a tool to facilitate online business and should not influence or constrain the business in any way by limiting either online or offline purchasing' (Kwok, 2002: 18). DRM should in theory go undetected within the music file. iTunes used DRM technology up until 2008, however, thereafter it was removed in recognition that once the tracks are moved it becomes largely irrelevant as the DRM's path to the file is lost.

Ultimately all music consumers would operate via legal methods. In return, those who do legally purchase should be rewarded with flexibility in the music product. Papias et al. (2011) felt that 'restricting downloads through severe DRM systems [would] hinder the spread of commercial downloading and exclude many consumers from the market' (2011: 790). Consumers expect their music to be multi-platform and accessible at multiple access points. The more encompassing the system can be the more successful it will become. The use of DRMs to protect the intellectual property

of a digital product has strengths and weaknesses. On the one hand DRM offers a solution for combating or restricting piracy, monetising the music, and adding security to digital content. The challenge in this solution is that although piracy should be combated, and content producers remunerated for their creations, DRMs do not reward loyal consumers. DRM does little to enhance the product and there is little additional customer value offered except legality combined with restrictions for the files use.

## Control Models

The second classification of business model suggested by Varian (2005) was to control the market. The monitoring model would also make use of technology such as DRM. Using technology to restrict and control the online music industry appeared to be the obvious solution at the outset of the Internet era. However, consumers expect a flexible product that can be shared and used via a variety of platforms. Ultimately, restrictive technology does not provide a long term or sustainable approach to securing the music industry as it initially penalises consumers who have acquired music via legal methods.

Also suggested within the controlled market place model was the possibility to advertise yourself, advertise something else, offer site licenses to access content behind a paywall online or a media tax on other media content which could be used to fund music production. Whilst these models could provide stable income to music publishers and artists, there is a reliance on third parties, which as indicated previously, makes negotiating terms challenging for lesser known publishers or artists.



These initial business model classifications (Price and Control) offer little incentive to the niche artists or publisher as they either isolate consumers due to the raised price point, or damage sustainability due to the low return on their production. The final two business model classifications offer potential for development within the niche or minority language market suggesting; bundling products or offerings, followed by models to enhance content and relationships.

## Bundled Models

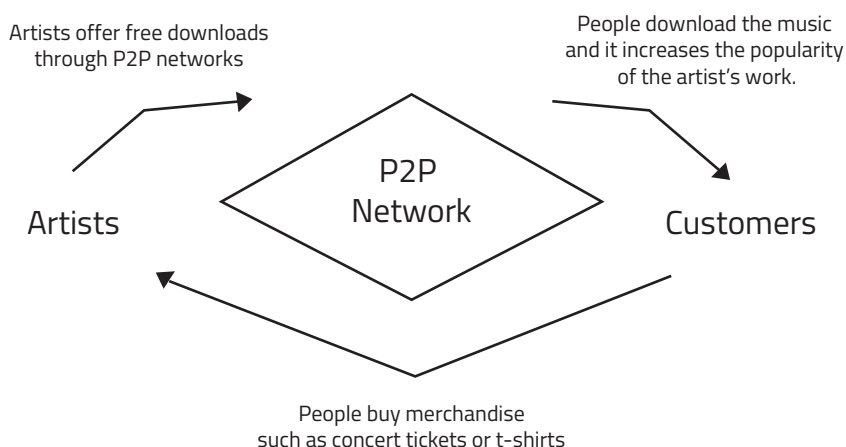
Whilst the law has done little to deter piracy, piracy has been meeting consumer needs and setting new expectations of the industry in respect of price point. The final section of this paper considers potential business models that navigate the law, but utilise alternative methods of distribution. A future model needs to overcome the difficulties of being the 'post Napster distribution model'. Previous models have

been suggested such as a Promotion model [fig.1], whereby the music is given for free, and artists sell merchandise as suggested by Torbay et al. (2004).

Many variations of promotion models have been suggested in the prior literature (Fischbeck, 2000; Bhattacharjee et al. 2003; Torbay et al. 2004; Koster, 2008 and Elberse, 2010). The problem with these models is that the labels drive them, in the hope that consumers buy into the forced exposure. Ideally a future model needs to work with and for consumers in a mutually beneficial relationship.

A similar approach was suggested by Zhu and MacQuarrie (2003) to bundle music sales: they claimed that the bigger the bundle, the higher the profit. Once the consumer has committed to a purchase the producers cost of attracting the sale is complete, therefore any additional sales became a bonus. Bundling keeps production costs down, however increases profits via the greater possibility of up-selling.

Figure 1: A Promotion Model  
Source: Torbay et al. 2004



## Enhanced Content & Relationship Models

Finally, Varian (2005) suggested six categorisations which could be applied to the business model of enhancing the relationship and content of the music. Varian suggested selling physical complements or selling information complements such as merchandise and album notes. Selling subscriptions to specific back catalogues and selling personalised versions of the product. The final models were a ransom model based on a pay what you want or subscription platform and a model based on prizes, awards and commissions, which would strengthen the consumer / artist relationship and generate a sense of ownership in the product.

Technology now enables consumers to share experiences and to recommend products. Social networks offer potential beneficial marketing avenues for music publishers. Social communities need to be developed from within (Rose et al. 2011). It is difficult to create a forced environment online and expect consumers to join. It takes time to create an active community. An online community could be used to promote new products and encourage viral sharing of videos, clips and other material, however consumers will only join the online relationship if they stand to gain something from the process. 'People seek relationship engagement in which the benefits exceed the costs' (Shih and Huang, 2012: 3).

An artist using Facebook as a promotional tool works best when the artist rather than the record label is generating the content. Dialogue in online communities needs to be a two-way process, not a location for hard sell and promotion. 'Positive

"feedback" helps community members strengthen or sustain ongoing social interactions [...] Two-way communication is also a meaning-creating process that enables members to develop congruent values' (Shih and Huang, 2012: 6). By allowing members to openly discuss, share and engage with the artists and each other within the online group it helps members achieve similar values.

**“An online community could be used to promote new products and encourage viral sharing of videos, clips and other material, however consumers will only join the online relationship if they stand to gain something from the process”**

Recognising that consumers want to engage, share and maximise from the potential of digital technology offers the opportunity to collaborate in a mutually beneficial network which favours both the producer and the consumer. Digital distribution, social networks as well as physical experiences can now be combined to provide a sustainable production model. Danaher et al. (2010) suggested that the biggest pirates are also the biggest music users and the most likely to spend money on attending live music performances. Considering that a vast amount of music is sold as a direct result of social recommendation, it could be argued that pirates are an artist's main promoter. Given this there is a need to maximise the content and foster positive relationships with consumers within a controlled network.

# Hypotheses

Whilst some micro and SME's are using all available forms of distribution for online sales, there may be greater ways of utilising social media to gain awareness of the products. Sites such as Facebook could become valuable places to encourage trendsetters to follow and share music and products as a significant proportion of music purchasing is generated via social recommendation (Sharma et al. 2012). Technical, legal, control based solutions do not add value, nor are particularly viable for the micro and SME market. The technology is often cost prohibitive, and due to the scale of an independent publisher within the market place influencing technical or legal regulations is beyond their scope. Having reviewed Varian's (2005) business model classifications it is suggested that control could be introduced to the market via:

1 - Understanding consumer purchases and how they consider music as part of their daily lives, placing the niche or minority language music publisher in a stronger position to promote and target their audiences.

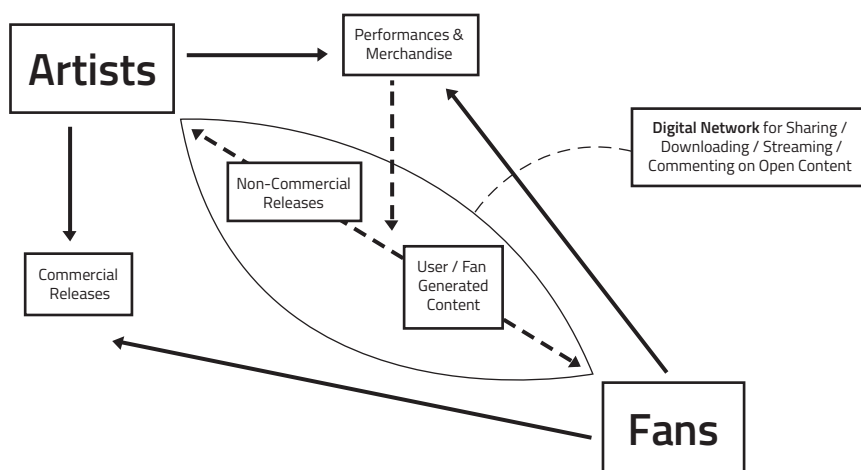
2 - Supporting consumers wanting to engage via a legal method of music acquisition, so long as legal alternatives work equally as well as the illegal methods.

3 - Generating a two-way relationships, leading to more loyal fans.

# Concept

Consideration has been given to four potential approaches to re-engaging the music consumer in a legal and sustainable music industry. Using technical or legal enforcement offers little value enhancement for consumers and largely targets consumers who are already legally engaged. However, consumers' growing power and awareness of digital methods of acquisition suggests a need for a digitally innovative platform. Taking the ease of access provided by social networks and the trusting collaborative and self-regulating approach of online communities, a balanced, mutually beneficial model for engagement [fig.2] offers a platform for artists to promote and share in a value enhancing environment.

Figure 2: Mutually Beneficial Model for Engagement  
Source: Adapted from Thomas, 2015



The music industry is now largely driven by the digital market and artists are seeking online exposure in order to legitimise their status (Belk, 2014). As well as artists wishing to have a digital platform from which to promote their work, consumers are seeking online engagement, as it provides easy access (Nguyen, 2014). A digital platform also allows a 'try before you buy' opportunity to experience the product (Cameron, 2016). The mutually beneficial model for engagement offers the two-way relationship which is vital to the sustainability of the music industry as suggested by Shih and Huang (2012). This platform is financially supported by commercial releases and promoted through the experiential elements of the artist's creativity in performances and merchandise.

Torbay et al. (2004) model indicated that value could be generated by creating performance and merchandising oppor-

tunities to support the sales process. Likewise both Varian (2005) and Elberse (2010) indicated that bundling the music productions could lead to a greater sense of value for consumers, whilst increasing the artists' revenue. The digital network for sharing between the artists and fans enables both commercial and non-commercial publications to be shared and enjoyed by consumers. By using a transparent two-way network it adds value and meaning to the consumer relationship (Chang et al. 2016), and by allowing consumers to make social recommendations, it adds validity (Luo et al. 2012) reducing the risk to consumers (Liao et al. 2017). The model reduces the need to pirate as non-commercial works are shared, whilst also reducing the risk or purchasing an unknown or un-experienced product. This model maximises the consumers desire to share experiences (Kwahk and Ge, 2012).



This proposed model [fig.2] could be utilised at a local, national, international or genre level of music. The fundamental aspect which is vital to its success is the mutual gains achieved via the digital network. Music sharing is an oral tradition, the music industry must adapt to the consumers' needs for a valuable relationship along with their desire for a digitally accessible platform to maximise the potential of a sustainable music industry. The model allows for financial reward to be passed from the consumer to the artist, whilst also maintaining a transparent and collaborative relationship.

## Conclusion

In the post Napster era, the music industry needs to convince consumers that music is worth its price. Artists and publishers need to demonstrate added value along with a reason to engage once more in legal purchases. The music industry has spent a long time fighting online technology, however the advances in technology should now assist the development of an exciting and engaging method of distributing music.

Change in market control is needed or else the rate of decline will make it impossible to sustain a business in which to operate as a niche artist or publisher. The music industry must get ahead of technology; or at least find a method of co-working in a way that enables both publishers and consumers to benefit from the output. If introduced with transparency and trust, the micro and SME music sector can prosper and generate its own niche in the digital market place. The continued dependence on social networks will eventually lead to downloading and

streaming becoming a part of the mainstream acquisition process, therefore digital marketing via digital networks will increase the digital sales.

Strategies that publishers and artists follow need to take account for their size and influence. When considering a digital distribution strategy, platform intensity and integration needs to be considered. Whilst iTunes or Spotify rate highly in the consumers' awareness, they have such a high intensity of distribution they may not offer the most successful method of promoting the music to the micro and SME's target audience. There is a danger after attracting a consumer online, that they become distracted by the larger catalogues on offer. Utilising a controlled digital network regulated from within by the artists and fans ensures a direct return on investment and a trusting and rewarding relationship for both parties.

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