

**Business Models for the Music Industry and Artists:  
Changes Driven by the Digitalization of Music**

Bachelorarbeit

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<b>Content</b>	<b>Page</b>
List of Figures .....	II
List of Tables .....	III
List of Abbreviations .....	IV
<b>1 Introduction</b> .....	<b>1</b>
1.1 Current Challenges and Relevance.....	1
1.2 Definition of a Research Question and Approach.....	2
<b>2 Background</b> .....	<b>3</b>
2.1 Music as a Commodity and the Development of the Music Industry .....	3
2.1.1 Music.....	3
2.1.2 Music Industry.....	4
2.2 Digitalization of Music.....	5
2.2.1 Technical Progress.....	5
2.2.2 Current Development on Digital Sales .....	8
2.3 Social Changes in Music Consumption .....	9
2.4 Derived Challenges .....	11
<b>3 Business Models</b> .....	<b>11</b>
3.1 Supply Chain of the Music Industry.....	11
3.1.1 What does a Record Label do? .....	13
3.1.2 Earning Money as an Artist, Author or Composer .....	15
3.2 Excursus: Crowd Founding for Artists .....	17
3.3 Current Digital Business Models .....	18
3.3.1 Streaming Portals .....	18
3.3.2 Digital Music Stores .....	20
3.3.3 Video Portals.....	22
3.4 Comparison of Digital Business Models .....	23
<b>4 Findings and Limitations</b> .....	<b>26</b>
4.1 Critical Success Factors of Digitalization .....	26
4.2 Opportunities and Threats .....	29
4.3 Limitations .....	30
<b>5 Discussion and Recommendations</b> .....	<b>30</b>
<b>6 Conclusion and Outlook</b> .....	<b>33</b>
<b>Bibliography</b> .....	<b>35</b>
<b>Appendix</b> .....	<b>i</b>

# 1 Introduction

## 1.1 Current Challenges and Relevance

In the last 20 years the technical progress in new information and communication technology and the development and diffusion of the internet have had big influences on world wide business models. As a very important media today, the internet has initiated several changes in the whole industry, such as new distribution channels, different promotion opportunities and new consumption possibilities. It is accompanied by the digitalization of goods, especially of media content. Information, music, videos and books are more and more available in a digital form, consumable every time and and everywhere. The ubiquity of digital goods is also driven by the diffusion of smartphones and other portable devices. Furthermore, the growing focus on media as an economic factor supports the shift from an industrialized to an information-driven society. Concerning the music industry, the main factors, which influenced a paradigm drift, have been the invention of the compact disk by Sony and Philips in the early eighties, the upcoming internet diffusion since 1993, the development of the data format MP3, the launched file sharing portal Napster and the beginning market penetration of iPod and iTunes in the years 2000 to 2002.<sup>1</sup>

According to GfK, there is a growing number of people downloading and streaming media content from the internet, which indicates that people use more online services to gain access to media content, legally as well as illegally. Besides, there are losses in physical sales of music products, which need to be compensated.<sup>2</sup> Furthermore, previous surveys revealed that consumers are willing to pay for digital music if there is an appropriate range of music on the internet.<sup>3</sup>

These occurrences force the music industry to satisfy new customer needs. Therefore, in the last years services, such as Napster, iTunes, Musicload and Spotify, entered and changed the music market from scratch. The opportunity to get a very quick and easy access to music through file sharing platforms, download or streaming portals made some revolutionary changes in the music indus-

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<sup>1</sup> cf. Stähler 2001, pp. 1 - 3; cf. Wirtz 2000, pp. 11 - 14; cf. Brückner 1999, p. 3; cf. Huber 2008, p. 1

<sup>2</sup> cf. GfK 2005; cf. GfK 2011

<sup>3</sup> cf. Wiedmann et al. 2003, p. 39

try. Hence, digital business models for the music industry have to be analyzed concerning their opportunities to compensate sales losses in the traditional record industry and to reduce internet piracy.

Furthermore, music is a big part of culture in society but also an important economic sector offering lots of employments and generating great business volumes.<sup>4</sup> Current discussion about copyrights, legal actions between YouTube and GEMA and late-breaking announcement of Amazon imitating iTunes Match<sup>5</sup> in Germany, publish problems of the music industry in society. Therefore it is interesting to have a closer look on changes in the music industry driven by these new challenges and it is important to fight internet piracy and protect copyrighted content in order to remunerate artists.

## **1.2 Definition of a Research Question and Approach**

This bachelor thesis is based on a literature review. Due to several changes in the music industry the analysis will be focused on the following question:

*How and why does the digitalization of music influence business models and which new threats and opportunities for the music industry and artists can be detected?*

First of all there will be given some definitions and an overview of the current music industry with facts and figures. Besides, main technical changes and facts about changes in music consumption will be presented. The third part of this thesis is concerned with different business models for record labels and artists, especially focused on new promotion and distribution possibilities in the music industry. These models will be compared and thereafter evaluated according to critical success factors driven by the digitalization of music. Opportunities and risks will be given for record labels as well as for artists respectively composers and songwriters in part 4. Part 5 will cover a discussion of findings and recommendations are given, before this thesis will end up with a summary and outlook.

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<sup>4</sup> cf. Wöhrle 2009

<sup>5</sup> cf. Spiegel online 2012

such as recordJet, it is possible to distribute music directly without the need of a physical data carrier, e.g. CD. This fact is an advantage for independent artists to reduce production as well as distribution costs. Moreover, for this reason artists have the chance to distribute their material all over Germany or even the world.

But there are also problems in this development. If a lot of bands and artists flood the market with music, consumers might be unable to cope and for this reason not being susceptible to independent artists. Not having enough money to pay expensive marketing campaigns and promotion tours, major label artists then profit by their huge promotion budget. For this reason it remains to be seen if it is possible to become successful without the help of a major label in future.

## **6 Conclusion and Outlook**

This thesis covered new business models for the music industry and artist driven by the digitalization of music. After a short introduction of current developments on the music market and basic information about supply chains in this industry there has been a presentation of some new business models focussing the distribution sector because this is where the most influencing changes driven by digitalization can be found.

The current development on the music market shows a shift to an increasing demand for digital content. This demand is satisfied legally as well as illegally by users. Due to MP3 and the diffusion of high speed internet the illegal file sharing developed into a serious rival on the music market.

The analysis has shown that new business models take into account the music piracy problem by providing high quality content, big libraries, customizing possibilities and network touch points. The music industry has to convince consumers to purchase music legally and to respect copyrights and creative works. Therefore it is necessary to achieve a complete change in some consumer's mindset. However, this is a plodding process. It is important, to establish music as a valuable product again and to esteem artists for their creativity. But this

problem is more ethical than economic based and for that reason very difficult to handle by the music industry on its own.

New business models seem to develop successfully due to the fact, that special advantages, respectively value added contents, are highlighted by legal music providers in contrast to illegal P2P. Moreover, there is the chance to downgrade the attractiveness of P2P by manipulation. Legal action and penalties are also effective to reduce music piracy to some degree.

Artists on the other hand succeed to a certain extent by digitalization. It is cheaper and easier to publish own music and to promote it for instance on YouTube and social media. But because of a lot of other artists do have the same possibilities it remains the problem of not being noticed in the mass of music.

In future, it is interesting to observe the development of especially streaming services like Spotify and Simfy because these are the latest business models and they have not been analyzed deeply yet. Moreover, these services do not contain the property of music files but only the possibility to consume individual music anytime as long as the subscription is running. It is interesting to analyze if consumers accept streaming services on a continuing basis or if they prefer the property of files to build up an own music library.