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Reluctantly Virtual

Modelling Copyright Industry Dynamics

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Abstract

During the evolution of the music industry, developments in the media environment have required music firms to adapt in order to survive. Changes in broadcast radio programming during the 1950s; the Compact Cassette during the 1970s; and the deregulation of media ownership during the 1990s are all examples of changes which have heavily affected the music industry. This study explores a similar but contemporary dynamics, examines how decision makers in the music industry perceive and make sense of the developments, and reveals how they revise their business strategies, based on their mental models of the media environment.

A qualitative system dynamics model (the Music Industry Feedback Model) is developed in order to support the reasoning brought forward by the study. The model is empirically grounded, but is also based on previous music industry research and a theoretical platform constituted by concepts from evolutionary economics and sociology of culture. The empirical data primarily consist of 36 personal interviews with decision makers in the American, British and Swedish music industrial ecosystems. The study argues that the model which is proposed, more effectively explains contemporary music industry dynamics than music industry models presented by previous research initiatives.

Supported by the model, the study is able to show how “new” media outlets make old music business models obsolete and challenge the industry’s traditional power structures. It is no longer possible to expose music at one outlet (usually broadcast radio) in the hope that it will lead to sales of the same music at another (e.g. a CD).

The study shows that many music industry decision makers still have not embraced the new logic, and have not yet challenged their traditional mental models of the media environment. Rather, they remain focused on preserving the pivotal role held by the CD and other physical distribution technologies.

Further, the study shows that while many music firms remain attached to the old models, other firms, primarily music publishers, have accepted the transformation, and have reluctantly recognised the realities of a virtualised environment.

Keywords: Music industry dynamics; Internet; Media; Production of culture; Qualitative system dynamics modelling; Organisational adaptation; Copyright.
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Abbreviations

A&R  Artist and Repertoire
AAC  Advanced Audio Coding
ADSL  Asymmetric Digital Subscriber Line
BBC  British Broadcasting Corporation (UK)
BET  Black Entertainment Television (US)
BMI  Broadcast Music Incorporated (US)
BMR  British Music Rights (UK)
BPI  British Phonographic Industries (UK)
DMCA  Digital Millennium Copyright Act (US)
DMCS  Department of Media, Culture and Sport (UK)
EUCD  European Union Copyright Directive
ExMS  Export Music Sweden (SE)
FCC  Federal Communications Commission (US)
FTTH  Fibre to the Home
GDP  Gross Domestic Product
GWP  Gross World Product
ICT  Information and Communication Technologies
IP  Intellectual Property(-ies)
IFPI  International Federation of the Phonographic Industries
OECD  Organisation for Economic Co-operation and Development
Ofcom  Office of Communications (UK)
P2P  Peer to peer
PDA  Personal Digital Assistant
PRS  Performing Rights Society (UK)
RIAA  Recording Industry Association of America (US)
RTVV  Swedish Radio and TV Authority (SE)
SCB  A government authority for official Swedish statistics
SR  Swedish Public Service Radio (SE)
STIM  Swedish Performing Rights Society (SE)
WIPO  World Intellectual Property Organisation
WMA  Windows Media Audio
WTO  World Trade Organisation
1

Introduction

Everything about our business is changing…

The music industry does not have to change – the majors are in good shape…

This is a study about change. It is also a study about how copyright industry\(^1\) decision makers perceive and understand change. The two quotes above refer to the evolution of the music industry, and are excerpts from conversations made during the study with two music industry decision makers. The words fairly explicitly show how two professionals in the same industry perceive the same dynamics completely differently. Although the latter quote suggests that there is no change at all, it is difficult to disregard from a number of quite remarkable occurrences in, or in the vicinity of, the music industry. Most of these can be traced back to changes within the media environment\(^2\) and especially within the domains of media technologies and governmental regulations. Digital technologies have for instance significantly reduced the costs of music distribution, but have also made it difficult for owners of musical content to control their intellectual properties. In the other domain, revised media regulations have for instance dramatically increased the number of traditional broadcast outlets but have also allowed the owner diversity within the broadcast industries to decrease to previously unseen levels.

\(^1\) The definition of the term ‘copyright industries’ and its relation to other industry definitions (cultural industries, creative industries, etc) is discussed in section 2.3.

\(^2\) The interpretation of the term ‘media environment’ is discussed in section 2.3.
This study explores these and other similar changes with relevance to the music industry. The overall purpose of the study is to increase the understanding of contemporary music industry dynamics. Setting out from this purpose, two issues will be specifically addressed by the study. First, the study will examine how music industry decision makers perceive and make sense of changes in the media environment. Second, the study will examine how and why music firms revise their strategies, policies and routines based on their understanding of this media environment.

The two issues will be examined through “formalised storytelling”. Stories how decision makers in these music firms understand the current development, and stories how these men and women rationalize their decisions based on this understanding.

In order to be able to tell reasonably formalised stories, a potent “storytelling device” (or analytical tool if you prefer) is often very useful. The device should be able to support the stories and provide a scenery where the drama can be played. Such a device, in the shape of a qualitative system dynamics model which represents relevant aspects of the music industry, has been created during the study. By introducing this model, it is possible to explain the complex dynamics within the music industry far more effectively than by confining the study merely to the written language.

The model is based on a combination of established theories, previous music industry research and empirical data. It is referred to as the Music Industry Feedback Model, but it is important to stress that it is not a model which embraces every aspect of the music industry. As John Sterman advises the user of any model:

Beware the analyst who proposes to model an entire social or economic system rather than a problem. Every model is a representation of a system – a group of functionally interrelated elements forming a complex whole. But for the model to be useful, it must address a specific problem and must simplify rather than attempting to mirror in detail an entire system. (Sterman 1991: 211)

The problem addressed by this particular model concerns how music industry decision makers perceive and cope with changes in the media environment. Those aspects of the music industry which are not of a significant relevance to the examination of this problem will consequently be left out of the model and
the study. More details regarding the scope of the study will be discussed later in this chapter.

1.1 Rationale

The subtitle of the present work is *Modelling Copyright Industry Dynamics*. The formal definition of the term ‘copyright industries’ will be discussed later in the text (section 2.3), but the music industry certainly is one of the most traditional and least debatable members of this group of industries (Hartley 2005; Hesmondhalgh 2002; Howkins 2001). The copyright industries in aggregate grow more and more important to most industrialised economies (e.g. Towse 2001). In the year 2002, the copyright industries accounted for 7 percent of the world economy, measured as GWP (Knowledge Foundation 2006). The sluggish economical situation during the first years of the current millennium has undeniably been difficult for the copyright industries. Nevertheless, in average, the growth rate of the copyright industries has been, and is expected to continue to be greater than the average growth rate of the total economy (OECD 2005b). As the copyright industries get more important, the importance of gaining knowledge about the inner workings of these industries grows with it.

The music industry has many parallels to other copyright industries, but has in some aspects less inertia and is more sensitive to external influences. This is especially true regarding changes in the domain of technology. The music industry has at numerous times throughout its history been affected by technological development (e.g. Barfe 2004; Coleman 2003; Gelatt 1977; Gronow 1983; Qualen 1985; Read & Welch 1976). By examining how the music industry is influenced and how the decision makers in this industry react on such changes, it is possible to gain knowledge which is transferable to the copyright industries in general.

1.2 A note on scope

This study takes on a broad approach to the dynamics of the music industry. However, some limitations have to be defined in order to ensure that the study remains manageable.
Major multinational music firms

The music industry is currently experiencing a period of considerable turbulence. Regardless of the underlying reasons, the worldwide sales of recorded music have decreased approximately 19 percent during the period 2000-2005 (IFPI 2005; Pasick 2006). In some territories the decline has been even more severe. For instance, the size of the Swedish recorded music wholesale market dropped approximately 40 percent during the same period (GLF 2003; 2004; 2005a; IFPI Svenska gruppen 2005; 2006). The dynamics of the industry is chaotic and fervent, as small and large companies merge, collapse, or expand at a staggering rate. However, during most parts of 2005 and 2006, the global music industry was dominated by a handful of multinational organisations: EMI Group, Sony BMG Music Entertainment, Universal Music Group, and Warner Music Group.

These music firms control approximately 80 percent of the national markets for recorded music around the world (GLF 2005b; IFPI 2004b; 2005; Morris 2006). Although many innovations often are generated by smaller companies, these organisations greatly influence the evolution of the music industry (e.g. Burnett 1996). They are directly involved with, or closely linked to, almost every music industry segment of any significance, such as publishing, recording, marketing, distribution and talent development. The major multinational music firms are consequently of significant importance to this study while other, smaller and nationally bounded music firms, are given somewhat less attention. Relevant features of the major multinational record companies and music publishers are listed in Appendix 2.

Geographical limitations

Although these firms have a presence in most music markets around the world, the study is limited to three markets; namely Sweden, the UK, and the US. The UK and the US warrant the attention of the study since they are two of the

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3 It should be noted that Sony BMG Music Entertainment is only a record company and does not have a music publishing division within their organisational boundaries. The firm was formed in 2004 as a joint-venture between Sony Music and BMG Entertainment and did not include the two parties’ music publishing operations. Consequently, there currently exists two major multinational music publishers with close links to Sony BMG, namely Sony/ATV Music and BMG Music Publishing.
largest and most influential national music markets in the world, both in terms of consumption and production. Sweden is a much smaller market than the other two, but a nation with a ‘fantastically rich music culture’ (BBC News 2006) and a history as a strong exporter of popular music (e.g. ExMS 2005). Sweden is also interesting since it is a country with an advanced information technology infrastructure and a copyright legislation which has been slow to adapt to international treaties (e.g. Keller 2006). This combination has nurtured an environment which has established Sweden as ‘a haven for copyright infringement’ (BBC News 2006; Burnett & Wikström 2006; Reuters 2006).

The study does not try to explain any differences between the behaviour of the three markets. Rather, the study focuses on the similarities between the three. When certain behaviour is occurring in all three markets, it is assumed to be indicating that the dynamics is of significance and should be included in the overall reasoning. The term ‘the music industry’ is often used in the text, and formally it is a reference to the national music industries in the three countries included in the study. However, the music industry is one of the copyright industries where national borders are only of minor significance (e.g. Burnett 1996). Most markets are dominated by a handful of multinational organisations, and thus, innovations, practises, people, and routines easily flow across national borders. It may consequently be possible to extend the validity of the findings presented by this study beyond the three countries. At least the European Union and North America could be included, and perhaps also the other members of the OECD. Finally it should be noted that the three markets are examined on a national level only and no attention is paid to the dynamics of local markets within each territory.

Issues related to genre

Music is often structured into genres such as Jazz, Classical, House, Blues, Country, Soul, etc. This study is not focused on any particular genre. Rather, the study is focused on the chart-led mainstream part of the music industry. This definition implies a focus on commercially successful music which since the

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4 USA constitutes approximately 35% of the global market and is thereby the world’s largest music market. The corresponding value for the UK is approximately 8%. Other major national markets are Japan with 17% and Germany and France which each make up approximately 6-7% of the global music market. (IFPI 2004b; 2005)
1990s has been heavily dominated by genres such as Contemporary R&B, Nu Metal, Hip-Hop, and various kinds of Pop.

An emphasis on certain parts of the industry

The music industry is a complex system\(^5\) consisting of several sub-systems. Although it is relevant to include all of these in order to gain a thorough understanding of general industry dynamics, the study emphasises some sub-systems on the expense of others. The sub-systems in focus are talent development (A&R), marketing and distribution. Artistic creation, studio recording, royalty collection, music journalism, and consumption, will consequently be somewhat moved into the background. Moreover, other activities which are related to the music industry, such as the performing arts, merchandising, and production music, are not within the scope of the study.

Technological patterns rather than technological ripples

During the last few years, the number of technological innovations related to production, marketing and distribution of music have literally exploded. BitTorrent, DC++, eDonkey, iMesh, iTunes/iPod, Kazaa, Last.fm, Launch, Limewire, Mercora, Musicbrigade, MySpace, Napster, Nareos, Pandora, Qtrax, Rhapsody, SnoCap, SpiralFrog, Urge, and Zune, are only a few out of an overwhelming amount of music technology brands that have been launched since 1999. Although many of these innovations may be relevant as markers of music industry dynamics, this dissertation will not analyse the details of any such specific innovation. The ambition of the dissertation is to stay above the level of these “technological ripples” and rather try to discern the long-term patterns which are created by the innovations in aggregate.

\(^5\) The term system is frequently used throughout the text. The term is formally defined in section 4.2, on page 78.
1.3 Preview of the dissertation

This first chapter introduces the study by explicating its background and rationale, and by defining its purpose and scope. Appendix 1 and Appendix 2 are intended to further enrich the presentation of the backdrop to the study by giving a short introduction to the history of the music industry and by listing relevant features of a handful of major multinational music companies.

The theoretical part of this work starts in the next chapter by presenting the two frameworks used by the study, that is to say production of culture and evolutionary economics. The chapter then discusses definitions and characteristics of the copyright industries in general and the music industry specifically. Finally, the chapter introduces a number of concepts, theories and models which are useful when explaining copyright industry dynamics.

The third chapter presents a set of music industry models and their contribution to the understanding of music industry dynamics. Then, a number of significant themes in previous research on music industry dynamics are discussed. The review is structured by level of aggregation, in other words whether the research initiative is focused on individuals in the music industry; on intra-organisational issues; or on inter-organisational issues.

In the fourth chapter, the modelling approach which is used to create the model suggested by this study is introduced. The approach is known as qualitative system dynamics and is based on a worldview which can be structured as a number of propositions. These propositions and a number of additional aspects of system dynamics modelling are presented and discussed in the chapter.

The fifth chapter is focused on the research process. The chapter addresses questions regarding how the model and the main reasoning have been developed and how empirical data has been gathered. Issues related to the validity of the model and the findings reported by the study are discussed.

The purpose of the study is to contribute to the understanding of copyright industry dynamics in general and music industry dynamics specifically. In order to achieve this purpose, a qualitative system dynamics model is developed based on the theoretical concepts, previous research and empirical data discussed in chapters two to five. In chapter six, the model (which I choose to call the Music Industry Feedback Model) is presented. In order to facilitate the understanding of the model’s structure and logic, it will be introduced in a number of steps. First, components which are related to the firm’s relationship with the audience are introduced. Second, issues related to the firm’s creative processes are added
to the model. Third, components related to the firm’s marketing and licensing effort are defined and added to the model structure. Fourth, the logic related to the firm’s financial performance and the relationship to its shareholders is presented. In the final step, issues related to costs and risk willingness are added to the model.

The seventh chapter connects the Music Industry Feedback Model to a media environment. The chapter explores a set of relevant changes in this environment and examines how they influence the behaviour and performance of the music firm. The chapter is structured according to three different relationships between music and the media, that is (1) the media as a promoter of music, (2) the media as a user of music, and (3) the media as a distributor of music. The nature of each relationship is examined, and trends with relevance to the specific relationship are discussed.

The eighth chapter examines how music firms have revised their business strategies in order to cope with the changes in the media environment which were introduced in the previous chapter. The chapter presents four strategic themes; the rationale behind these according to the decision makers; and their implications on the performance of music firms. The first three themes are linked to the structure from the previous chapter as they address changes related to media as promoter, user and distributor of music. The fourth theme concerns risk management related issues and can not be referred to one specific music-media relationship. In the end of the chapter, the aggregated impact of these strategies on the music firm is summarized and discussed.

The ninth chapter continues on the analysis in the previous chapter and deepens the examination of the changes in the media environment. A set of new media outlets are discussed in order to illustrate the dynamics. Following an examination of the features of the “new” media outlet structure, the impact of the transformation on music firms is examined. The chapter also points at some examples where music firms actually have embraced the new logic and made strategic adaptations according to their revised understanding of the industry and the environment.

The final chapter summarises the findings made by the study and makes some general conclusions based on these. The chapter discusses the implications from the findings; for the copyright firm in general and for the music firm specifically. Suggestions are given how decision makers ought to change their behaviour in the light of the new findings. Finally, the chapter suggests directions for how the study could be taken forward in future research projects.
Explaining copyright industries

When media scholars approach the copyright industries, usually a combination of sociology, economics and/or literary studies\(^6\) are used as a theoretical lens. This study follows that tradition and uses frameworks from economics (evolutionary economics) and sociology of culture (production of culture perspective) to establish its theoretical platform. The third framework, literary studies, is indeed a valuable tool when exploring culture, but it will not be used in this study, since it is not focused on the texts *per se*, but rather *how* and *why* texts are produced.

This chapter will present and contextualise the two frameworks, production of culture and evolutionary economics. The chapter will then discuss definitions and characteristics of the industries covered by the study. Finally, the chapter will introduce a number of concepts, theories and models which are useful when explaining copyright industry dynamics.

### 2.1 Production of culture

The studying of popular culture within the field of sociology can be traced back to the first half of the last century (e.g. Weber 1921; Adorno 1941), but it has only been considered as a serious topic since the 1970s (Dowd 2002; Hirsch & Fiss 2000; Peterson 2000). Earlier, ‘mass culture’ could perhaps be studied as a social problem, but the ‘culture industry’ was not considered to be a relevant topic for research. During the 1970s, a young breed of sociologists began to approach culture and the organisations where culture is produced. These

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\(^6\) *or musicology, film studies, cultural studies, etc.*
researchers tried to ‘de-politicize’ the topic by treating it less as a social concern and more as just another challenge for economic and organisational analysts. (Hirsch & Fiss 2000)

One of these sociologists, Richard Peterson, charted new ground in the article *Cycles in symbol production: The case of popular music* published with David Berger in American Sociological Review in 1975 (Peterson & Berger 1975). In this article, Peterson and Berger explored copyright industry dynamics by linking the level of industry concentration within the music industry to the diversity of cultural output. Based on their empirical material, covering 26 years, they were able to conclude that a high level of concentration causes a low level of diversity and vice versa. Hirsch and Fiss recognise the importance of the article:

> It opened the door to enabling sociologists to analyze the popular arts descriptively and non-pejoratively, leaving the normative and critical aspects to other fields. In keeping with the discipline’s focus of that time, here was a connection to social structure and markets, but no longer critical of its capitalistic framework, and enabling the field to approach aesthetics without judging their quality. In fact, the content or quality of the product is irrelevant, or simply a ‘matter of taste’ that remains external to the framework. Whether leisure time is spent on wrestling matches or opera or baseball is immaterial. (Hirsch & Fiss 2000: 100)

Building on the seminal article, Peterson (e.g. 1976; 1979; 1982; 1985) developed the ‘Production of culture’ perspective which since has become a significant part of production related research within sociology of culture. Peterson challenged the notion that cultural products are ‘the work of individual artists from whom they are then filtered to the public’ (Negus 1997: 99). Instead, Peterson argued that ‘the nature and content of symbolic products, are shaped by the social, legal and economic milieux in which they are produced’ (Peterson 1982: 143).

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7 The issue of how industry or organisational structure influences cultural diversity will be discussed in section 3.2.
To be able to analyse these milieux Peterson suggested a set of facets ‘which alone, or in combination, often constrain or facilitate the evolution of culture’ (Peterson 1982: 143). The number of facets proposed by Peterson varies between different texts. In a text from 1982 where Peterson gives a brief presentation of his perspective, five facets are considered to constrain or facilitate the production of popular culture (Peterson 1982). These facets are Technology, Law, Market, Organisational structure and Occupational careers. In another text from 1985, where Peterson analyses the publishing industry, a sixth facet, Industry structure, has been added to the previous five (Peterson 1985). Below, Peterson’s understanding of these six facets is briefly discussed and illuminated by examples taken from the copyright industries.

*Technology* is used in most kinds of cultural production. If technology changes in some way or the other, it will have an implication on the texts being produced. It is easy to identify cases in the history of music production where technology has changed the sound of recorded music. Music instruments, for instance the piano, the electric guitar or the sampler. Recording technologies, for instance sophisticated microphones, multi-channel recording, or more recently nonlinear recording. Distribution technologies, for instance the vinyl disc, the Compact Cassette, the Compact Disc or the Internet. (E.g. Coleman 2003)

*Law* – ‘Statute law and government regulation shape the financial and aesthetic conditions within which popular culture develops’ (Peterson 1982: 144). The very term ‘copyright’ is a legal term, and it is copyright law that transforms cultural expressions into goods that can be traded, bought, sold, or infringed.

*Industry structure* – ‘…the number and relative sizes of the firms in the market producing aesthetic products’ (Peterson 1982: 144). This facet was indirectly in focus in the Peterson & Berger article from 1975 where they established a relationship between industry structure and cultural diversity (Peterson & Berger 1975).

*Organisational structure* refers to the structures within the boundaries of the firm, coordinating the activities which generate the cultural products. Sometimes organisational structure and industry structure overlap, for instance due to the development of ‘network organisations’ (Castells 1997) where the actual boundary of a firm may be difficult to determine.

*Occupational careers* – ‘…the ways that creative people define their occupations and organize their careers can influence the nature of the work they produce’ (Peterson 1982: 148). This facet can be illustrated by how the role
of the studio engineer has developed parallel to the development of studio recording technologies. In the beginning of the history of recorded music, the studio engineer, was very much an engineer who was skilled at handling the equipment in the studio, making sure that the artist’s creative ideas were transferred to record as undistorted as possible. Nowadays, the studio engineer is considered to be a musician and sometimes even a star, just as other musicians participating in the recording session. (Kealy 1982; Levine & Werde 2003)

The final facet, termed Market, is a reference to the audience, and specifically how ‘financial decision makers redefine the heterogeneous and unknown mass of potential consumers into a homogeneous and predicable “market” that can be tapped through standard market practices’ (Peterson 1982: 146).

Research initiatives in the spirit of Peterson’s framework often aim to explain how changes in some of the six facets influence the character of the artefacts being produced. Since ‘change’ is intrinsically connected with ‘time’, the initiatives are also often historical in their approach.

This study is heavily influenced by the fundamental concepts of Peterson’s framework. The notion of popular culture as being moulded by the ‘social, legal, and economic milieux’ where it is produced is underpinning the entire study. However, not all of the six facets suggested by Peterson will be explicitly used by the study. Some of the facets, such as ‘Occupational career’ will not be used at all while other facets, such as ‘Technology’ and ‘Law’, will play more important roles in the argumentation. The other facets, that is to say ‘Industry structure’, ‘Occupational structure’, and ‘Market’, will only be implicitly referred to during the study.

The second theoretical framework which is used by this study is also focused on changing or evolving phenomena. Evolutionary economics, which has somewhat different heritage than the production of culture perspective, will be introduced in the next section.
2.2 Evolutionary economics

Evolutionary concepts in economic theory started to emerge in the beginning of the twentieth century as an answer to a growing discomfort with the established neoclassical economic models. There are several problems with neoclassical economic models which, according to evolutionary economists, make them ‘barren and irrelevant as an apparatus of thought’ (Kaldor 1972: 1237). First they focus heavily on equilibrium, optimum, and static structures and do not actually describe the complex dynamics of an economy. If change occurs in neoclassical economic models, it only occurs within the given and static structures. Second, neoclassical economics is based on the assumption that organisations and individuals make well-informed, rational decisions in order to maximise their financial wealth.

Evolutionary economists argue that the assumptions of neoclassical economic theory make it difficult to explain actual economic behaviour. First, societal and economic systems are often not in equilibrium, and socio-economic structures do change, sometimes even rather dramatically. Second, individuals and organisations are often unable to make well-informed decisions, and often, these decisions are biased and irrational, contrary to neoclassical economic theory. (E.g. Simon 1979; England 1994)

Evolutionary economics is often linked to Darwin’s publishing of On the Origin of Species in 1859. ‘Darwinian’ change differs from non-evolutionary ‘Newtonian’ change in that the first is caused by changes in system structure, while the latter represents change within a given structure (Hamilton 1953). The distinction can be used to differentiate economic growth (more of the same) from economic development (structural change) (Boulding 1981). Several economists, e.g. Marx and Marshall, were inspired by Darwin’s revolutionary understanding of biological dynamic systems and used metaphors from Darwin’s models to explain complex economic phenomena (Hodgson 1994: 9-19). One of these economists was the Norwegian-American economist Thorstein Veblen (e.g. 1898; 1899; 1904) who argued that ‘economics should embrace the metaphor of evolution and change, rather than the static ideas of equilibrium that had been borrowed from physics by the neoclassical economists’ (Hodgson 1994: 20). Veblen also wrote: ‘The question is not how things stabilize themselves in a static state, but how they endlessly grow and change’ (Veblen 1934: 8). According to Hodgson, Veblen’s work is sometimes rather vague and unclear and he did not develop a systematic theoretical body,
but his ideas are nevertheless the foundation used by most scholars that followed the evolutionary school of economic thought (Hodgson 1994).

During the twentieth century several scholars continued to mould the framework of evolutionary economics. Many aspects of Joseph Schumpeter’s reasoning are evolutionary in their character. His model of innovation and economic change is probably the most apparent example (1911) but also in his discussions regarding Marxist economic theory, his inkling towards evolutionary economics is apparent: ‘The essential point is that in dealing with capitalism we are dealing with an evolutionary process. It may seem strange that anyone can fail to see so obvious a fact which moreover was long ago emphasized by Karl Marx.’ (Schumpeter 1942: 82) Other scholars (e.g. Nelson & Winter 1982; Radzicki & Sterman 1994) have continued to contribute to the field by adding other metaphors and concepts to the framework. Myrdal (1956) introduced the theory of circular and cumulative causation which will be implicitly discussed in chapter 4. Boulding (e.g. 1968; 1978; 1981) applied the second law of thermodynamics and the concepts of time irreversibility to the analysis of economic systems. Others contributed with theories of self-organisation, complexity and chaos to explain organisations’ adaptive processes (e.g. Foster & Metcalfe 2001; Lorenz 1989; Radzicki 1990; Varian 1979; Witt 2003).

Further, March and Simon (1958), and Cyert and March (1992 [1963]) used an evolutionary approach when they developed the *behavioural theory of the firm*. They explained intra-organisational decision making by using the concept of bounded rationality, i.e. the fact that decision makers are not well-informed and rational, but sometimes pretty far from that description. This understanding of organisational decision making can be traced further to the models of organisational learning presented for instance by Argyris and Schön (1978) and later by Senge (1990).

The concepts of evolutionary economic theory have been sparsely applied in the analysis of copyright industries (an exception is Georgantzas, Schmid and Walton 1994). Rather, in most of the work on the economics of copyright firms and industries to date, frameworks of neoclassical economics (Wildman 2006: 85-7), institutional economics or political economy have been applied. The two latter frameworks share several traits with evolutionary economics and deserve some further attention.

Institutional economics is often considered as the predecessor of evolutionary economics. For instance Marx and Veblen are sometimes labelled as institutional economists more than anything else. Institutional economic
theory focuses on human-made institutions (firms, individuals, social norms) and the complex interaction between these. As with several heterodox economic schools, the definition of the framework is not totally clear, but a consistent feature is the focus on asymmetric information. According to neoclassical economic models, actors on a market have full information, or at least they act as if they have full information. Institutional economics argue that this is simply not a correct representation of reality, since information seldom is equally accessible to all. (Radzicki 1988; 2005)

Political economy is a framework which also has some parallels to evolutionary economics. The term refers currently to a range of different approaches of studying economic and political behaviour. Most of these approaches use a holistic and historical perspective and focus in some way on the balance between private enterprise and public intervention (Golding and Murdock 2000). In the field of media research, the term is primarily used to refer to neo-Marxian critical studies of culture production, such as the works published by Herman & Chomsky (1988), or McChesney (1999). This branch of political economy is often explicitly critical to the capitalistic logic that governs commercial production of popular culture.

The production of culture perspective and evolutionary economic theory have not made any direct references to each other. However, in spite of the different heritage of the two frameworks, they share some important aspects (e.g. the importance of history and the holistic approach) and often they are used in similar ways to address similar issues. Based on these two frameworks; models, concepts and terms that will be used in the forthcoming analysis is presented in the following sections of this chapter. First of all, the terms used to label those industries that are in focus during this study need to be defined.

2.3 Defining industries

The terms ‘copyright industries’ and ‘music industry’ have already been used in the text, but they have not yet been properly defined. There is currently an intense debate going on in the academia as well as in policy circles regarding how to label the industries which are examined by this study. In this section, the different propositions in this debate will be presented. The section will also
motivate why the prefix “copyright” has been chosen rather than any of the other options available.

Music

The purpose of this study is to increase the understanding of music industry dynamics. As with most industries, it is not always perfectly clear what is meant by the term the ‘music industry’. Hesmondhalgh (2002: 12) suggests a high-level definition of the music industries by including the three parts, music recording, music publishing, and live music performance.

Another music industry definition has been suggested by the Swedish Knowledge foundation (Almqvist & Dahl 2003). In this definition, live music performance is not considered as a part of the music industry’s core. Rather, live music performance is considered to be a part of the ‘performing arts’ industry. The core of the music industry is in this definition considered as musicians, songwriters, producers, record companies and music publishers.

In a related, but more elaborated initiative funded by the British government, the music industry’s, ‘core activities’, ‘supporting activities’ and ‘related industries’ were defined, Table 2.1 (DMCS 1998). Yet another definition has been suggested by Engström and Hallencreutz (2003). They did not make a distinction between core and supporting activities, but as the British government, they defined other industries, related to the music industry (Table 2.2). As the two tables show, there are considerable differences between various definitions. It is of course important to policy makers, trade organisations, and others, to define the widths and heights of “their” industries. However, since most copyright industries are evolving, lists such as the ones presented above, usually get obsolete relatively quickly. Hence, they are not very useful as a starting-point for academic research.

Negus (1992) approaches the definition issue from a different perspective. He describes the music recording industry as

…concerned with developing global personalities which can be communicated across multiple media; through recordings, videos, films, television, magazines, books and via advertising, product endorsement and sponsorship over a range of consumer merchandise.
<table>
<thead>
<tr>
<th>Core activities</th>
<th>Supporting activities</th>
<th>Related industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Production, distribution and retailing of sound recordings</td>
<td>• Music press</td>
<td>• Internet/e-commerce</td>
</tr>
<tr>
<td>• Administration of copyright in composition and recordings</td>
<td>• Multimedia content</td>
<td>• Television &amp; Radio</td>
</tr>
<tr>
<td>• Live performance (non-classical)</td>
<td>• Digital media</td>
<td>• Film &amp; Video</td>
</tr>
<tr>
<td>• Management, representation and promotion</td>
<td>• Retailing and distribution of digital music via Internet</td>
<td>• Advertising</td>
</tr>
<tr>
<td>• Song-writing and composition</td>
<td>• Music for computer games</td>
<td>• Performance Arts</td>
</tr>
<tr>
<td></td>
<td>• Art and creative studios</td>
<td>• Interactive Leisure Software</td>
</tr>
<tr>
<td></td>
<td>• Production, distribution and retailing of printed music</td>
<td>• Software &amp; Computer Services</td>
</tr>
<tr>
<td></td>
<td>• Production, retailing and distribution of musical instruments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Jingle production</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Photography</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Education and training</td>
<td></td>
</tr>
</tbody>
</table>

Table 2.1: The music industry as defined by the British government’s department of media, culture and sport. (DMCS 1998).

<table>
<thead>
<tr>
<th>Music industry organisations</th>
<th>Related industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Music press</td>
<td>• Daily press</td>
</tr>
<tr>
<td>• Record labels/Producers/Studios</td>
<td>• Other retailers, e.g. gas stations</td>
</tr>
<tr>
<td>• Music publishers</td>
<td>• Hotels</td>
</tr>
<tr>
<td>• Mastering studios</td>
<td>• Restaurants, pubs, clubs</td>
</tr>
<tr>
<td>• Suppliers of stage equipment</td>
<td>• Catering</td>
</tr>
<tr>
<td>• Distributors &amp; wholesalers</td>
<td>• Photography</td>
</tr>
<tr>
<td>• Music Retailers</td>
<td>• Graphic design</td>
</tr>
<tr>
<td>• Retailers of music instruments and studio equipment</td>
<td>• Video production</td>
</tr>
<tr>
<td>• E-business</td>
<td>• Broadcasting</td>
</tr>
<tr>
<td>• Management</td>
<td>• Stylists</td>
</tr>
<tr>
<td>• Artists/Musicians/Performers</td>
<td>• Lawyers and auditors</td>
</tr>
<tr>
<td>• Tour production and concert arrangements</td>
<td></td>
</tr>
<tr>
<td>• Artist agencies</td>
<td></td>
</tr>
</tbody>
</table>

Table 2.2: The music industry according to Engström and Hallencrutz (2003: 39)
This study adopts Negus’ definition, but suggests two minor adjustments. First, the word *global* should be removed since there are many musical artists that simply are not intended for a global market. Second, by adding the words *musical content*, the importance of controlling and developing different kinds of intellectual properties is emphasised. It is thereby possible to extend the definition beyond the recording industry to the entire music industry. These changes result in the following music industry definition which will be used by this study: *The music industry consists of those companies concerned with developing musical content and personalities which can be communicated across multiple media.*

**Entertainment**

The next step after defining the music industry is to situate that industry in a larger context. Negus does this by stating that ‘the music business is one integral component of an increasingly global network of inter-connected leisure and entertainment industries’ (Negus 1992: 1). Burnett continues on the same path and argues that ‘music is perhaps the essential component in linking the different sectors of the global entertainment industry’ (Burnett 1996: 10). Additional scholars have also pointed to the symbiotic relationship between the ‘music industry’ and other ‘entertainment industries’, for instance Hesmondhalgh (2002) and Toynbee (2000). Turow has defined the ‘entertainment industry’ as ‘the inter-organisational creation and release of performances (narrative or non-narrative, recorded or live) to attract audiences for financial profit rather than for explicitly educational, journalistic, political or advertising goals’ (Turow 1991: 166). Although this definition incorporates the music industry quite well, the definitions of what is entertainment and what is not is rather fuzzy. Other terms which do not make the distinction between what is entertaining and what is not have emerged, for instance ‘creative industries’, ‘experience industries’ and ‘cultural industries’. These terms will be discussed below, starting with ‘cultural industries’ since that term is somewhat older than the other two.

**Culture**

The term ‘culture industry’ is usually traced back to the Frankfurt School of Critical Theory and its most recognized scholars Max Horkheimer and Theodor
Adorno. Between 1935 and 1949 the research institute was relocated to Columbia University in New York, and it was during this period, Horkheimer and Adorno wrote their most important work, the Dialektik der Aufklärung (1944). In this very influential and pessimistic book, Horkheimer and Adorno outline how the world is moving closer to self-destruction. One of the chapters of the book is examining the ‘culture industry’ and the writers argue that the culture industry is the result of a process where an increase in media and communication technologies leads to the industrial production, circulation and consumption of cultural commodities. The industrialisation of these processes result in formulaic, standardized, repetitive, pre-digested products which reduce the audience into a ‘child-like’ state. (E.g. Adorno 1941; Burnett 1996; Horkheimer & Adorno 1944; Negus 1996; 1997; Hesmondhalgh 2002)

During the 1970s, French scholars (e.g. Miège 1979) and policy makers (e.g. Girard 1981) decided to pick up the term. However, they also decided to revise its meaning considerably. First they changed its form from singular to plural (cultural industries) to denote the diversity between different cultural industries. Second, they rejected the pessimistic and nostalgic position assumed by the Frankfurt School. Instead they argued that the commodification of culture, facilitated by new technologies, also had its positive sides. For instance the new technologies enabled innovation, and in addition, ordinary people were allowed access to culture that previously had been out of their reach. Third, while Horkheimer and Adorno considered the field of popular, industrialised culture as frozen and static, these scholars argued that the cultural industries is a dynamic zone of continuing struggle between commerce and art. (Hesmondhalgh 2002: 15-7; Towse 2001: 25)

The early definitions of cultural industries and cultural products are not radically different from today. Hirsch defined cultural products as ‘nonmaterial goods directed at a public of consumers, for whom they generally serve an aesthetic or expressive, rather than utilitarian function’ (1972: 641).

Three decades later Hesmondhalgh defined the cultural industries as ‘industries based upon the industrial production and circulation of texts, and which are centrally reliant on the work of symbol creators’ (2002: 14).

Hesmondhalgh’s definition requires two comments. First, the interpretation of the term ‘text’. All cultural artefacts could be considered as texts. However, some cultural artefacts can be mainly functional (e.g. cars, clothes, furniture)

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8 The book was actually written while Horkheimer and Adorno were living in Pacific Palisades, California, but the research institute remained formally located at Columbia University.
while other artefacts are mainly communicative (e.g. songs, images, stories, performances). In his definition of cultural industries, Hesmondhalgh is only referring to the latter, that is to say texts that are mainly communicative or symbolic in their nature (2002: 12). Second, instead of using the term ‘artist’, Hesmondhalgh uses the term ‘symbol creators’ for those who make up, interpret or rework these texts (2002: 4-5).

When explicitly defining which industries are cultural and which are not, Girard suggested that Broadcasting, Publishing, Music and Film should be included (Girard 1981). Hesmondhalgh’s list of ‘core cultural industries’ is similar to Girard’s list, but with the addition of Advertising and Interactive media9 (Hesmondhalgh 2002: 12). Girard did actually consider Advertising as one of the cultural industries, and it is quite understandable why he in 1981 did not choose to add Interactive media to the list.

**Experiences and creativity**

Several other terms aimed at defining these industries have been suggested since the renovation of the term ‘cultural industries’. In policy circles, ‘creative industries’ and ‘experience industries’ have become very popular. These definitions are usually wider than the original term and include industries or activities such as Architecture, Design, Fashion, Performing arts, Crafts, and sometimes even Tourism, Sport and Restaurants.

These newer concepts have changed the relationship between government and culture. As Hartley describes it:

> The “creative industries” idea brought creativity from the back door of government, where it had sat for decades holding out the tin cup for arts subsidy […] to the front door, where it was introduced to the wealth-creating portfolios, the emergent industry departments, and the enterprise support programs. […] Creative industries [helped] revitalize cities and regions that had moved out of

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9 Hesmondhalgh does not use the term Interactive media, but rather he uses a combination of the terms ‘internet industry’, ‘electronic publishing’ and ‘video and computer games’. I would though argue that the term ‘interactive media’ or ‘Interactive leisure software’ which is the term suggested by the British CITF is incorporating the terms suggested by Hesmondhalgh.
heavy industry, had never developed a strong manufacturing base or who were over-exposed to declining IT industries. (Hartley 2005: 19)

Manchester, UK and Hultsfred, Sweden are but two examples of many such governmental reform initiatives (Bjälesjö 2005; O’Connor 2000). This focus on regional development has also led to an increased interest in these industries by economic geography scholars (e.g. Hallencreutz 2002; Leyshon 2001; Power 2003). In addition, the mapping of these industries has turned into a lucrative business for scholars and consultants alike. Many region and nations decide they need healthy creative industries and in order to achieve that goal, the definition of what actually is a part of these industries differs from nation to nation and region to region. For instance in Sweden, the term chosen is the ‘experience industry’ which includes tourism and restaurants. These two industries combined, account for almost 40 percent of the entire ‘experience industry’ in Sweden and makes the definition quite different from many other nations’ industry definitions (Almqvist & Dahl 2003). However, by using this definition it is possible to inflate the size of the ‘experience industry’. Leif Pagrotsky, at the time Swedish Minister of Industry, explains how he thinks about these industries: ‘They are all helping to put Sweden on the world map, to enhance the image of Sweden as a creative and forward-thinking country’ (Pagrotsky 2003).

The term ‘experience industry’ stems from Pine and Gilmore (1998) and according to the creators, it may include many business sectors including retailing, transportation, tourism, banking, media, etc. Pine and Gilmore did not use the term experience industry, but referred to the experience economy. The experience economy is emphasising how an activity is executed rather than what that activity is all about. The experience industry, which is based on this concept, may be a useful management theory or a powerful tool to enhance a region’s image, but it is of less use as an industry definition.

The other alternative already mentioned in this section is the term ‘creative industries’ (Caves 2000; Howkins 2001; Hartley 2005). It differs from ‘experience industry’ since it is not focused on how an activity is executed but on the input required for that execution. However, the problem with this term is almost the same as with the ‘experience industry’; it is too inclusive. Most definitions of the creative industries include Architecture, Design and Fashion. The same arguments motivating the inclusion of these industries could be used to for instance include the consumer electronics industry, the automotive
industry or the pharmaceutical industry where creativity also is of great importance. Proponents of the term answer this criticism by stating that creative processes are found across all industries, and it is not possible to define the ‘creative industries’ by its output, since it is focused the input of these processes (Hartley 2005: 27). That claim is true indeed, but industries are not defined by input, or by the manner in which activities are performed. Industries are defined by the goods or services produced or supplied.

**Media**

A term which certainly deserves some attention is the term ‘*media industries*’. Ferguson (2006: 297), Hadenius and Weibull (2003) and Picard (2002: 12-7) all give the term a meaning which is very similar to ‘cultural industries’ but nevertheless there are some minor differences between the various definitions. Traditionally, the (mass) media industries include the newspaper, magazine, radio, and television industries (e.g. Hadenius & Weibull 2003). However, due to the evolution of these industries the definition of what is and what is not part of the media industries has been challenged. The ‘Internet industry’ is now often included and other scholars choose to include book, film, videogame, music and advertising in the definition (Ferguson 2006; Picard 2002). In other words, a definition which is almost identical to Hesmondhalgh’s listing of the core cultural industries (2002: 12). Apparently, the definition of the term is still associated with a certain level of ambiguity which makes the term less useful as a definition of those industries in focus during this study.

Though the term ‘media industries’ will not be used in this study, the text frequently refers to music firm’s ‘*media environment*’. This term is used to broadly refer to the media-related parts of the music firm’s surroundings. A similar practice is often used when referring to other parts of an organisation’s environment; for instance the firm’s *cultural* environment, the firm’s *business* environment, etc.

**Copyright**

As indicated by the subtitle of this work, the term which will be used to denote the industries in focus is none of the terms above, but rather the term ‘*copyright industries*’. The use of this term is not new in any way, but has been used by
several institutions, for instance OECD (2005b), IFPI (2004a) or the Congress of the United States (CBO 2004). The meaning of the term is identical to Hirsch’s (1972) and Hesmondhalgh’s (2002) definitions of cultural products and cultural industries. However, the abandoning of the prefix ‘cultural’ in favour of the term ‘copyright’ marks a distance to the heritage which still lingers to ‘cultural industries’.

The term ‘copyright industries’ also lack the ambiguity which burdens some of the terms discussed above. The term is defined by copyright legislations, which means that the debate regarding what is or what is not part of the industries is irrelevant. By examining the legislation in Sweden, UK, and USA, it is possible to conclude that the types of works protected by copyright are identical in the three countries (Swedish Ministry of Justice 2005; UK Patent office 2003; US Copyright office 2000):

- literary works,
- dramatic works,
- musical works,
- artistic works,
- published editions of works,
- sound recordings,
- films, including videos and broadcasts.

Conclusively, when the prefix ‘copyright’ is used in this text, it is a reference to the products in the list above or related firms or industries. In the next section, a number of important characteristics that distinguish the copyright industries from other industries will be discussed.

2.4 Characteristics of the copyright industries

There are many characteristics of the copyright industries that make them different from other ‘non-copyright’ industries (e.g. Caves 2000: 2-10; Chan-Olmsted 2006: 173; Hesmondhalgh 2002). Some, but not all, of these characteristics will be discussed in this section.
On the nature of copyright products

Hirsch defined cultural products as ‘nonmaterial goods directed at a public of consumers, for whom they generally serve an aesthetic or expressive, rather than utilitarian function’ (1972: 641). In addition to being ‘nonmaterial’, these products have some specific properties that differentiate them from products traded in many other industries. Some of these properties will be discussed below.

The products traded in copyright industries are often categorised as information goods simply because they are intangible and ‘can be digitized’ (Shapiro & Varian 1999: 3). It is important to note what actually is traded on copyright markets. When an individual purchases a vase or a CD, she/he does not purchase the design of the vase, or the copyrights to the sound recording. The only thing purchased is an instance of the vase design, or a right to listen to the sound recording within certain carefully defined restrictions. Only very few are able to actually own music, since full and exclusive copyright of a single commercially successful song is most likely far beyond the financial constraints of the average consumer. The question of the value of information vs. the price of information will be returned to in this analysis. The issue has been pondered by many scholars and thinkers, but Stewart Brand’s words really hit the nail on the head:

Information wants to be free. Information also wants to be expensive. Information wants to be free because it has become so cheap to distribute, copy, and recombine – too cheap to meter. It wants to be expensive because it can be immeasurably valuable to the recipient. That tension will not go away. It leads to endless wrenching debate about price, copyright, “intellectual property”, the moral rightness of casual distribution, because each round of new devices makes the tension worse, not better. (Brand 1987: 202)

The agreement between the holder of the copyright and the consumer governs the latter’s ability to use for instance a sound recording. The degree of freedom which is allowed to the consumer is often referred to as the product’s ‘option value’ (Shapiro & Varian 1999). If an information product has a high option value, the restrictions on the consumers’ ability to use the product is relatively relaxed, and vice versa. A rented DVD has a lower option value than
a purchased DVD. A song distributed via broadcast radio has lower option value than a song distributed on a CD or Compact Cassette.

Another interesting property of copyright products is that in order to determine the true value of a copyright product it has to be experienced. A consumer is not able to determine whether a book is good or not until it has been read. Such goods are called experience goods and should be contrasted against search goods and credence goods. The value of a search good can to a great extent be determined after reading the product’s specifications (e.g. a microwave oven). The value of credence goods are difficult to determine even after purchase and use. For instance, it is usually difficult for an artist or a band to determine how much their career was facilitated by the manager they have hired. (Hoskins & McFadyen 2004: 76-8).

Promotion of experience goods is often based on the ability to distribute the product with a lower option value. For instance, demo versions of computer software are information goods with limited option value, which is supposed to create a demand for the same product, but with a higher option value. Traditional promotion of popular music is based on the same logic. By playing the song on the radio (low option value) the record company is hoping that a demand is generated for the same information, but with a higher option value, for instance distributed on a CD.

Copyright products have a very intimate link to time. Copyright products are experience products, and in order to experience something, consumers have to spend time. They also have to make priorities between which copyright products should be awarded their attention. For instance it is not possible to experience every new song released, since there simply isn’t enough time. This phenomenon is covered by Herbert Simon’s words:

What information consumes is rather obvious: it consumes the attention of its recipients. Hence, a wealth of information creates a poverty of attention, and a need to allocate that attention efficiently among the overabundance of information sources that might consume it. (Simon 1971: 40)

The audience is consequently unable to make well-informed decisions regarding their consumption of copyright products. In the case of music, the
consumer is only able to experience a fraction of the total number of new products released in the market\textsuperscript{10}. Compare this for instance to the refrigerator market, where the consumer is in a much better position to be well-informed about the available options. She can compare different retailer’s prices and make a rational decision based on solid information. Hirsch describes the completely different situation in the copyright industries: ‘In all [such] industries, the number of already available goods far exceeds the number that can be successfully marketed. More goods are produced and available than actually reach the consumer’ (Hirsch 1970: 5). In order to cope with this situation, structures have been developed, labelled by Hirsch (1970) as ‘Preselection systems’. The purpose of the Preselection systems is to reduce the number of available products in order to facilitate the audience’s decision-making. The Preselection system consists of a number of subsystems, and the members of the different subsystems, the gatekeepers, determine whether the product shall pass through the filtering process or not. Hirsch’s concept of filters and gatekeepers has been heavily criticised by several scholars (e.g. Negus 1992). Nevertheless, Hirsch highlights the difficulties of matching the ‘right’ products with the ‘right’ audience which is essential when explaining copyright industry dynamics.

\textit{An industry with a high level of uncertainty and volatility}

The level of uncertainty and risk in the copyright industries is highlighted by many scholars. Negus ponders about uncertainty in the music industry:

\begin{quote}
…I found much uncertainty among personnel involved in producing music. Neither business executives, fans, the musicians themselves nor journalists can predict what is going to be commercially successful or what new musics are going to be critically acclaimed. (Negus 1996: 48)
\end{quote}

\textsuperscript{10} According to one of the music industry’s trade organisations (IFPI 2004b), 100,000 new albums were released 2004, which equals more than 250 albums per day. If each album contains ten songs, and each song lasts for 3½ minute, more than 8,500 minutes of new music is released every day. This means that the avid consumer has to listen to at least six songs simultaneously, 24/7, to be able to keep up.
Hirsch notes how members of a Preselection system have limited ability to 'predict accurately which of the items produced will pass successfully through each stage of the complex filter' (Hirsch 1970: 5). Hesmondhalgh concludes: ‘All business is risky, but the [copyright] industries are particularly risky business'11 (2002: 17). Other scholars, for instance Burnett (1996), Caves (2000), Hartley (2005), Hoskins & McFadyen (2004), and Picard (2002) make similar observations. It is possible to explain this apparently exceptional condition by examining the characteristics of the copyright industries. First, the development and release of new products, regardless of industry, always involve a great level of risk and uncertainty. In most industries it is difficult to forecast whether a new product will be successful or not. However, the potential success of an ‘experience product’ is even more difficult to predict than that of a ‘search product’. If the product category is reasonably established in the market, consumers are able to determine whether they would be interested in a new product which follows a certain set of specifications. But an ‘experience good’, can only be evaluated by the consumer after ‘the first copy’ has been produced. Only then (maybe) is market research of any relevance. Second, the consumption of copyright products is highly volatile and unpredictable (Hesmondhalgh 2002: 18; Picard 2002: 7-9). ‘Fashionable performers or styles, even if heavily marketed, can suddenly come to be perceived as outmoded, and other texts can become unexpectedly successful’ (Hesmondhalgh 2002: 18). Combine these two observations and a situation emerges where it is extremely difficult to gain information about the potential success of a coming release. Consequently, decision makers in copyright firms often have to make decisions about how to spend their investment money based on intuition and gut feeling. One common way of dealing with such a high exposure to risk is to use the principles of portfolio theory (Picard 2002; 2005; Reca 2006). Risk is reduced by investing in several diverse markets and products, in the hope that aggregate return from these investments at least will attain some degree of stability. Hesmondhalgh (2002) refers to this strategy as ‘throwing mud’ and see what sticks. Denisoff (1975) referred to it as the ‘the buckshot theory’ when he explored the music publishing industry. Following this strategy, a considerable number of contracts are signed. By monitoring how consumers react to the songs, the company is able to focus its resources to those products the audiences seem to like. The number of new products released in copyright industries is impressive. Data on how many new titles (books, music albums,

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11 Hesmondhalgh attributes the phrase to Prindle (2003).
magazines, movies, videogames, etc) are annually released worldwide is not readily available, but at least 1,000,000 books were published worldwide during 2002 (Zaid 2003), and at least 100,000 music albums were released worldwide during 2004 (IFPI 2004b). Hesmondhalgh (2002) refers to Neuman (1991: 139) when claiming that 80 percent of the revenues in the book publishing industry stems from 20 percent of the portfolio, and to Wolf (1999: 89) when claiming that only 2 percent of music albums sold in the US during 1998 sold more than 50,000 copies. In other words, it is this small percentage that shall support all the other titles that are unable to deliver acceptable earnings.

High production costs, low reproduction costs

The dominant part of the costs in copyright industries is attributed to production of ‘the first copy’ and the marketing of the title in question. This is to say that once the first copy or the design has been made, most of the project costs have been paid. Two observations can be made about these costs. First, they are mainly fixed, that is to say they are independent of the number of products sold. Second, they are usually considered as sunk costs, that is to say they are paid before the products are available to the public and are not recoverable, even if the project is immediately halted. (Hesmondhalgh 2002; Picard 2002; Shapiro & Varian 1999; Vogel 2001)

The cost structure in the copyright industries has considerable effects on the behaviour of copyright firms, primarily since it ‘leads to considerable economies of scale, i.e. the more you produce, the lower your average cost of production’ (Shapiro & Varian 1999: 21). This means that while it may require a considerable number of items sold before profitability is achieved, the profitability beyond the point of break-even may be substantial. This logic ‘leads to a very strong orientation towards audience maximisation in the [copyright] industries’ (Hesmondhalgh 2002: 19). In other words, it makes much more economic sense to sell a single title to a large audience rather than to sell the same number of items, but distributed across ten different titles.

Art and commerce - the hero and the villain?

An interesting aspect of the copyright industries is the apparent conflict between art and commerce. Following the reasoning of Horkheimer, Adorno
and their disciples, the combination is simply impossible (Adorno 1941; Horkheimer & Adorno 1944). To achieve authenticity, texts should be created by a symbol creator which is independent from any commercial pressure. Those symbol creators who choose to be associated with the “majors”, major commercial institutions in the copyright industries, are traitors or victims, depending on perspective. Negus (1996: 46) comments on this way of understanding the music industry: ‘On one side are the heroes – the musicians, producers and performers (the creative artists); opposing them are the villains – the record companies and entertainment corporations (the commercial corrupters and manipulators).’

The concept of the “major” deserves some further attention. Although there is no definition, a major is usually the term used to represent a large copyright firm with operations in several countries and a well-established distribution machinery. The major is usually publicly traded or is a part of an entertainment conglomerate. This should be compared with “independent (companies)” or “indies” which usually are the opposite of everything above, and have a stronger focus on the text, the creativity and the art, rather than the commerce. The work created within the realms of an indie, is considered to be less a part of the capitalistic system. Based on the logic of Adorno and others, it is also more “authentic” than a work created within the walls of a major.

Frith (e.g. 1978; 1983) has argued that there is no conflict between art and commerce, at least not in the music industry. Frith claims that rock music, which sometimes is considered as a musical genre with relatively high level of authenticity, was not created outside the system of commercial music. Rather rock music was created within that system, and is a result of combining creativity and commerce. Building on this analysis, Frith concluded that the relationship between art and commerce should not be described as antagonistic, but rather as integrated. Negus (1996) has challenged Frith by pointing to the actual experiences of audiences and artists. ‘If those of us who study popular music are to take seriously the vocabularies of participants, […] then the use of clichés […] in discussions about the music industry cannot simply be dismissed as artistic conceit or audience naïvete’ (Negus 1996: 47). One such artist who very explicitly explained his feelings of being trapped within the capitalistic system and unable to express his creativity is Prince Roger Nelson and his former record label12 Warner Bros (e.g. Mitchell 2005; Orwell 1995; Rosen

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12 A “record label” is an organisation that releases a certain form of music with a certain brand, such as Motown – Soul/R&B, Blue Note – Jazz, or Roc-A-Fella – Hip-Hop/Rap. Major multinational music firms usually
1994). If the words of Prince and many other symbol creators are taken seriously, there apparently is some kind of tension between art and commerce which is contrasting the copyright industries from other industries.

This section has discussed a number of characteristics of the copyright industries that set them apart from other ‘non-copyrighth’ industries. The section has explained that the products traded in the copyright industries are categorised as experience goods, which makes the marketing of these products different from the marketing of other so called search goods or credence goods.

The section has also explained that the costs in the copyright industries are mainly fixed and how that is influencing the behaviour and performance of these firms. Finally, the section has briefly touched upon the eternal conflict between art and commerce. This issue will be returned to in the next section when the issue of profit maximisation and creativity is discussed.

2.5 The copyright firm in theory

Firms are economic entities which acquire and organise resources in order to produce goods and services (Picard 2002: 2). According to the neoclassical economic theory usually referred to as the theory of the firm, the objective of a firm is to maximise profit and shareholder value (e.g. Hoskins & McFadyen 2004: 141; Picard 2002: 3). Profit is usually defined as ‘the money that remains after expenses are subtracted from income’ (Picard 2002: 4). Shareholder value is assumed to be created through share price appreciation and dividends in combination (Knight 1998: 21).

According to this reasoning, economic value is the end, and the activities taking place within the firm are merely means in achieving that end. It is not particularly important whether those activities are generating milkshakes or movies, as long as they are delivering profit. However, though there may be entrepreneurs and managers who subscribe to this perspective, many entrepreneurs in the copyright industries are motivated by something else, beyond profit and economic value (Nilsson & Brulin 1997: 9). The business is own and control several labels; EMI Music for instance, controls more than 50 different labels across the world.
an evil necessity and the creative process, not the profit, is the single and
ultimate objective (Karlsson & Lekvall 2002). Regardless of these priorities,
there are very few symbol creators who are able to disregard from economic
realities completely. Any venture has to be able to pay the bills, make
improvements in facilities, have access to capital markets, experiment with new
methods and so on; otherwise the venture will eventually vanish. Most
copyright entrepreneurs quickly conclude that a ‘firm’ is a convenient way to
structure their ventures; the practising of their craft. By establishing a firm they
are able to enter business agreements with other economic entities, they are
able to compete for external funding for various projects, they can regulate
various uncertainties, they are able to attract talent, etc (e.g. Coase 1937).
Consequently, any firm, regardless if it is operating in a copyright industry or
not, has to deliver some kind of profit. It may be that it is not entirely necessary
to maximise profit, but rather to deliver good enough profits which allow the
symbol creator to continue practising their craft as long as they are able keep
their spirits burning.

The reasoning above assumes the firm in question is small and that the
owners and managers are the same individuals. This is probably a fair
representation of most firms operating in the copyright industries, including the
music industry (e.g. Karlsson & Lekvall 2002: 11). As the copyright firm
evolves, it generates profits that can be accumulated in the firm and used for
various future projects. Some larger projects might nevertheless require
additional capital, for instance the production of a movie or the investment in
new studio facilities. In these instances, the smaller copyright firm might turn to
a bank to borrow additional capital (Picard 2002: 172). This allows the firm
access to capital without giving up the control of the firm. However, larger
copyright firms have during many years turned to the public stock markets to
get access to capital13. The larger firms require considerable financial resources
to support their investments in expensive technologies, expansions into new
territories, etc. A publicly traded firm has considerably better access to capital
compared to the unlisted firm. In addition, the firm is able to use their own

13 For instance, the four largest music companies in the world are all directly or indirectly listed on public
stock markets: EMI Music is listed for trade on London Stock Exchange; Sony BMG is partly owned by Sony
which is listed on the most important stock exchange for media firms, the New York Stock Exchange (NYSE);
Universal Music is owned (92%) by Vivendi Universal which is listed on NYSE; and Warner Music is since May
2005 also listed on NYSE.
shares as currency, which facilitates mergers with and acquisitions of other firms.

Firms listed for trade on a public stock market get access to capital in exchange for ownership of the firm. Although there are many pros of having access to a public stock market, there are also some considerable cons. When listed on a public stock market, the firm is constantly scrutinized by investors who are comparing the financial performance of the firm with every other investment opportunity available. Since the deregulation and internationalisation of the financial markets during the last two or three decades, these investment opportunities may range from real estate in Moscow, Mexican biotech companies, Scandinavian hedge funds, and literally thousands of other objects (e.g. Albarran & Chan-Olmsted 1998; Castells 1997; Picard 2002: 185). If the copyright firm is unable to avoid below-average financial performance in comparison to the other options, investors will simply move their monies elsewhere. When this happens, Adam Smith’s invisible hand will lower the share price until investors again will regard the share as good value for money. This logic puts the publicly traded copyright firm in a situation where the decision regarding what profits are good enough is determined by the international financial market rather than by the management of the firm. The firm has to deliver maximum profits to satisfy the shareholders’ quest for highest possible return on investment, otherwise the future of the firm is jeopardized. In other words, when a firm is listed for trade on a public stock market, the only profit good enough, is the maximum. (Knight 1998; Picard 2002)

A final note from the evolutionary economist is required here. Claiming that the firm’s goal is profit maximisation is not to claim that the firm makes continuous rational decisions which are maximising profit. As Cyert and March (1992 [1963]) noted, and which will be noted when discussing organisational learning later in this text, the decision making process is complex, and often the firm’s decisions are not rational and not at all based on correct, unbiased information.

**Profit maximisation and creativity**

Is it really possible to create “authentic art” in organisations where profit maximisation is one of the most important goals? Can truly creative processes exist under such circumstances? Previously in the text, the views of Adorno and others have been briefly discussed, and their answer to this question is a
deafening “No” (e.g. Adorno 1941). But what is authentic art? Another way of approaching the issue is to focus on creativity rather than trying to distinguish the “authentic” from the “fake”. The social psychologist Teresa Amabile has done extensive research on creativity within organisations (e.g. 1996; 1998). When defining creativity, she chooses to focus on the output:

A product or response will be judged as creative to the extent that (a) it is both a novel and appropriate, useful, correct or valuable response to the task at hand, and (b) the task is heuristic rather than algorithmic. (Amabile 1996: 35)

A fundamental question is whether the ‘tasks’ within copyright industries are heuristic or algorithmic. Amabile reflects on this issue: ‘…an artist who followed the algorithm “paint pictures of different sorts of children with large sad eyes, using dark-toned backgrounds” would not be producing creative paintings, even if each painting were unique and technically perfect’ (Amabile 1996: 36). This is exactly what is happening in industrial production of culture according to the reasoning by the Frankfurt school. Symbol creators in the copyright industries follow ‘an algorithm’ in order to deliver products that fulfil certain criteria and hence are commercially successful in the marketplace (Adorno 1941).

Based on her research, Amabile concludes that individual creativity, to a large extent, is dependent on the person’s social environment. She stresses the importance of finding your own, internal motivation, and to be able to stay independent of demands and reactions from the environment. A symbol creators’ primary driver has to be the joy, will or need to create for its own sake, independent of whether it will be received by good reviews or commercial success. Amabile summarizes her conclusions by stating that ‘Intrinsic motivation is conductive to creativity, but extrinsic motivation is detrimental’ (Amabile 1996: 15).

Scholars (e.g. Burnett 1990) have shown that creative cultural production normally does not take place in large, mature organisations. Rather, it is the smaller firms (the Indies) which are able to create an environment where

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14 An algorithmic task is a task where the road to the solution is straightforward and obvious. A heuristic task has no pre-defined road to its goal. A heuristic task most often does not have a predefined goal either, but can end in many ways. An example of an algorithmic task is “Make some muffins!”; and an example of a heuristic task is “Cure cancer!”.
creativity is intrinsically motivated. Within the domains of popular music, this is confirmed over and over again, as new genres are developed or picked up by the smaller firm long before any larger firm has discovered the novelty. Apparently, the milieu within smaller firms is able to nourish a greater level of creativity than the milieu within larger firms. It has already been discussed in this text how the larger firm has to be more focused on profit maximisation than the smaller firm. In addition, the larger firm requires more complex administration, including strategies, budgets, marketing plans, financial reports, etc. All these structures create a whole range of external demands and restrictions. Where the small firm is driven forward by the joy of independence and the pleasure of creating something new (intrinsic motivation), the larger firm is primarily driven forward by the need to fulfil the next financial plan (extrinsic motivation).

In order to answer to this problem, many larger firms have created structures which aim at establishing a social environment within the firm which allows creativity to flourish, though external demands remain in place. One such initiative is to establish ‘semi-independent’ business units within the larger firms (Burnett 1990). These smaller intra-organisational units are given a considerable amount of freedom in order to let the intrinsic motivation guide the organisation forward. Hesmondhalgh is pointing to a similar strategy within the copyright industries when he refers to the ‘loose control of symbol creators’ within copyright industries, which is motivated by the ‘long-standing assumptions about the ethical desirability of creative autonomy, which derive from the romantic conception of symbolic creativity, and traditions of free speech’ (Hesmondhalgh 2002: 22).15

Conclusively, there is a considerable conflict between profit maximisation and creativity. However, larger copyright firms have tried to address the problem by allowing symbol creators a certain level of “space”, in order to let the intrinsically motivated creativity to prosper.

**Core business, value chain and business model**

The importance of profit maximisation to a publicly traded firm has been established in the sections above, but few firms state their raison d’être as maximising profit or shareholder value exclusively. Most prefer to use a more

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15 This is also touched upon in relation to the concentration/diversity debate on pages 68ff.
elaborated way to communicate their purpose or mission which gives some indication on how they intend to create value to their shareholders (e.g. Karlöf & Helin Lövingsson 2003). The London based multinational music firm EMI express their mission as follows:

Our aim is to build shareholder value by developing the best musical content at EMI Music and EMI Music Publishing and fully exploiting this unique content on a global basis through all viable and economically attractive channels. We do this by working with, and nurturing, the world’s best recording artists and songwriters; marketing and promoting their music; and delivering it to consumers in the ways they want. (EMI 2005)

This statement is constituted by two sentences, which both have approximately the same meaning, but EMI have varied the jargon in order to reach out to different audiences. The statement starts out with:

Our aim is to build shareholder value…

…which is in compliance with the previous reasoning in this chapter. It then continues with a description of the chain of activities intended to deliver profit which will turn into shareholder value. Without too many superlatives, the EMI work flow goes as follows:

…developing musical content… / … working with, and nurturing recording artists and songwriters…

…fully exploiting this content on a global basis… / …marketing and promoting their music…

…through all viable and economically attractive channels… / …delivering it to consumers in the ways they want…

The EMI statement provides a high level description of their core business, ‘the central common activity of the firm’ (Picard 2002: 37). Picard argues that the core business in any media firm is ‘the development of information and
entertainment and its packaging and programming for use’ (ibid). The EMI statement is clearly an excellent instance of this concept in practice.

It is also possible to understand the statement as a simplified version of the EMI value chain. Note that this value is not a value created for their shareholders, but a value created for their customers. The value that is generated by the activities in the value chain is supposed to motivate potential customers to spend their monies on EMI’s music. Each component in the chain constitutes a significant part of this value creation process. A graphic representation of the EMI value chain is shown in Figure 2.1.

![Figure 2.1: A graphic representation of the EMI statement.](image)

Though the concept of the value chain is fairly intuitive, Michael E. Porter is usually recognized as the inventor of the generic value chain model (Porter 1985). In his model, Porter describes nine activities which combined create the value a firm delivers. Five of these are ‘primary activities’, which includes receiving material from suppliers (inbound logistics), converting them into products (operations), shipping them to customers (outbound logistics), marketing them (marketing and sales) and eventually servicing (service), once the products are delivered. The remaining four activities, are considered as ‘support activities’ which the organisation requires in order to be able to perform the primary activities.

The concept of the value chain is a common and useful method when describing the operations of a firm. The models are usually focused on primary activities, and leave the support activities out. Several value chain models have been developed to describe firms in copyright industries. Picard (2002) suggested such a model which is focused on the three components Porter referred to as ‘Operations’, ‘Outbound logistics’ and ‘Marketing and sales’. Picard uses another linear structure to describe these activities, termed ‘Production value chain’ and ‘Distribution value chain’ (Figure 2.2).
Picard recognises that though there are variations between firms’ value chains in different copyright industries\(^\text{16}\), the basic activities shown in the illustration above are common for most of them (Picard 2002: 33). In the production part of the model, content is initially acquired or created, then packaged, processed and transformed into a distributable form. The second part of the model starts off with the actual distribution of the media product, which may be either physical or virtual. The last and final component in Picard’s model is the marketing, advertising and promotion of the product.

Another theoretical concept closely related to ‘core business’ and ‘value chain’ is business model. A business model is the fundamental logic explaining how a firm conducts commerce (e.g. Magretta 2002; Picard 2002: 25). The model usually describes how information, goods, cash and other resources flow between the various actors involved in the business. Besides the firm itself, the actors might be customers, advertisers, suppliers, service partners, etc. The model explains the value delivered to these actors and how revenues and costs are shared between them. Business models are very sensitive to changes in a firm’s environment. As the environment changes, ‘the factors that support a business model change simultaneously’, and consequently, in order to remain successful, the business model has to be revised (Picard 2002: 26).

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\(^\text{16}\) Picard uses the term ‘media industries’ and ‘media firm’ rather than ‘copyright industries’ and ‘copyright firm’.
creativity is able to thrive in an organisation where profit maximisation is the objective. Finally, three concepts which are useful when analysing the mission and internal operations of a firm has been introduced; namely core business, value chain and business model.

In the next section the attention will be turned from the interior of the copyright firm to its surroundings. The well-established model presented by Michael Porter (1980) which often is referred to as the ‘five-forces model’ will be introduced.

2.6 The microenvironment of the copyright firm

There are several ways to structure the factors that influence the behaviour of a copyright firm. The six facets (Technology; Law; Organisational structure; Industry structure; Market; Occupational career) of the production of culture perspective presented in section 2.1, offers one such structure, but there are other scholars who have discussed similar issues from other perspectives (e.g. Baden-Fuller & Stopford 1992; Miles & Snow 1978; Picard 2002).

A useful model which complements the six facets is Michael Porter’s model for determining the competitive situation within an industry (Porter 1980). The model uses concepts from industrial organisation economics17 to derive five forces, which together constitute the microenvironment where a firm is operating. Based on an understanding of this environment, managers should be able to make strategic decisions regarding where to manoeuvre their organisation. These five forces which are listed below will be presented and discussed in this section.

- Threat of new entrants,
- substitutability of products or services,
- bargaining power of suppliers,
- bargaining power of buyers,
- rivalry among competing firms.

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17 Industrial organisation economics or IO economics is a field of economics that studies the strategic behaviour of firms, the structure of markets and their interactions.
**Threat of new entrants – barriers to entry and mobility**

Is it likely that new or existing companies enter the market with competing products or services? The threat of new entrants may be determined by several different factors. One such factor may be *capital requirements*, for instance the financing needed to establish operations and pay start-up losses (Picard 2002: 72). A second potential factor is *product differentiation*, for instance if existing firms already have unique products with great consumer loyalty, a new firm will have difficulty in getting a foothold in the market. A third factor is what is known as *switching costs*, for instance if consumers have acquired a content library from a supplier using a specific media technology, it will be costly for the consumer to switch to another supplier which is using another, competing technology. Depending on your perspective and specific situation, this mechanism may be referred to as *lock-in* and is a well established strategy in many industries (e.g. Hax & Wilde 1999; 2001; Shapiro & Varian 1999). Limited *access to distribution channels*, for instance the limited shelf space available for the display of magazines is also a factor that is determining the barriers to entry. A new player might for instance be unable to access to that shelf space which will make it difficult to enter the market. Finally, *governmental regulations* may be a barrier to entry if they for instance restrict access to the frequency spectrum available for terrestrial broadcasting.

**Substitutability of products or services**

How great is the risk that buyers replace the current product or service with something else, which satisfies the same need, but in a different way? In the copyright industries, products are normally relatively differentiated and the level of substitutability and competition between them are limited. A cheering U2 fan is not very likely to substitute Bono with another artist without great reluctance. The customer loyalty that can be found within the music industry is often

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18 An ongoing example is the dominating retailer of Internet distributed music content, Apple’s iTunes Music Store. iTunes uses a proprietary copy-protection technology called Fairplay which restricts consumers from playing the music they have acquired on iTunes on any other portable music player, than the Apple iPod. Consumers, who have purchased a set of songs on iTunes, will have to continue using the iPod if they want to be able to continue listening to their music when they are on the move. If they decide to switch to another non-Apple portable music player, they have to purchase the same songs all over again. System lock-in in practice. (http://www.itunes.com)
looked at with envy by actors operating in other industries. However, as with most of the forces in Porter’s model, substitutability may vary between different parts of a value chain. The same content may for instance be distributed using a number of different media technologies, (e.g. VHS, DVD, and BitTorrent). Even though the substitutability on content level is low, the substitutability and level of competition between different distribution technologies may be fierce.

**Bargaining power of buyers and suppliers**

Are the buyers able to negotiate a lower price, improved quality, etc, or are they restricted to accepting whatever is offered? In consumer oriented businesses, the bargaining power of buyers is generally low. It is not particularly easy to negotiate a lower ticket price at the box office.

The corresponding reasoning can be directed towards suppliers: Are the suppliers strong enough to demand higher prices, better contractual terms, etc, or are the suppliers restricted to accept whatever terms is offered by the players in the industry? There are many different kinds of suppliers to a music firm, but if the focus is set on the artist, the bargaining power depends heavily on the artist’s previous success. The new and unknown artist has a bargaining power which is close to zero. If the artist wants to get international and physical distribution, there are few other options than to aim for a contract with one of the majors. The terms of these contracts are usually dictated by the record label and accepted by the artist. At the other end of the spectrum is the megastar who is able to act quite differently. During the last couple of years, there have been several cases where a record label has signed agreements where the firm has taken a large portion of the business risk and a minor portion of the expected profit (e.g. EMI 2002b).

**Rivalry among firms already operating in the market**

How intense is the competition between existing actors in the industry? The competition between firms is to a great extent linked to the structure of the industry. Neoclassical economic theory defines a market structure continuum, ranging from *monopoly*, to *oligopoly*, *monopolistic competition* and finally to *perfect competition* (e.g. Hoskins & McFadyen 2004; Wildman 2006: 72-5). Perfect competition is the condition where a considerable number of equally sized
firms compete with identical products. Consumers are also numerous and have complete and correct information regarding the products and prices offered by the firms competing on the market. Under these conditions, price is usually the only competitive weapon.

However, this condition is not relevant to the copyright industries: ‘Markets for information will not, and cannot, look like text-book-perfect competitive markets in which there are many suppliers offering similar products, each lacking the ability to influence prices’ (Shapiro & Varian 1999: 23). Monopolistic competition is somewhat more realistic than Perfect competition, since the products offered are differentiated rather than identical. In this kind of market, it is possible to compete by using product innovation, rather than by price only. Oligopoly is an industry dominated by few large firms producing differentiated products. Under these conditions the barriers to entry are usually substantial. The competition between these large players is consequently lower than in the previous two cases. Copyright industries such as music, movie, and broadcasting are best described as oligopolies (e.g. Hoskins & McFadyen 2004; Picard 2002). Finally, Monopoly is an industry with a single player, and consequently with no rivalry at all.

Porter’s model includes a number of concepts which are useful in most industry analyses, though it is based on static assumptions from neoclassical economic theory. In combination with the production of culture perspective which has a more historical and evolutionary approach, the model is able to be a useful tool for analysing the environment of the copyright firm.

As was stated earlier in this section, the five-forces model is useful when the decision makers are carving out the firm’s strategy. Numerous scholars have since the 1960s and onwards tried to understand exactly how the firm’s strategy should be developed or designed. Some of the conclusions from that research will be presented in the following section.

2.7 What is strategy?

The concept of ‘Strategy’ is a word originally used in the planning of military campaigns. ‘Strategy’ is considered to be the higher-level, longer-term, planning and should be distinguished from ‘tactics’, which is more specific and short-
term (e.g. Ansoff 1965; Mintzberg 1994). According to Ansoff (1965: 118), the concept was first introduced to non-military applications by von Neumann and Morgenstern when they created the field now known as ‘game theory’ (von Neumann & Morgenstern 1944). Game theory unifies all kinds of conflicts, whether economic, social, political or military and identifies different strategies or decision rules applicable to the various ‘games’. In other words, a ‘strategy’ is a formalized set of rules for making decisions (Ansoff 1965). The decision rules can also be understood as a position which is to be assumed based on where the organisation is today and where it wants to be within a certain period of time. Several scholars have followed this school of thought. For instance during the 1970s, Glueck suggested that strategy is a firm’s unified, comprehensive and integrated plan, and during the 1980s, Porter explained strategy as the firm’s position taken after the investigation of the competitive environment (Glueck 1972; Porter 1980). Porter’s concept is probably the most influential of all contemporary strategy frameworks (Hax & Wilde 1999). He suggests that there are merely two ways a firm can compete; either by focusing on low cost or by focusing on product differentiation (Porter 1980). It is not possible to successfully combine the two options (ibid).

Since some years back, scholars have brought the attention to the increased volatility and uncertainties in many industries, such as the copyright industries. This has turned the focus of strategy theorists from questions regarding which strategic position is most appropriate during a specific environmental situation, to a firm’s ability to assume new strategic positions as swiftly as possible. Competition is not as much a ‘war of position’ as it is a ‘war of movement’. (E.g. Ghemawat 1991; Hamel & Prahalad 1993; Porter 1991; Stalk 1988; Stalk, Evans and Shulman 1992; Sterman 1994)

This development of the field is in many regards parallel to the development of evolutionary economics. Both evolutionary economics and theories of dynamics strategy turn the focus from static structures to dynamic processes. A number of theories on these dynamic processes will be discussed in the sections below.

**Emergent strategy**

Mintzberg and Waters pointed to the fact that the changing environment forces the firm to continuously revise their strategies. Instead of describing the strategy development process as a process of ‘design’ or ‘conception’,
Mintzberg and Waters argued that it should be considered as a process of ‘crafting’, where the strategy is constantly moulded by the firm’s decision makers. According to this perspective a firm’s realized strategy is the actual ‘pattern in a stream of decisions’, rather than some formalized and often obsolete rules for making those decisions (Mintzberg & Waters 1985: 257). The reason why the intended formal strategy differs from the realised strategy is because parts of the intended strategy have been discarded or new insights have been made since the formulation of the initial strategy. (Mintzberg & Waters 1985: 258; Mintzberg 1987)

Hax (1990) builds on the understanding of strategy as the actual decisions made by the firm. Based on this reasoning, Hax suggests how to go about when exploring a firm’s strategy:

…strategy is a matter of record – it emerges from what the firm does. To examine strategy as an evolutionary process, we can study the nature of an organisation’s decision making and its resulting performance. Strategic patterns can be discerned by examining major changes or discontinuities in a firm’s direction. (Hax 1990: 35)

The key sentence in this section is ‘the changing environment forces the firm to continuously revise its strategy’. The process where the firm continuously tries to adapt its policies, routines and resources in order to sustain in a changing environment is essential to this study. Two scholars who in 1978 published a seminal work on these organisational adaptation processes are Raymond Miles and Charles Snow. The most important contribution from this work is presented in the section below.

**The process of organisational adaptation**

Miles and Snow published *Organizational Strategy, Structure and Process* in 1978 with the purpose to explain why different organisations react to environmental changes in different ways. They suggested a typology consisting of four types of organisations, each with its own way of adapting to environmental changes (Miles & Snow 1978: 30).

*Defenders* are organisations which are producing a limited set of products directed at a narrow segment of the market. Their most important strategic
question is how to produce and distribute goods and services as efficiently as possible. The management team of the Defender is usually dominated by production and cost-control specialists and has little or no expertise focused on scanning the environment for new product or market opportunities. Since these firms have chosen this organisational structure, their greatest risk is that of being unable to respond to a major shift in their environment. Consequently, the Defender strategy and structure is most viable in stable industries, such as mining or food-processing. (Miles & Snow 1978; Miles, Snow, Meyer & Coleman 1978)

Prospectors are organisations which in many respects are the opposite of the Defenders. Their prime capability is that of finding and exploiting new product and market opportunities. The Prospectors domain of markets and products is usually broad and in a continuous state of development. They are frequently the creators of change in their industries, and change and innovation is often a major tool in gaining an edge over their competitors. For Prospectors, the reputation as an innovator is as important, perhaps even more important than, high profitability. In fact, because of this prioritization and the inevitable “failure rate” associated with sustained product and market innovation, Prospectors may find it difficult to consistently reach the profit levels of the more efficient Defenders. (ibid)

While Defenders and Prospectors reside at opposite ends of a continuum of adaptation strategies, the Analyser is the balanced combination of the two extremes. A true Analyser is an organisation that attempts to minimise risk while maximising the opportunity for profit. To achieve this aim, Analysers usually operate in several product-market domains, one relatively stable, the other changing. In their stable areas, these organisations operate routinely and efficiently through use of formalized structures and processes. In their more turbulent areas, top managers watch their competitors closely for new ideas, and then rapidly adopt those which appear to be the most promising. (ibid)

The fourth type, the Reactor, is not really an adaptation strategy, but rather the lack thereof. An organisation of this type acts inconsistently and seldom makes adjustments of any sort until it is absolutely forced to do so by environmental pressures. Unless the organisation is operating in a monopolistic or highly regulated industry, it cannot continue to behave as a Reactor indefinitely. Sooner or later, it must move toward one of the consistent and stable strategies of Defender, Analyser, or Prospector. (ibid)

Previously in this text, the copyright industries have been described as volatile and chaotic. Based on that observation combined with the reasoning of
Miles and Snow, it is possible to argue that in the copyright industries, the ‘Prospector-like’ firm has a much greater sustainability than the ‘Defender-like’ firm.

**Strategy development as organisational learning**

Miles and Snow explore how organisations use different strategies to adapt to a changing environment. Adaptation requires learning (e.g. Mintzberg 1987; Senge 1990; Sterman 1994). The firm has to learn about the environment, assess the acquired information, decide how to act on it, put those actions in practice; observe the effects on the environment; again assess the new information; and so on. The concept of strategic learning has already indirectly been touched upon when discussing Mintzberg’s framework of emergent strategies. The strategy that emerges due to ‘new insights’ and becomes a part of the realized strategy can be seen as a result of a learning process (Mintzberg & Waters 1985; Mintzberg 1987). Strategy formation should according to this school of thought be considered as a process of organisational learning rather than one of conception and design (Mintzberg 1990). Several scholars have contributed to the field of organisational learning, for instance Chris Argyris (e.g. 1977; 1990), Donald Schön (1978 (with Argyris); 1983), Henry Mintzberg (1987), Peter Senge (1990), John Sterman (1994) to name but a few.

*Figure 2.3: Learning as a feedback process (Sterman 1994: 293).*

Learning can be understood as a feedback process. Either by using the cumbersome phrase in the previous paragraph or a formal model such as the
The firm’s decision makers analyse this information and make decisions in order to influence the real world in a certain way. However, the model is not totally complete since it is not only information regarding the firm’s environment that affects what decisions are made. Decisions are primarily made in order to achieve certain goals and are governed by existing strategic plans, the structure of the firm, etc. (Sterman 1994: 293)

The firm’s strategy and structure is based on the decision makers’ perceptions and understanding of the real world; their cognitive or mental models of the environment. Mental models may be unique to a person or shared among many. They may be relatively correct representations of reality, or they may be totally flawed. The mental models may be surfaced or hidden in the id. Regardless, every decision made by an organisation (or an individual) are governed by their mental models. (E.g. Forrester 1961; Miles & Snow 1978: 20-1; Norman 1983; Senge 1990; Sterman 1994: 294)

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The concept of “structure” will be further developed later in the text, but for now, it may be considered as constituted by organisational structure, resources, capabilities, routines, etc.
Figure 2.4 illustrates a situation where decisions are made, and the firm is moving closer to its goals, but the mental models, the firm’s worldview, remains unchanged. This is what Argyris (1985) labels ‘single-loop learning’, and it might work just fine as long as the environment is stable and the firm’s current mental models are reasonably correct. However, if a firm’s environment is not stable, but rapidly changing, the organisational learning has to go deeper than single-loop learning. The firm has to challenge and revise their mental models in order to be able to adjust their strategy and structure to match the new environmental conditions. This process is called ‘double-loop learning’ (Argyris 1985) and is illustrated by Figure 2.5. Many scholars are referring to organisational learning in similar dichotomies; for instance ‘short-term and long-term learning’ (Cyert & March 1992 [1963]) or ‘adaptive and generative learning’ (Senge 1990).

By linking the concepts of organisational learning to the Miles & Snow typology it is possible to argue that the Prospector requires an efficient double-loop learning process to be able to survive and prosper while more Defender-like firms are not in the same dire need. A parallel reasoning would be that the copyright firm requires an efficient double-loop learning to survive in the chaotic and volatile environment of the copyright industries. However, many impediments make learning difficult. Sterman (1994) identifies some of these
‘learning impediments’. First and foremost, the real world is an ambiguous, complex and chaotic place. There are severe time delays between cause and effect which make it difficult to understand what is truly generating the observed behaviour. For instance the ‘length of time between an artist signing a recording contract and the subsequent recordings, videos and promotional material being released [i, may] be anything between six months and two years’ (Negus 1996: 49). Second, the information feedback from this real world is often limited, biased, filtered and distorted. Third, when the information challenges mental models, it is common to react with defensive routines in order to for instance save face or assert dominance over others (Argyris & Schön 1978). Fourth, it is difficult to transfer mental models into explicit strategies and appropriate structures. The final learning impediment discussed by Sterman concerns how the implementation of decisions fails due to for instance asymmetric information or private agendas. (Sterman 1994)

The copyright industries have been described with words such as ‘chaotic’, ‘uncertain’, ‘complex’, and ‘continuously inexorably changing’. This makes the answer to the question ‘what is strategy’ in relation to the copyright industries, to focus on the firms’ ability to adapt to their environment (e.g. Hax & Wilde 1999; Sterman 1994). The concepts of organisational learning show that it is vital to the copyright firm to understand the learning impediments, and to minimise their hampering effect on the organisation’s behaviour and performance.

☆☆☆☆

This chapter has presented the production of culture perspective and the concepts of evolutionary economics. Definitions of the music industry and the copyright industries have been discussed and some important characteristics of these industries have been introduced. This has been followed by the presentation of a number of theories and concepts which are useful in the forthcoming model development. First, the concept of the firm and the importance of profit maximisation were discussed. This was followed by the presentation of a model to analyse the firm’s competitive environment. Finally, fundamental concepts of strategy were discussed, with a particular focus on dynamic, or adaptive, strategies. The two main theoretical bodies in this area were the Miles and Snow typology and the concepts of organisational learning.
The next chapter will continue the contextualisation of the study by narrowing the focus from the copyright industries in general to the specific conditions which is characterising the music industry.
The previous chapter introduced a number of concepts, models and terms that are useful when analysing copyright industry dynamics. This chapter is based on these concepts, but is focused on the specific structure and dynamics of the music industry. First, a set of music industry models will be presented and their contribution to the understanding of music industry dynamics will be examined. Second, a number of important themes in the previous research on music industry dynamics will be discussed.

3.1 Linear music industry models

This section will present five models describing music industry structure and dynamics (Burnett & Weber 1989; Hirsch 1970; Leyshon 2001; Tuomola 2004; Wallis 2004). All of them, to a varying degree, rest on the same linear structure as the value chains discussed in the previous chapter. The presentation of the models is ordered according to the level of linearity of the structures. In other words, the first model presented (Hirsch 1970) is more linear than the last (Burnett & Weber 1989).

The popular music industry model

The purpose of the first model, presented by the sociologist Paul Hirsch in 1970, is to explain how music becomes popular. When Hirsch published his model he did not use the term value chain, but it is a linear structure illustrating a number of sequential activities which support and add value to the core product, the audio recording. Hirsch’s model describes that part of the music
industry which traditionally is referred to as the ‘top 40 music industry’. The top 40 format was invented in the US during the 1950s when the new TV medium forced the radio medium to change its programming (e.g. Thorburn & Jenkins 2003). A radio station which follows this format plays the 40 most popular songs during a certain week. ‘Most popular’ is in this case equal to the records which have sold the most during the week. Still to this day, similar formats are used by most commercial mainstream radio stations. ‘Top 40’ is today referred to as Contemporary Hit Radio (CHR) and is but one of many different radio formats. Other formats are for instance Classic Rock, Country, Urban, Adult Contemporary (AC), News/Talk, Oldies, Modern Rock, Classical, and Smooth Jazz.

The record labels, which are producing music aimed for the ‘top 40 music industry’ is heavily dependent on the commercial radio stations for the promotion of their artists and music. Hirsch recognized the close relationship between the two copyright industries: ‘The record and radio industry have grown up together and live in a symbiotic relationship. Each plays an important role in the dissemination and popularization of culture; both have affected its form and its direction. Although mutually dependent organisations, their goals vary, and oftimes conflict.’ (Hirsch 1970: 10) This relationship is clearly illustrated by the Figure 3.1 where the ‘pop music industry’ is mapped to the Preselection system framework20.

A great amount of ‘filtering’ takes place at each of the stages of the Preselection system. It is only a small fraction of all artists that ever are able to even meet an A&R agent, and only very few out of all the acts an A&R agent ever listen to get the attention of the record executive, etc. Eventually only one artist “in a million” will be heard by the mainstream audience on commercial radio stations.

20 The Preselection system framework is discussed on page 38.
Hirsch has identified four subsystems within the music industry, which the artist has to pass to be able to reach the final subsystem, the audience. Below, Hirsch’s understanding of these four subsystems will be briefly presented.

The first subsystem is the creative sector, including the artist, the producer and the A&R agent. Hirsch states that:

…the success of every performing artist is closely tied to the number of his records that come to the attention of
and are purchased by the public. Records are the means by which an artist gains or enlarges his popular following. (Hirsch 1970: 25)

The A&R (Artist & Repertoire) agent is the first strategic checkpoint in the Preselection process which eventually may take the artist all the way to commercial success. The agents have a crucial job since they are the ones who shall find new talents with artistic as well as commercial potential. It is critical to each record company to continuously find new talents since the life of a ‘hit’ record is only from 60 to 120 days. ‘Replacements are needed for those items currently on the “charts”. The unknown artist and the companies each share a vital interest in his discovery and success, for the hit record industry is based on the fads of the moment. The styles in vogue change rapidly and unpredictably.’ (Hirsch 1970: 25)

The second subsystem is the record company. When an artist has been discovered by an A&R agent, the next step is to meet the record company policymakers. These men and women have the task to select from the output of the creative subsystem the records which are to be released. (Hirsch 1970: 31)

Hirsch notes that ‘…while the decision to release a record is theirs, policymakers have little control over the media, little power to ensure the exposure of a particular release. Record companies’ promotion of some artists at the expense of others (all under contract to them) is in large part an attempt to structure the ambiguity of this situation.’ (Hirsch 1970: 33)

Promoters and distributors constitute the third subsystem. The function of this subsystem is to filter the output from policymakers at the record companies. In the scenario described by Hirsch, there are far more record companies than there are promoters. In such a situation, the promoters add value to the process by selecting the songs which they expect to have the best chance for commercial success.

The final subsystem is labelled gatekeepers and is constituted by radio stations and other media outlets. The interdependence between gatekeepers and record companies has already been mentioned in the text. Hirsch adds to the description of this symbiotic relationship by claiming that ‘…radio airplay\textsuperscript{21} for

\textsuperscript{21} Airplay is a technical term used in the radio industry to state how frequently a song is being played on a radio station. For example, a song which is being played several times everyday would be classed as receiving a large amount of airplay. The term is also used in the same way regarding music video channels, to state how often a music video is being played.
a new record is almost always a prerequisite for its sale.’ (Hirsch 1970: 9) However, only very few out of all the albums released are able to get into gatekeepers’ playlists. Hirsch continues:

Radio station managements demand high audience ratings, for the rates charged advertising sponsors (i.e. the station’s income) are based solely on the number of listeners the station can “deliver”. Advertising agencies place ads with radio stations according to the “cost per thousand” listeners. The fierce competition between stations requires that the program director successfully select a group of records that will appeal to the widest possible audience. (Hirsch 1970: 61)

Consequently, ‘the record promoter […] must operate within the context of the station programmer’s quest for certainty. The program director is constantly on the lookout for advance intelligence regarding the “hit” potential of every record he selects for airplay’ (Hirsch 1970: 56). The record promoter tries to address this request by providing sales figures to demonstrate his records’ popularity.

The Pop Music Industry model was the fruition of one of the first attempts to explore the music industry. Though it has been criticised and supplanted by newer and more useful models, it still is able to encapsulate important aspects of the workings of the mainstream music industry.

Copyright and the composer

Value chain models are often used to explain a process known as disintermediation. Disintermediation is the removal of one or more components in a value chain without reducing the value delivered to the consumer. During the “dot-com hype” this process was expected to take place in several industries since new technologies make it possible to link producers closer to consumers without the need of a whole range of middlemen. However, the process is usually more complicated than this one-way disintermediation. While some intermediaries may be removed, other, new intermediaries are introduced. Such a general process of value chain transformation is usually referred to as reintermediation. (E.g. Rahman & Bignell 2001)
The model (Figure 3.2) presented by Wallis is a good example of such a value chain. The model differs from Hirsch’s in two ways. First and foremost, Wallis’ model is focused on the composer rather than the performer. The composer creates the work and usually signs an agreement with a publisher. The role of the publisher is to administrate and promote the composer’s song. In Wallis’ value chain, the only possibility is to have the song picked up by a record company’s A&R department and subsequently recorded by an artist. There are of course other opportunities and revenue sources available to the composer. These are recognised by Wallis, but left out of the graphical representation. Second, the relationship with the media which is illustrated by Hirsch’s model has not been taken into the illustration. (Wallis 2004)

![Figure 3.2: A traditional music industry value chain (Wallis 2004: 105).](image)

Wallis discusses whether the ‘disintermediation vision’ where all intermediaries between production and consumption are removed is realistic. Wallis makes the same conclusion as most analysts of value chains; he notes that though the digital technologies enable a shortening of the value chain, the change is in practice ‘remarkably sluggish’ (Wallis 2004: 109).

**Virtual distribution**

Another linear music industry value chain model used to illustrate processes of disintermediation and reintermediation is presented by Tuomola (2004). Tuomola creates his model by combining Leyshon’s (2001) musical network model (discussed below) with Picard’s (2002) value chain model. The model,
which also builds on a multimedia industry value chain model developed by Wirtz (1999), describes a music industry where the distribution is virtual rather than physical (Figure 3.3).

![Figure 3.3: The “enhanced” value chain and musical networks (Tuomola 2004: 33).](image)

The first three components of the model are similar to the first two components in Picard’s (2002) model. The fourth component stems from Wirtz’s (1999) ‘multimedia model’ and includes services such as billing or secure transaction management. ‘Access/connecting’ is the activity provided by infrastructure companies such as broadband operators and Internet service providers. The sixth component, ‘Navigation/interfaces’ is the activity which allows the consumers to browse and find the song they are looking for. Several actors are involved in this activity. The computer’s operating system (e.g. Apple OS or Microsoft Windows22), the browser software (e.g. Mozilla Firefox or Microsoft Explorer23), and the actual music software (legitimate systems, for instance Apple iTunes or Real Rhapsody24, or more controversial technologies such as LimeWire, iMesh, BitTorrent, or Direct Connect25).

Tuomola’s model (2004) is indeed updated and ‘reintermediated’ in comparison to more traditional popular music industry models (e.g. Wallis

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In Tuomola’s model, marketing activities are for instance not nicely placed as one of the components, at the end of the chain; rather, marketing is an integral part of several components along the chain. Aggregation of the content, Distribution of the content as well as ‘Navigation/interfacing’ can all be considered as promotional activities.

Musical ‘networks’

Leyshon recognises that ‘the music economy consists of a series of sequential processes’ (Leyshon 2001: 57). Building on this understanding, Leyshon presents a music industry model based on Attali (1985) and Scott (1999). The model is constituted by four ‘musical networks’ which ‘possess distinctive but overlapping functions, temporalities, and geographies’ (Leyshon 2001: 60). The first network is one of creativity. The second is a network of reproduction, the third is distribution and the last is a network of consumption (Figure 3.4). Although Leyshon uses the terms ‘network’, it is actually only the creativity network that has a “network-like” structure. The other parts of the model have a relatively linear structure, which makes it possible to categorise Leyshon’s model as a fairly traditional value chain model.

Figure 3.4: Musical networks (Leyshon 2001: 61).
The model begins with the network of creativity where music is created, performed and recorded. This network gravitates around the contractual relationship between the artist and the record company. Leyshon explains this as the core of the music industry where functions such as artists, producers, studio musicians, sound engineers, musical instruments and supplies, song writing, artist management, legal services, performance venues, recording studios and recording companies are found (Leyshon 2001). Hence, this understanding of the creative network is based on a wider definition of the music industry than the one used in this study.

In the network of reproduction, Leyshon primarily includes the manufacturing of CDs and other forms of physical carriers. Economy of scale is of greater importance in this network compared to the previous one. In the network of creativity, small entities, sometimes even single individuals are able to generate creative products with professional technical quality. In the network of reproduction, a single manufacturing plant normally serves a large market, such as UK, Japan, USA, or continental Europe. Leyshon also includes music publishing in the network of reproduction. A music publisher's business concept is to control an intellectual property portfolio, and to license songs from this portfolio to various clients. The client can for instance be an artist who wants to use a (part of a) song in a recording or performance of her own. The client can also be in need of background music in a TV commercial, or some other kind of video production. (Leyshon 2001)

Being a geographer, Leyshon puts lots of emphasis on the spatial issues of the music industry. Consequently, in the networks termed ‘distribution’ and ‘consumption’, where he includes physical promotion, distribution, retail stores and consumers, he is more interested in how the CDs are moved from one place to another than how the music firms are able to raise the consumer’s awareness of a certain project. This stands in stark contrast to for instance the model presented by Hirsch which is focused on the promotion and marketing of music rather than how the physical product is transported from the manufacturing site to the consumers. (Leyshon 2001)

Loosely coupled systems model

The last model to be described in this section is the ‘loosely coupled systems model’ suggested by Burnett and Weber (1989). The Burnett & Weber model
consists of the same components as the other models, but the structure is somewhat different. The model is not a linear structure describing how consumer value is created, but rather how different activities or institutions in the industry are related (Burnett & Weber 1989). The model is structured as two loosely connected systems of production and consumption (Figure 3.5). The aggregate behaviour of each system only weakly influences the behaviour of the other. As a contrast, the relations among record producers, trade press, artists are strong, and in a similar way, consumers actively interact among themselves and with media when developing their musical tastes and consumer behaviours.

Figure 3.5: Production/consumption systems of Popular Music (Burnett & Weber 1989).
Concluding remarks on the music industry models

The five models emphasise different aspects of the music industry:

- Hirsch – Filtering and promotion
- Wallis – Copyright and the composer
- Tuomola – Virtual distribution
- Leyshon – Geography and distribution
- Burnett & Weber – The interplay between production and consumption

Although they are using different perspectives, the structures of the models are all more or less linear in their character. There are also other structural similarities between the models. First, the models’ components are almost exclusively institutions, roles, or activities. Sometimes, an activity may refer to the institution carrying out the activity, and sometimes vice versa. Second, the meaning of links between components varies. In general, an arrow from component A to B indicates that A has some kind of influence on B. Except in the case of the value chains, where the links denote a chronological order of the activities performed, the character of the links’ influence is rarely explicitly defined.

An important question to answer is whether the models and the graphical representations presented above are able to add to the understanding of the music industry. According to Sterman (2002), ‘all models are wrong’, and by definition, all models are, in the sense that they always present a simplified reality where some aspects have been taken out in order to increase simplicity and readability. However, the relevant question is not whether a model is right or wrong but rather how useful the model is in a certain context. Think about the difference between the tourist map and the military map representing the same area. They are both wrong, and their value is determined only by how useful they are to the tourist and the military when travelling the area.

The five models above are all analytical tools which are useful when examining different aspects of the music industry. The five models may all be ‘wrong’, but nevertheless they are useful in concert. As pieces of a puzzle, all five models are valuable contributions to a comprehensive understanding of the complex structures, logic and dynamics of the traditional music industry. The Music Industry Feedback Model, suggested by this study, builds on the
knowledge conceptualised by these five models, and aims to make yet another
contribution to this puzzle.

The five models presented above are all the outcome of a number of
previous research initiatives focused on music industry dynamics. In the section
below, additional research initiatives with a similar purpose will be presented
and discussed.

3.2 Previous research on music industry dynamics

Industry dynamics research initiatives typically start with the observation of
some kind of change. The change may be new products or genres, change of
consumer behaviour, technology changes, regulatory changes, change in
aggregate sales, change in financial performance, change in organisational or
industry structures, change in (production-/distribution-/marketing-) routines,
etc. The purpose of the research initiative is then to gain more knowledge about
this change. Possibly to be able to understand or explain why the change has
occurred or how a change might influence some aspect of the industry. The
concept of change is intrinsically associated with the concept of time, and when
exploring change, the object of study has to be set in a historical context.
Questions of causality are also by definition important in these studies.
However, the complexity of economic and social systems often makes such
tries very difficult, sometimes even impossible. This is noted by Peterson
who considers his production perspective as a ‘retreat from confronting the
unanswerable questions about the causal links between society and culture’
(Peterson 1994: 185). Miles and Snow have also reflected on the difficulty of
examining these dynamic processes: ‘Any attempt to examine organisational
adaptation is difficult since the process is both highly complex and changeable’
(Miles & Snow 1978: 4).

Though the task is difficult, a considerable number of research initiatives
with the purpose to explain music industry dynamics have been launched. In
this and the previous chapter several of these initiatives have already been
touched upon, but in this section, a number of significant research themes from
the 1970s and onwards will be discussed. Do note that the review is focused on
research within the social sciences solely and that it is far from complete.

One way to structure a review is by level of aggregation, in other words
whether the research initiative is focused on individuals in the music industry;
on intra-organisational issues; or on inter-organisational issues. Some initiatives
approach their research question from multiple levels of aggregation, but often it is possible to place an initiative in one of the categories. It is also possible to link the levels of aggregation to the facets in the production of culture perspective which are most relevant (Table 3.1).

<table>
<thead>
<tr>
<th>Level of aggregation</th>
<th>Related facets</th>
</tr>
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<tr>
<td>Individual level</td>
<td>Occupational career</td>
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<tr>
<td>Intra-organisational level</td>
<td>Organisational structure</td>
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<tr>
<td>Inter-organisational level</td>
<td>Market</td>
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<td>Law</td>
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<td></td>
<td>Industry structure</td>
</tr>
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Table 3.1: Levels of aggregation and the facets of the production of culture perspective.

**Research on individuals and roles**

Research on the first level has been discussed earlier when referring to Kealy (1982) and his analysis of the development of the role as ‘studio engineer’. Another example of research in the same alley is Ryan and Peterson’s analysis of the development of the singer-songwriter during 1960s (Ryan & Peterson 1982). Toynbee (2000) is yet another scholar who followed this tradition by exploring the role of the musician in an industrial context.

**Research on intra-organisational issues**

Research on the intra-organisational level often also touch upon issues on both lower and higher levels of aggregation. One such example is the concentration-diversity issue (discussed later in this section) which is both an inter- and intra-organisational issue. Negus has pursued a number of research projects on the intra-organisational level, for instance one project with a particular focus on the A&R process (1992). This research might as well be considered as research on individuals or specific roles in the companies, as the analysis ranges between issues of strategy and organisational structures to issues of individuals’ reasoning and routines. Negus has continued on this path and has explored
how corporate cultures influence the personalities created and musical content produced (Negus 1999).

Research on inter-organisational issues

It is not particularly surprising that research on music industry dynamics most often is positioned on an inter-organisational level. Research on the music industry’s interplay with other copyright industries; how governmental policy and copyright law regulate cultural production; effects caused by technological development; issues related to geography; etc, all fall into this category. This study is also positioned on the inter-organisational level, although some intra-organisational excursions occasionally are made.

Simon Frith, perhaps the most prolific writer on popular music and its industry, has published several works on inter-organisational issues (e.g. 1978; 1981; 1988; 1998). Frith often uses a cultural studies approach with a strong focus on the meaning and value of popular culture, but he also makes profound analyses of the evolution of the industry in general.

A number of research initiatives on the inter-organisational level will be discussed below. In order to introduce some kind of structure, the initiatives will be presented as four distinctive themes: Governmental regulations; Concentration and diversity; Cluster dynamics; and Online copyright infringement and physical sales.

Governmental regulations

The research theme concerned with how governments should formulate media and copyright regulations in order to create the ‘best’ cultural landscape has a long history in the social sciences. Usually, ‘best’ is equal to a high level of diversity and sometimes also the protection of a ‘national cultural heritage’ from globalisation and commercialisation (e.g. McQuail 2005: 192).

The media researcher Roger Wallis has explored how the music industry is affected by governments’ media regulations. Together with various co-writers, Wallis has published several articles and books on the subject (Kretchmer, Klimis & Wallis 2001; Malm & Wallis 1992; Wallis 1990; Wallis & Malm 1984). As a chair of the Swedish Association of Popular Music Composers (SKAP), Wallis is also heavily involved in the development of royalty collection societies.
Wallis has touched on the role of these societies in several articles, for instance in (Wallis, Baden-Fuller, Kretchmer & Klimis 1998) and in (Wallis 2004).

Another policy related issue which has become more and more acute during the last twenty years or so is the question of copyright law and the music industry. As Brand (1987) forecasted, digital technologies have made it difficult to control the circulation of information. Governments have reacted to this development by tightening intellectual property laws, which in turn has hampered the recycling aspects of creativity. The relation between copyright, creativity, technology and culture has been discussed by several scholars for instance, Bennett, Frith, Grossberg, Shepherd & Turner (1993), Frith & Marshall (2004), Lessig (1999; 2001; 2004), Negus & Pickering (2004), and Towse (2001; 2002).

**Concentration and diversity**

Social scientists have long been interested in the question of what fosters and what limits cultural diversity. The issue has also been important within copyright industry dynamics research. Before the excursion among these research initiatives sets out, a few words on the meaning and relation between the words creativity, innovation, and diversity, are required. These words will be used as follows: A high level of creativity (or highly creative people) is able to generate innovations, or novelties. The relationship can also be turned around: People or organisations which generate innovations are creative. If this creative process is allowed to go on for some time, there will be many innovations or novelties, which by definition will be different from each other. Consequently, a high level of diversity is established.

A seminal contribution to the discussion on what determines diversity in the copyright industries is Richard Peterson’s and David Berger’s article *Cycles in Symbol production* (1975). In their article, Peterson and Berger linked the level of concentration in the market to the level of creativity and product diversity. Their hypothesis was that ‘increased competition among music producers should make for a greater diversity of product [and vice versa]’ (Peterson & Berger 1975: 165). They also assumed that an ‘oligopolist strives for that product which pleases the most without offending any major group of consumers, [a] process [which] makes for a homogeneity of product’ (Peterson & Berger 1975: 159).
Peterson & Berger tested their hypothesis by using data from Billboard magazine’s Weekly Top Ten Single Chart. By calculating the number of songs that different music companies were able to chart during a year and by adding up the market share of the four dominating firms, they were able to establish a ‘concentration ratio’ which indicated the level of concentration in the industry during a particular year. The ‘diversity’ during a particular period was defined as the number of artists or songs reaching the top ten positions of the chart during the period. (Peterson & Berger 1975)

When analysing the data, Peterson and Berger were able to confirm their hypotheses. They showed that the higher the concentration is in the industry, the lower is the level of diversity. They were also able to establish that the variables were cyclical in their nature. Longer periods of high concentration and low diversity were followed by ‘a brief burst of competition and creativity’ (Peterson & Berger 1975: 170). Later, this cyclical model has been supported by for instance DiMaggio (1977) and Nord (1980) who extended its validity into other copyright industries, and by Rothenbuhler and Dimmick (1982) who extended its validity in time.

The cyclical model was not challenged until Burnett (1990) extended the analysis to the period between 1981 and 1989. During the 1980s, the level of industry concentration increased, which according to the cyclical model should lead to a lower level of diversity. However, contrary to the established model, Burnett found that diversity remained at a high level in spite of the increased level of concentration (Burnett 1990).

Burnett explained this new situation as caused by the major companies’ symbiotic relationship with smaller ‘independent’ music companies. Since the early days of the music industry the independents have been developing new artists while the majors used their size and resources for international marketing and distribution of the successful acts. What was new was the fact that the majors created the same fruitful organisational structure by establishing semi-independent or in-house labels, operating almost like ‘true’, competing, independent companies. In this way, the majors were able to control a significant part of the market, while they also were able to emulate competition which maintained innovation and diversity on a relatively high level. (Burnett 1990)

Other scholars have later added to this body of knowledge and supported the findings introduced by Burnett (e.g. Christianen 1995; Dowd 2000; Lee 2004; Lopes 1992; 2002). Dowd (2004) has also extended the reasoning to other media industries and has been able to show that decentralized production of
culture leads to high levels of cultural diversity while centralized production leads to the opposite.

**Cluster dynamics**

Michael Porter has in a number of significant works (e.g. 1990; 1991) explained how the success of companies is influenced by geographical conditions. Porter based his conclusions on the analysis of a number of industrial clusters around the world, among others the automotive cluster in the south-west of Sweden. The conclusions from this research were packaged as yet another Porter model, this time branded the ‘Diamond’ (Porter 1990). The Diamond summarises a number of factors which determine whether a certain geographical area is good for business or not. Porter concluded that the factors in the Diamond model constitute a dynamic system. The system requires considerable time to develop, but if the circumstances are right, a reinforcing feedback loop may be established which may create considerable competitive advantages. The model has been used by economic geographers in the analysis of various national and regional economies. It has also been used to analyse the copyright industries linked to such regions. Hallencreutz (2002) and Power (2002; 2003) have been influenced by Porter’s thinking about regions as dynamic systems and have applied the model to the Nordic music industries (Hallencreutz 2002; Power 2003) and to Swedish copyright industries in general (Power 2002).

**Online copyright infringement and physical sales**

The development of Internet based technologies which enable massive music distribution beyond the control of the copyright holders has turned the attention to a very specific research question. The question is whether the copyright infringement which is enabled by these technologies (“online piracy”) is (A) hurting or (B) improving CD sales. The first argument (A) goes as follows: Digital technologies enable consumers to acquire music without paying for the products. This has caused consumers to reduce their CD purchases and

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26 These technologies are primarily various peer-to-peer (P2P) networks, but also various online communities and instant messaging services. The present work is not focused on the details of these technologies per se, but a short review of peer-to-peer networking technologies is given in section 7.3 on page 143.
turn to illegal methods of acquiring music. According to the second argument (B), Internet based technologies make music more accessible to the audience. This will have a positive effect on consumers’ interest in music, and though some music may be illegally acquired, the aggregated effect from these activities on music industry revenues is positive.

Several scholars, research companies and lobby organisations have contributed to the debate. Research on US consumers show a negative relationship between files downloaded and CDs purchased (Edison Media Research 2003; Ipsos-Reid 2002). Research made on European consumers also shows that the impact of online piracy on sales is negative. Forrester Research concluded that more than 40 percent of frequent ‘downloaders’ buy less music now than they did before they began downloading. Indeed, 2 percent of the ‘downloaders’ say they bought more CDs after started downloading, but that is in no way able to balance the loss (Forrester Research 2003). Enders Analysis (2003) joins the choir by stating that online piracy ‘cost about 35-40 percent of the reduction in the size of the global music market’.

The conclusion from these research report indicates that there are other factors influencing CD sales, besides the emergence of specific Internet technologies. This conclusion is supported by several scholars, for instance by Liebowitz (2002a; 2002b) who points to the overall state of the economy and Wikström (2005) who points to changes among the broadcast media and music firms’ revised A&R strategies. Some scholars go as far as to argue that the effect of the Internet technologies on CD sales ‘is statistically indistinguishable from zero’ (Oberholzer & Strumpf 2005).

The time has not yet arrived when it is possible to close the debate. After analysing a number of research reports, Blomqvist, Eriksson, Findahl, Selg and Wallis (2005) concludes that ‘there is no clear picture of the effects of [online piracy] on the sales of CD music records’ (2005: 80). The OECD (2005b) agrees by saying that ‘it is very difficult to establish a basis to prove a causal relationship between the size of the drop in music sales and the rise of [online piracy]’ (2005b: 11).

Though the jury is still out, the bulk of the reports presented since the turn of the century indicate that the impact of online piracy on CD sales is negative rather than anything else. However, the exact size of that impact, measured as a percentage of total change, will probably never be determinable.
This chapter has described the workings of the music industry by presenting models which all add to the current understanding of music industry dynamics. The five models presented have all served as important input during the development of the model suggested by this study.

The chapter has also provided a review of a number of research initiatives focused on music industry dynamics. The review is by no means complete, but it gives a glimpse of significant and relevant research initiatives made by social scientists during the last three decades.

The next chapter will leave the music industry temporarily and will instead introduce an approach for modelling complex and dynamic phenomena, such as the music industry. The modelling approach is called qualitative system dynamics and is used by this study to develop the Music Industry Feedback Model which will be defined in chapter 6.
Modelling complex dynamic systems

One of the issues discussed in the previous chapter, was the value of using models as an analytical tool when examining complex phenomena, such as the music industry dynamics. A number of linear models were presented which all, from different perspectives, contribute to a comprehensive understanding of the music industry. One aim of this study is to add to this body of knowledge by building and using a new kind of music industry model. That model will be defined in chapter 6, but in this chapter, the modelling approach used to create the new model will be introduced. The approach is called qualitative system dynamics and is a subset of system dynamics as presented by Forrester in 1961, with important predecessors in Allen (1955; 1963), Cooper (1951), Philips (1950; 1954), Simon (1947; 1952; 1954; 1957; 1962; 1979), Tustin (1953) and others. Scholars previously mentioned in relation to the discussion on modern evolutionary economics (e.g. Boulding 1968; 1978; 1981; Myrdal 1956 and Radzicki 1990; 2005) have also used concepts related to system dynamics in their work.

System dynamics has an impressive record when it comes to explaining complex dynamic phenomena. The approach has been successfully applied to such a wide range of topics as:

…the dynamics of regional planning, research and development, urban stagnation and decay, commodity cycles, problems of growth in a finite world, economic development, economic fluctuations, community drug policy, human services delivery, energy lifecycles and transitions, dynamics and management of ecosystems, and various corporate policy studies. (Richardson 1991: 296)
System dynamics modelling is primarily an approach how to build a certain kind of models. However, the approach is based on a worldview which often is structured as a number of propositions. This chapter will initially present and discuss four of these propositions in the sections 4.1 to 4.4. Then, the discussion will gradually move closer to methodological issues in the remaining sections, 4.5 to 4.8. Chapter 5 will continue on that route as it is exclusively dedicated to the methodological aspects of this study.

4.1 Events as emergent properties

Proposition #1: Events emerge from an underlying structure

When we experience reality, we experience it as a number of, often isolated, events. When trying to explain why a certain undesirable event (A) has occurred, we look for some other event (B) which can serve as a reasonable explanation. By addressing B we hope to be able to have an effect on A. In contrast; system dynamics argue that no causal relationships can be established between two separate events. Instead, one has to look beneath the events and try to unveil the structure that is generating the problem behaviour. This structure is constituted by (1) a set of relevant objects (tangible as well as intangible, measurable as well as immeasurable); (2) the nature of these objects and (3) the causal relationships between them. Instead of looking for a scapegoat as the cause of an event, one should try to change the structure which is generating the behaviour as well as the undesirable event (Figure 4.1). (E.g. Forrester 1976 [1968]; Richardson 1991; Senge 1990)

This understanding of the world as divided into discrete strata, is generally known as emergentism and was developed by Alexander (1920), Broad (1968 [1925]), Lewes (1874-79), Mill (1856), and Morgan (1923) among others. The events and the patterns of behaviour discussed in the previous paragraph are examples of emergent properties. Emergent properties are generally defined as ‘properties that “arise” out of more fundamental entities and yet are “novel” or “irreducible” with respect to them’ (O’Connor & Wong 2005).
System dynamics is not the only framework using the concepts of emergentism. For instance, important aspects of contemporary critical realism (Bhaskar 1978 [1975]) are based on an analogous philosophical framework. Other examples are General systems theory (e.g. von Bertalanffy 1945), Cybernetics (e.g. Wiener 1948), Chaos theory (e.g. Lorenz 1989), and Complexity theory (e.g. Gell-Mann 1992; Holland 1995; 1998).

4.2 Open dynamic systems

Proposition #2: Structures are best understood as systems

As the name implies, system dynamics assumes that structures that are causing the patterns of behaviour is best understood as systems (e.g. von Bertalanffy 1945; Wiener 1948). System is a commonly used word, and it has already been used in this text numerous times, but without a proper definition. I choose to use a definition of the word as ‘a group of interacting, interrelated, or interdependent components that form a complex and unified whole’ (e.g. Anderson & Johnson 1997: 2; Sterman 1991: 211). This interrelatedness of systems makes them very difficult to understand if they are examined one component, or one interconnection at a time. To be able to truly understand the nature of a system, and its emergent properties, one has to consider all components and all interconnections, simultaneously. In other words, a holistic rather than analytic approach has to be applied.

A system’s parts must all be present, and must all be arranged in a specific way for the system to carry out its intended purpose. ‘Remove a cashew from a
bowl of mixed nuts, you will have fewer nuts, but you have not changed the nature of the collection of components. Therefore, a bowl of nuts is not a system.’ (Anderson & Johnson 1997: 3) However, if a music firm hires (or looses) a talented employee, the structure, as well as the behaviour, of the company will change. Hence, the music firm is a system. More specifically, the music firm is a dynamic system; that is to say a system with properties that change over time.

Systems have a boundary which separates its internal structure from the environment, or endogenous variables from exogenous variables. Open systems allow resources, influences, etc, to pass through this boundary while closed systems are completely self-contained. A closed system has in other words no exchange with its environment, and everything that happens within the system is explained by the nature of the system itself. The second law of thermodynamics explains that the disorder, or entropy, of a closed system tend to increase over time. When this principle is applied to biological, social or economic systems it implies that any organism, organisation, society, etc, is bound to die if it does not receive resources or influences from its environment (e.g. Boulding 1966). Since most societal and economic systems do exchange resources and information with its environment, they are by definition open.

4.3 Feedback loops

*Proposition #3: Feedback loops are the basic structures of systems*

The concept of feedback loops has been fundamental to system dynamics modelling since its very beginning:

Systems of information feedback control are fundamental to all life and human endeavor, from the slow pace of biological evolution to the launching of the latest satellite. A feedback control system exists whenever the environment causes a decision which in turn affects the original environment. (Forrester 1958: 4)

Feedback loops have already been discussed in this text when the concepts of organisational learning were presented. Feedback loops are the foundation of
servomechanism engineering and control theory, where feedback processes are modelled by the use of differential equations. The concept of feedback loops is also an integral part of many explanatory models within the social sciences. Most commonly they are used in verbal pictures of circular causal processes such as ‘vicious circles’, ‘virtuous circles’, or ‘self-fulfilling prophecies’ (Richardson 1991: 5).

In order to further explain the fundamental concept of feedback loops, I will use a model from the field of newspaper economics, known as the ‘circulation spiral’ (Furhoff 1967; Gustafsson 1978). It is important to stress that the purpose of using this model is not to discuss its validity or usefulness. I am merely using the model as a Rosetta stone, in order to establish a conceptual link between the written language and the graphical representations used in qualitative system dynamics modelling.

According to the circulation spiral, when two or more newspapers compete in a market, the secondary paper will always be disadvantaged:

The paper with the largest circulation in a market has financial and economic advantages that enable it to increase advertising and circulation sales by attracting customers from the smaller paper. As the leading paper attracts more circulation, it attracts more advertising, which in turn attracts more circulation, trapping the secondary paper in a circulation spiral that ultimately leads to its demise. (Picard 2003)

From the perspective of the leading newspaper, the circulation spiral is a virtuous circle, and of course, from the perspective of the secondary paper, the same process is probably perceived as vicious. A feedback loop is intuitively visual, and by using a graphical representation rather than the written language, the communication of the structure and nature of the feedback process is facilitated. In Figure 4.2, the circulation spiral (as cited above) is illustrated by the use of an influence diagram27. An arrow drawn from variable A to variable B in an influence diagram means that A causally influences B. Relationships between variables in a system can be very complicated, but influence diagrams abstract the relationships by using a simple set of symbols to describe the character of

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27 The diagrams are usually referred to as influence diagrams by UK based researchers while US based researchers usually call them causal loop diagrams. (Wolstenholme 1999)
the relationship. A causal influence from A to B is referred to as positive if a change in A causes a change in B in the same direction. Similarly, a causal influence from A to B is referred to as negative if a change in A causes a change in B in the opposite direction. It is important to note that an influence diagram, as any model, never is “complete” in the sense that it includes every causal link to or from the model variables. In order for a model to be useful, ‘it must address a specific problem and must simplify rather than attempting to mirror in detail an entire system’ (Sterman 1991: 211). Issues related to what should, and what should not be included in a model, is discussed in section 4.6.

![Influence diagram](image)

*Figure 4.2: The circulation spiral as an influence diagram.*

The influence diagram in Figure 4.2 can be read by starting from any link or variable. From the secondary paper’s point of view: *When circulation falls, advertisers are less interested in the paper, which has a negative impact on profit, which reduces our ability to keep the quality of our product (and our marketing initiatives) on a high level which will result in lost subscribers.* From the leading paper’s point of view, the logic is the same, but the story is quite different: *If we are able to get more advertisers, our finances will improve, and we will be able to hire better editorial staff which will make it possible to attract subscribers from our competitor, which in turn will make us more attractive to potential advertisers.*

A feedback loop, such as the circulation spiral, where the logic of the loop is reinforcing is labelled ‘R’. Do note that all the links in the loop do not have to
be positive for the loop to be reinforcing. The example below shows a reinforcing feedback loop with negative causal links. The process illustrated is related to the circulation spiral but is focused on the principles of economies of scale rather than on advertising.

This is the story told by the diagram from the leading newspaper’s point of view: *When we increase our subscriber base, we will increase our market share, which will lead to reduced costs per subscriber. This will have the opposite effect on profit which will give us resources to improve our product, which will attract even more subscribers.*

As the story shows, the two negative links cancel each other. The arithmetic of the links parallels the multiplication of signed numbers; in other words an even number of negative links create a reinforcing loop and an odd number of negative links create what is referred to as a *balancing* loop. Balancing loops are not as explicit as reinforcing loops. A balancing loop tries to eliminate deviations from the goal which is defined by the system. A simple example of a balancing feedback loop is illustrated by Figure 4.4.  

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28 As with the example of the circulation spiral on page 82f, the purpose of introducing this simple example is only to illustrate the concepts of feedback loops and influence diagrams. The purpose is not to discuss the principles of cost-cutting and short-term vs. long-term profitability.
The shareholders of a company expect a predefined profitability to be delivered each year. If the company meets the desired profitability, there will be no gap between actual and desired profitability and no managerial action needs to be taken. However, if, for some reason, the profitability begins to fall or if shareholders increase their demands, a gap between actual and desired profitability will develop. To eliminate this gap, the company may decide to launch cost cutting initiatives with the purpose to improve profitability and eventually close the gap.

Dynamic systems can rarely be represented by a single feedback loop. Rather, most dynamic systems are constituted by a number of interconnected loops of different polarities (balancing or reinforcing). Several such loops, working in concert, are often able to generate very complicated system behaviour. This kind of complexity will be discussed in the following section.
4.4 Dynamic complexity

**Proposition #4: Feedback loops in concert create dynamic complexity**

This is actually the same proposition as Proposition #1, but expressed with a little more stringency. The reason why complex behaviour emerges from seemingly simple structures is due to nonlinear relationships between variables and the shifting of ‘loop dominance’ (Richardson 1991: 35). A system constituted by several loops can as time goes by experience periods when its behaviour is dominated by one of the loops, and other periods when other loops are determining system behaviour. Since the loops generate different dynamics, the system’s behaviour will be complex and may often be experienced as chaotic.

It is important to distinguish this *dynamic* complexity from *detail* complexity. A system may have thousands of components (detail complexity), but the dynamics of the system may be very simple. On the other hand, a system can consist of only ten or twenty components but yet produce a complex and chaotic behaviour (dynamic complexity). (Senge 1990)

Influence diagrams are able to differentiate a positive relationship between two variables from a negative relationship. However, relationships between variables in a system are often much more complicated than that. The relationships are sometimes delayed, random, cyclical or nonlinear in some other way (Figure 4.5).

*Figure 4.5: Examples of nonlinear influence from variable “A” on variable “B”.***
Even though relationships between variables may be as complicated as in the figure above, in an influence diagram they are all simplified as either positive or negative. The exception is the relationship between variables characterised by a significant time lag. Such relationships are prevalent in complex systems; for instance, (1) it takes time to build a good reputation; (2) it takes time to engage a talented artist and to get the recording available to the audience; (3) when a new leader with poor leadership skills is hired to an organisation, it takes time before the performance of the organisation is damaged. These time lags, or delays, have significant impact on system behaviour. In an influence diagram, relationships between variables which are associated with a time lag are labelled as in Figure 4.6, which is an extended version of the example introduced in Figure 4.4. Although the structure in the illustration is seemingly simple, it is able to generate relatively complicated system behaviour. The diagram shows two feedback loops, one balancing and one reinforcing.

![Diagram](image)

*Figure 4.6: Short-term solutions affect long-term performance.*

The story told by the diagram goes as follows: *The short-term solution to the company’s profitability problem may solve the problem temporarily, but it also has an unintended side-effect*. By focusing on cost cutting initiatives, the ability to make long-term investments is reduced, which in turn affects profitability. This cycle is further illustrated by the feedback loop, showing the interplay between different factors.

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29 Relationships with time lag are usually indicated by two lines ( // ) crossing the arrow. Sometimes, as in Figure 4.6, the word “delay” is written between those lines to be even more explicit.

30 This reasoning is based on Porter (1996).
investments in new products, etc, is weakened. Eventually, the weakened long-term investment will have a negative impact on profitability which will further add to the profitability gap, and the reinforcing feedback loop is closed. The complex behaviour is generated by shifting loop dominance. In this case, the balancing feedback loop dominates in the beginning of the process, and the reinforcing feedback loop kicks in after some time, as illustrated by the graph in Figure 4.7.

![Graph](image.png)

**Figure 4.7: Example of the behaviour of a complex dynamic system.**

The chapter has now introduced four propositions which are fundamental pillars in the worldview on which system dynamics modelling is resting. A number of important concepts have been introduced, such as model boundary; open dynamic systems; balancing vs. reinforcing feedback loops; loop dominance; and dynamic complexity. In addition, the basic building blocks of influence diagrams have been introduced. The presentation is of course far from complete, but it provides the basic understanding required in order to read the model which is developed by this study. In the remaining sections of this chapter, additional aspects of system dynamics modelling will be discussed, starting with an important debate within the system dynamics community.
4.5 Hard vs. soft systems

Influence diagrams are not really considered as traditional hardcore system dynamics. The concept was actually not introduced until almost two decades after Forrester’s first publication in the end of the 1950s (Randers 1980). When Forrester first developed system dynamics modelling, it was purely intended as a computer simulation method (Wolstenholme 1999). Socio-economic systems were described as mathematical models, and by using computers, these mathematical models could simulate complex nonlinear system behaviour. With the growing capabilities of computer technology, other methods such as bifurcation analysis, agent-based modelling and various stochastic modelling techniques have emerged. Computer modelling of complex dynamic systems is currently a very active field of research, especially with a focus on the study of complexity and chaos. However, in parallel with the successful development of quantitative computer modelling of socio-economic systems, a critique of this approach has also developed (e.g. Checkland 1981; Wolstenholme 1991). The essence of the critique is that it is not possible to represent ill-defined and messy systems such as complex human and social systems with quantitative computer models (Checkland 1981). Checkland labelled the orthodox system dynamics approach the ‘hard systems paradigm’ and suggested another approach; the ‘soft systems paradigm’ (1981). I will rather refer to this approach as qualitative system dynamics, as suggested by for instance Wolstenholme (1999) and Coyle (2000). Qualitative system dynamics agrees largely to the assumptions made by Forrester and his disciples. However, the qualitative system dynamics approach claims that quantification is not always required in order to grasp a system’s dynamic properties. Coyle even states that when modelling ill-defined problems with soft variables and limited access to empirical data, ‘quantification might be fraught with so many uncertainties that the model’s outputs could be so misleading that the policy inferences drawn from them might be illusory’ (Coyle 2000: 226). Rather, the best way to cope with such systems is to ‘remain qualitative’ and perform ‘mental simulations’ by walking through well-crafted influence diagrams. (E.g. Wolstenholme 1999; Coyle 2000)

According to some scholars of the quantitative branch of system dynamics, computer-based simulation is such a deeply ingrained part of the framework that a methodology called system dynamics without computer-based simulation would be an oxymoron (Coyle 2000). Though the debate is still active, the branch of qualitative system dynamics is now more or less accepted by most members of the system dynamics community.
In 1990, Peter Senge used the term ‘systems thinking’, as a way to popularise the use of system dynamics and particularly the qualitative aspects of the framework (Senge 1990). ‘Systems thinking’ as presented by Senge, is still much in vogue in management circuits, and several scholars and analysts have used the framework to carry out research initiatives similar to the one in this study. However, other scholars (e.g. Capra 1996) use the term ‘systems thinking’, not to denote a specific framework, but to denote the whole range of frameworks based on some kind of systemic understanding of the world. Due to this ambiguity, the framework used in this study will not be referred to as ‘systems thinking’ but rather as ‘qualitative system dynamics’ as suggested by for instance Checkland (1981), Coyle (2000) and Wolstenholme (1999).

4.6 Model boundary and conceptual distance

This section will address two important issues which have to be addressed when modelling any system. First, the question regarding the system's boundary, that is to say which aspects of reality should be considered endogenous to the system and which should be considered exogenous. Second, the resolution or ‘conceptual distance’ (Richardson 1991: 342) that should be used in the modelling of the system. Sterman suggests that the purpose of the model has to be the guiding light when tackling these two issues:

The art of model building is knowing what to cut out, and the purpose of the model acts as the logical knife. It provides the criterion about what will be cut, so that only the essential features necessary to fulfill the purpose are left. (Sterman 1991: 211)

How I intend to deal with these issues will become clearer later in the text when the Music Industry Feedback Model is presented, but below I will briefly explain the strategy that I intend to follow.

Model boundary

Forrester argues that the process of defining a system’s boundary should be started with the question ‘Where is the boundary, that encompasses the smallest
number of components, within which the dynamic behavior under study is generated? (1976 [1968]: 4). Sterman (1991) continues by suggesting that ‘a broad model boundary that includes important feedback effects is more important than a great amount of detail in the specification of individual components’ (1991: 220).

By applying these two suggestions to the models in Figure 4.4 and Figure 4.6, it is clear that the first model has been defined with a boundary that is too narrow. This model is not able to explain why the firm evolved as the graph in Figure 4.7 illustrates. In the second model though, the system’s boundary has been given a wider definition, and the structures that are causing the firm’s behaviour are included.

My strategy when defining the model boundary is to develop a model that (a) has enough explanatory power to be able to add to the understanding of the system and (b) is simple enough to be relatively easy to read and understand. This strategy is of course a parallel to the same ‘dilemma that must haunt any social scientist worth his salt: the necessity of choosing between realism and simplicity as guides to theory construction’ (Elster 1983: 6).

**Conceptual distance**

In the quote from Sterman (1991: 220) above, the priorities between the boundary issue and the resolution issue is set: Rather choose a wide boundary and a low resolution than the opposite. Forrester suggests that the right conceptual distance to choose should be that of the ‘upper level manager’s’:

…[he] is close enough to know how desired goals are established. He is in a position to observe and probably provide the information sources to be used by the subordinate to determine his concept of actual conditions. He knows in general the guiding policies and the manner in which the subordinate decision maker would respond to various kinds of circumstances. (Forrester 1961: 96)

It follows from this advice, that when modelling a firm in an industrial context, the firm cannot simply be reduced to a black box consuming resources and generating products and profits. The model has to be able to capture the ‘internal pressures’ of the firm. However, the model should not capture for
instance individual decisions, but rather the policies, assumptions and mental models that are governing those decisions.

4.7 Choosing and naming variables

Another methodological issue which is somewhat less abstract than the two issues discussed in the previous section concerns the choosing and naming of model variables.

The music industry models presented in section 3.1 are constituted by objects or variables and links between those. A system dynamics influence diagram may also be considered as a set of components, but the meaning of the different components in an influence diagram is more formalised than in the other models. The links (positive or negative relationships, time lags, etc) have already been covered in this chapter, but the variables, also needs some specific attention. In order to be able to create useful models, it is also important to choose and label variables in a certain way. “Appropriate” variable names should be able to fit in a story told by the diagram during ‘mental simulations’ and ‘influence diagram walk-abouts’. Usually, suitable variable names are nouns or noun phrases that fit in expressions such as: when… goes up/goes down; when… get better/get worse; when… grow/shrink; etc. It should also be possible to fit the variable name in phrases such as level of…; size of…; number of…; etc. (Anderson & Johnson 1997: 58)

The list below shows examples of appropriate variable names. From now on forward in the text, names of variables will be formatted as in the list below.

- PRODUCT QUALITY
- PROFIT
- CULTURAL DIVERSITY
- REVENUES
- ALBUMS RELEASED
- COSTS
- ARTISTS IN ROSTER

System dynamics models often mix hard variables (e.g. PROFIT, ALBUMS RELEASED) with soft variables (e.g. QUALITY, DIVERSITY, WILLINGNESS). Formally, variables are of at least ordinal scale, and can be parametric as well as non-parametric. It is important to note that the focus of the models is on the relationships between variables rather than on the qualities of
the variables themselves. It is the nature of the relationships that generates dynamic complexity and it is by understanding these relationships, the system’s behaviour will be explained (e.g. Coyle 2000). Consequently, system dynamics models tend to emphasize that (as an example) increased FATIGUE will have a negative impact on MOTIVATION rather than to illustrate how FATIGUE is experienced by a certain individual. Similarly, the models rather show that increased EFFORT TO CUT COSTS has a long-term negative impact on PROFITABILITY than to explain exactly how many percentages PROFITABILITY will drop.

4.8 A tool for foresight

The final issue which needs to be discussed in relation to this introduction of the system dynamics framework concerns the use of models as forecasting or prediction tools.

Many models developed by economists and social scientists are used to predict how a system will evolve in the future. However, such modelling initiatives are often futile since our ability to predict the future development of complex (and chaotic) dynamic systems is limited. Meadows, Meadows, Richardson and Bruckmann (1982) develop this argumentation:

...at present we are far from being able to predict social-system behavior except perhaps for carefully selected systems in the very short term. Effort spent on attempts at precise prediction is almost surely wasted, and results that purport to be such predictions are certainly misleading. On the other hand, much can be learned from models in the form of broad, qualitative, conditional understanding – and this kind of understanding is useful (and typically the only basis) for policy formulation. If your doctor tells you that you will have a heart attack if you do not stop smoking, this advice is helpful, even if it does not tell you exactly when a heart attack will occur or how bad it will be. (Meadows, Meadows, Richardson, & Bruckmann 1982: 279)
The purpose of the model suggested by this study is to supply such ‘broad, qualitative, conditional’ understanding of system behaviour. The model is not a tool for forecasting or prediction, but an a tool for foresight, which ‘is the ability to anticipate how the system will behave if and when certain changes occur’ (Sterman 1991: 238).31

This chapter has introduced qualitative system dynamics, which is the approach used to develop the model suggested by this study. The chapter has addressed both theoretical and methodological issues which are relevant to the approach. In the next chapter, more methodological issues will be addressed. The structure of the research process will be presented, and the collection and analysis of data used to support the model development and the reasoning brought forward by the study will be discussed.

31 There are other practical examples of using qualitative system dynamics models as tools for foresight. For instance, qualitative system dynamics models have been used to support the strategic planning method known as ‘scenario-based planning’ (e.g. de Geus 1988; 1997: 3ff; van der Heijden 2005). In these planning sessions; “what if”-questions are posed and discussed by the help of ‘influence diagram walk-abouts’ as mentioned earlier in the text (e.g. section 4.5 & 4.7).
The previous three chapters have been almost exclusively focused on the theoretical aspects of this study. Chapter 2 introduced relevant theoretical concepts, chapter 3 presented previous music industry research and a number of music industry models, and the preceding chapter discussed the foundations and principles of qualitative system dynamics modelling, the approach used when developing the Music Industry Feedback Model.

This chapter will focus on the overall research process adhered to by the study. The chapter will also discuss questions regarding how the model has been developed and how data has been gathered to support the model development process and the reasoning brought forward by the study.

5.1 An iterative research process

The purpose of this study is to examine contemporary music industry dynamics, and in particular to address questions regarding how music industry decision makers understand and respond to changes in the media environment. A qualitative system dynamics model is created in order to facilitate the examination of the phenomenon. It is important to recognise that the development of the model and the examination of the research questions are not two distinct and sequentially ordered activities. Rather, the two activities are tightly linked and performed in parallel, since the development of the model necessitates an examination of the research questions.

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32 I understand the concept of *theory* as a set of statements or principles devised to explain the causes or relationships underlying a certain phenomenon. The phrase ‘theory as process’ is a quote from Glaser and Strauss (1999 [1967]: 32).
The overall research process is iterative in its structure and can be described as a number of phases. In the first phase, information is gathered. In the initial iteration, this information consists of established theories and previous research as presented in chapters 2 and 3. In the following iterations the information primarily consists of empirical data, which will be discussed later in this chapter.

In the second phase, the gathered information is processed and analysed. It is important to note that an iterative research process requires that the empirical data processing and analysis is performed continuously, and is not postponed until after all the data is gathered.

In the third phase, the knowledge gained from the analysis is used to develop or revise the model and the reasoning brought forward by the study. Finally, in the fourth phase, the new understanding of the phenomenon guides the process in the continued gathering of new information which drives the iterative research process forward.33

The process is indeed iterative, but it is also asymptotic in its nature in the sense that by exposing the model and the reasoning to new information, it will by each iteration represent the system’s behaviour more accurately. However, the representation will not ever be completed or ultimately correct. The research process has many similarities to the research methodology known as *grounded theory* according to Glaser and Strauss (1999 [1967]): ‘Our strategy […] for generating theory puts a high emphasis on theory as process; that is, theory as an ever-developing entity, not as a perfected product’ (Glaser & Strauss 1999 [1967]: 32). Grounded theory is sometimes misinterpreted as an approach where theory is generated from a blank sheet of paper and that existing knowledge should not be allowed to inform or influence the research (Flick 2002: 41). However, the suspension of the theoretical structuring of the subject, which is an important part of the approach ‘implies the abandonment of the *ex ante* formulation of hypothesis’ (Hoffmann-Riem 1980: 345) not the abandonment of previous knowledge of the subject.

A question of fundamental importance is what data should be gathered to reveal the serve as input to the research process. The approach which has been chosen in this study is similar to the method known as ‘theoretical sampling’. In theoretical sampling, the collection of data is not determined in the beginning of the research process; rather it is the emerging theory that determines which

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33 The structure has many parallels to traditional models of learning, including the models of organisational learning discussed in section 2.7.
information should be gathered in order to continue the process (Glaser & Strauss 1999 [1967]: 45).

Beyond the decisions concerning initial collection of data, further collection cannot be planned in advance of the emerging theory. The emerging theory points to the next steps – the sociologist does not know them until he is guided by emerging gaps in his theory and by research questions suggested by previous answers. (p. 47)

A central theme in this study is the examination of business strategies used by music firms. According to the reasoning by Hax and others, business strategies should be studied by examining ‘what the firm does’ (Hax 1990: 35). There are numerous sources of information that can provide insights into ‘what the firm does’. One obvious example is the narratives produced by the firms themselves, for instance as corporate web sites, marketing activities, press releases, written and oral presentations, annual reports, etc. Relevant narratives can also be found in other documents, for instance official documents from governmental bodies and various reports from trade organisations. A third source of knowledge is data on industry performance, primarily sales data of various kinds. Finally, and most importantly, knowledge about ‘what the firm does’ can be determined by examining the internal workings of the actual organisation. This is usually both difficult and resource consuming. Sterman reflects on these challenges:

…discovering decision rules is often difficult. They cannot be determined from aggregate statistical data, but must be investigated first hand. Primary data on the behavior of the actors can be acquired through observation of actual decision making in the field, that is, in the boardroom, on the factory floor, along the sales route, in the household. The modeler must discover what information is available to each actor, examine the timeliness and accuracy of that information, and infer how it is processed to yield a decision. Modelers often require the skills of the anthropologist and the ethnographer. (Sterman 1991: 219)
It requires a great deal of trust to be able to get as intimate with an organisation as suggested by Sterman. Some ethnographically inspired studies of cultural production (particularly news production) have been made (e.g. Epstein 1973; Fishman 1980; Gans 1980; Schlesinger 1978; Tuchman 1978), but these researchers have usually only been allowed access to the operational parts of the organisation. Seldom, researchers are allowed access into boardrooms to listen to the reasoning of top level decision makers (Doyle & Frith 2006: 562). The second best choice, if ethnographical studies are excluded, is personal qualitative interviews: ‘almost any research project that requires data from senior media executives will have to employ interviews’ (Hollifield & Coffey 2006: 587). Interviews should preferably be done by the researcher in person, but interviews performed by others (e.g. journalists) may also be a valuable source of information.

To sum up, narratives of the system’s behaviour, with a focus on ‘what the firm does’ can be gained from:

- Personal interviews
- Journalistic articles
- Corporate press releases
- Corporate presentations (at trade shows, conferences, etc)
- Annual reports
- Official documents from governmental bodies
- Reports from trade organisations
- Corporate web sites
- Marketing activities
- Quantitative data on industry performance

The theoretical sampling approach has brought the study to all these different sources of information. In the following sections they will all be presented and critiqued.

5.2 Personal interviews

Personal interviews have served as the most important source of empirical data during this study. This section discusses relevant issues involved in the process of planning, doing and analysing these interviews.
The interview as an active social encounter

The purpose of the interviews has been to learn how decision makers in the music industry understand their changing environment, and how they have revised their business strategies in order to cope with the change. As was discussed in the previous section, narratives which describe the system dynamics are required to develop the model and the reasoning brought forward by the study. It is important to note that the narratives told during these interviews do not necessarily reflect the true nature of reality. What actually are probed are the decision makers’ mental models of the environment and their own existence within this environment (e.g. Kvale 1983). These mental models may be flawed in many ways but they are nevertheless the basis used in the development of business strategies and decisions (Sterman 1994). Hence, the mental models play a central role in the emergence of the overall dynamics of the music industry.

According to Forrester (1961) it is important to use an appropriate conceptual distance when modelling industrial dynamics. As has been discussed previously, Forrester suggests that the appropriate distance is that of the ‘upper level manager’. In order to follow Forrester’s suggestion, almost all the informants who participated in the study hold positions somewhere in the range between upper level manager and vice president.

All the informants have been asked to only represent themselves personally and not the organisation where they are employed. However, this is easier said than done. Professionals on this level are used to being interviewed, and are by instinct trying to make their organisations look as good as possible (Flick 2002: 89-90). The interviewer is challenged to see through this façade and to create a relaxed atmosphere during the interview which allows the informant to lower his or her guard. In order to create this atmosphere of trust, it is difficult to keep a formal distance to the subject. Negus (1999) gives an illustrative account of such interviews:

Interviews are very specific social encounters between individuals which occur at particular times and places. The relationship which is established and which develops (or does not develop) during the encounter will decisively influence any material derived from an interview. Interviews are not about ‘extracting’ information or truths that are waiting to be revealed. Instead, an interview is an active social encounter, through which knowledge of the
world is produced via a process of exchange. This involves communication, interpretation, understanding and occasionally perhaps, misunderstanding. (Negus 1999: 11)

I do recognise that my own persona during the interviews affects the narratives told and the knowledge produced. However, I choose to consider this interaction between interviewer and informant as a pro rather than a con. It is through this interaction that I am able to pick a hole in the façade and to get a little bit closer to the decision makers’ actual thinking.

It is of course difficult to know for sure if the informants are telling the truth or not. However, by asking questions which are not immediately sensitive to their own organisation, but which rather are concerned with the industry in general or with their competitors, they are able to speak more freely. By then cross checking their reasoning, with the reasoning of other informants and other sources of information, a congruent and relatively trustworthy picture eventually emerges.

The structure of the interviews was inspired by the episodic interview method, based on the assumption that:

…subjects’ experiences of a certain domain are stored and remembered in forms of narrative-episodic and semantic knowledge. Whereas episodic knowledge is organized closer to experiences and linked to concrete situations and circumstances, semantic knowledge is based on assumptions and relations which are abstracted from these and generalized. For the former, the course of the situation in its context is the main unit around which knowledge is organized. In the latter, concepts and their relation among each other are the central units. (Flick 2002: 104)

This assumption fits well with the intention of this study since I want to explore decision makers’ mental models (which I interpret as a parallel to semantic knowledge). The episodic interview combines ‘narratives oriented to situative [sic!] or episodic contexts and argumentation that peel off such contexts in favour of conceptual and rule-oriented knowledge’ (Flick 2002: 104-5).

Two general questioning strategies were used in order to follow this approach. One strategy (A) was focused on revealing narratives about current
and specific situations. The other strategy (B) was focused on the ‘semantic knowledge’ and consequently yielded questions that were more abstract in their character. These questions discussed issues such as the informant’s understanding of how something has evolved over time or the informant’s own explanation of a specific phenomenon. Examples of the two strategies:

A. How did you go about planning the promotion of this particular album?
B. How would you characterise your relations with record companies?
B. (Follow up question) Is it in any way different now, compared to ten years ago? How?

Both strategies triggered the informants to tell stories about experiences and their perception of the behaviour of their industry. While some of the narratives were short and barren and some were elaborated, most of them were indeed useful during the development of the model and the argumentation brought forward by the study.

As stated in the introductory chapter, the study is primarily focused on the three sub-systems: marketing, distribution and talent development (A&R). Consequently, the topics discussed during the interviews were linked to those three areas. Due to the iterative and evolving character of the research process, it is not possible to list a well-defined set of questions which were asked during every interview session. Although the three areas were addressed to some extent during every interview, the focus differed from one interview to another, primarily depending on the informant’s position and background.

Sampling the interviews

The interviews took place from March 2003 to October 2005. In order to adhere to the theoretical sampling approach (Glaser & Strauss 1999 [1967]: 45), I allowed the emerging model and argumentation to determine which groups I should interview next. The groups were selected based on which new insights they were expected to be able to add (Flick 2002: 64).

The study started out by addressing the marketing and promotion departments at a number of record companies. This decision was motivated by the hypothesis that marketing professionals would be able to add valuable insights in the examination of the research questions. The first interviews enabled me to develop a reasoning which posed new questions which the
marketing professionals were unable to explain. I decided to complement the study by interviewing additional groups which would be able to add new perspectives to the study. These additional groups were professionals in the distribution, publishing and creative sectors of the industry. Later it became evident that individuals in other copyright industries, but working close to the music industry could add a valuable “outside” perspective. Finally, in order to further enhance the light shed by these five groups (Figure 5.1) I carried out a number of interviews with individuals in various trade organisations. These interviews were able to give a perspective on the issues which differed slightly from the ones given by the professionals within the copyright firms.

Figure 5.1: Five groups provide different perspectives on music industry dynamics.

I was able to use theoretical sampling to choose which groups should be interviewed, but in the selection of which individuals to interview within those groups, the ability to pick and choose was restricted. Some of the professionals on my wish list were for various reasons unable or unwilling to participate in the study. Consequently, though I was aiming for maximal variation within each group, I was sometimes unable to reach that goal. However, I was eventually
able to carry out 36 interviews with 38 individuals\(^{34}\) (a list of the informants is found in Appendix 3). The interviews were evenly split between the UK, the US and Sweden. Six of the 38 informants were women. I did not make an effort to have an equal representation of men and women, but I have not been able to discern any important differences between answers from female informants and answers from male informants. The interviews took place in Cannes, London, New York and Stockholm with a duration which varied between 20 and 97 minutes, with an average of 44 minutes. Most interviews took place at the informant’s office, but some interviews were made in restaurants, coffee shops and other similar public locations. I was able to engage informants from all the major multinational music firms (EMI Group; Sony BMG Music Entertainment; Warner Music Group; and Universal Music Group) and I was also able to get an acceptable distribution between all groups\(^{35}\).

During what came to be the last interviews, in October of 2005, I was able to achieve theoretical saturation in all groups (Glaser & Strauss 1999 [1967]: 61). This means that the knowledge gained from these interviews did not require the model or the argumentation to be modified and consequently I decided to close the interview process.

Glaser and Strauss states that an ‘adequate theoretical sample is judged on the basis of how widely and diversely the analyst chose his groups’ (1999 [1967]: 63). The five groups are all covered by the music industry models presented in section 3.1. However, there are some additional groups that have not been addressed during the interview process. For instance I have decided not to interview artists, composers, or individuals working with live performances, physical retailing, CD/DVD manufacturing, legal issues, etc. Although all these groups probably would have been able to add some more knowledge to the process, the expected contribution did not defend the amount of effort which would be required for such an expansion of the study. I have also decided not to gather primary information from audiences. As Burnett & Weber (1989) show, the interaction between the audiences and the music industry is important in understanding industry logic. However, the audiences play an important role in the decision makers’ mental models. During the interviews, the decision makers’ understanding of these audiences have been discussed, and

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\(^{34}\) There is a discrepancy between the number of informants and the number of interviews since two of the interviews were performed with two informants simultaneously.

\(^{35}\) The interviews were split between the five groups: Marketing: 9 interviews; Distribution: 8 interviews; Publishing: 9 interviews; Creative: 6 interviews; Outside: 6 interviews.
it is their understanding of the audiences that is important and not the actual properties of these audiences. This reasoning is also in line with how Peterson (1982) relates to the audience: ‘decision makers redefine the heterogeneous and unknown mass of potential consumers into a homogeneous and predicable “market” that can be tapped through standard market practices’ (Peterson 1982: 146).

Based on this reasoning I conclude that the five groups and the 38 individuals who participated in this study offer sufficient diversity to be able to build a robust argumentation and a model which includes the relevant structures that are generating music industry dynamics (Forrester 1968; Sterman 1991).

Coding and processing of the interview material

Specific quotes from interview material are often used in qualitative research to illustrate or support some kind of reasoning (Flick 2002: 218). The material from the interviews in this study will to some extent also be used in that way. However, a number of important questions have to be addressed in order to guarantee procedural reliability: How did the researcher select which narratives should be quoted and which should be left out? What happened to narratives that contradicted the conclusions? This section will describe how the interviews were coded and processed in order to ensure transparency (Flick 2002: 218-21).

Most of the interviews (30/36) were recorded. These recordings were transcribed, concentrated to reduce the volume of the material (Kvale 1997: 175), and translated to English if required. In the next phase the informant’s narratives and phrases were categorized depending on whether it primarily concerned marketing; publishing; distribution; the creative sector; or relations to other copyright industries. Two additional categories were also used to label narratives that concerned purely financial issues and narratives that concerned issues relevant to the industry in general. After this categorisation, the material was openly coded within each main category (Strauss & Corbin 1998: 101; Love 1994) by associating the narratives with keywords. This procedure was repeated a few times in order to fine-tune the keywords. Between every repetition, the narratives were sorted so that narratives with similar keywords could be

36 Sometimes the ‘keywords’ are short phrases to describe the narratives: E.g. “talent development”; “difficult to reach through media”; “pressure from shareholders”; “risk taking”; “advertising”.  

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clustered. It is important to note that during this process, the narratives were never altered. In addition, no phrases or narratives were discarded, regardless if they matched the claims put forward or not. The result of this process was a well-structured and tagged material which could be used as input to the research process.

**Research ethics and confidentiality**

Phrases and narratives will be used in the analysis to illustrate various claims and conclusions. Some of the informants did not want to be immediately associated with their statements. In order to guarantee this request, I have tried to remove any kind of information from the narratives that could link a phrase to a specific informant. However, in order to show that I have not used phrases from only a few of the informants, each quoted phrase is labelled (Interview #n), where ‘n’ is an integer representing specific informants.

### 5.3 Narratives from other sources

Information about the dynamic behaviour of the music industry may be gathered from previous music industry research, established theories and the personal interviews as discussed above. However, valuable information may also be found in other places.

**Journalistic articles**

Journalists are sometimes able to meet and interview people whom academic researchers are unable to gain access to. Narratives from such interviews can be of great value when examining an industry’s dynamic behaviour. I recognise that commercial media operate according to a logic which often is detrimental to the articles’ credibility. However, the narratives told in some specific articles are too important to be ignored. With this dilemma in mind I have occasionally used journalistic articles as a source of information. In order to recognise the limited credibility of these articles, I have chosen never to base a specific reasoning solely on narratives from journalistic articles.
When journalistic articles are used as a source in the text, they are referenced to in the traditional way, as any other source. Those journalistic articles that have been used during the study are listed in the reference section of this work.

Other sources

Several other documents and sources can be of value in order to understand copyright industry dynamics. Previously in this text I used an excerpt from an annual report to illustrate the economic concepts value chain and core business. Annual reports can, if used with caution, provide insights regarding how the company is operating. Any such corporate information, including press releases, presentations at trade shows and conferences, web sites, marketing activities, etc, is of course intended to make the company look as good as possible. It is not possible to consider the information as balanced and unbiased. In this study, documents of this kind are nevertheless used to understand how firms wish to appear. Music marketing practises play an important role in the study, and it is consequently important to examine the various communication initiatives launched by the music firms. (Doyle & Frith 2006: 558)

Other documents produced by trade organisations, governmental bodies, etc, have also been used to add to the overall picture. By combining these documents with other kinds of information, for instance the interviews and the journalistic articles, the understanding of industry dynamics has been enriched. (Doyle & Frith 2006: 556-7)

When documents and sources such as the ones discussed in this section are used in the text, they are referenced to in the traditional way, as any other source. A list of these documents and sources are found in the reference section of this work.

5.4 Data on industry performance and consumer behaviour

Quantitative secondary data is used at several occasions throughout the study. The quantitative data is not used to reveal causal relationships between variables but is only used to do basic univariate analyses in order to illuminate specific trends from a quantitative perspective.
One such example is the use of quantitative data (cf. section 7.3) to show how the usage of a specific information distribution technology develops over time. Another example is the use of statistics and financial data to show how revenues from different product categories change over time. The most important source of this kind of data is the International Federation of the Phonographic Industries (IFPI) and affiliated organisations in the three countries, Sweden, UK and USA. More details on how the data has been used, how it has been structured, processed and analysed are presented in the sections where the data is put into play.

5.5 A note on the validity of the study

‘The success of a research project is judged by its products’ (Corbin & Strauss 1990: 16). The products generated by this study are the Music Industry Feedback Model and the reasoning supported by the model. The model and the argumentation are continuously challenged, as a part of the iterative research process, but which criteria should be used to determine its quality and usefulness? This text has already concluded that models should not be measured in terms of right or wrong. This position is for instance shared by Goodman (1978) who considers theories as versions of the world, which undergo a continuous process of revision, evaluation and construction. Flick (2002) builds on Goodman’s understanding of theories by stating that theories should be considered as ‘…preliminary and relative. Further developing the version leads to an increased empirical grounding in the object that is studied.’ (Flick 2002: 43)

Other scholars are not satisfied by concluding that models merely are tools for thinking and subjected to continuous development. Hammersley (1992) declares that the ‘goal of any research is to provide information that is not only true, but which is also of relevance to issues of human concern’ (Hammersley 1992: 85). This challenge will be addressed in the final chapter of this work, but the first part of the statement (validity), will be immediately addressed. Hammersley argues that:

The assessment of validity involves identifying the main claims made by the study, […] and then comparing the evidence provided for each claim with what is judged to be
necessary, given the claim’s plausibility and credibility.  
(Hammersley 1992: 72)

Corbin and Strauss (1990: 17-9) are even more explicit in suggesting criteria for assessing the validity of empirically grounded theories or models:

Criterion #1: Are concepts generated and what are their sources? Any monograph that purports to present theoretical interpretations of data based on grounded theory analysis should permit a quick, if crude, assessment of concepts. […]

Criterion #2: Are the concepts systematically related? The key to scientific research is systematic conceptualization through explicit conceptual linkages. […]

Criterion #3: Are there many conceptual linkages and are the categories well developed? Do the categories have conceptual density? […] It is tight linkages, in terms of paradigm features and density of categories, that gives a theory explanatory power. […]

Criterion #4: Is there much variation built into the theory? […] A grounded theory monograph should be judged in terms of the range of variations and the specificity with which they are analyzed in relation to the phenomena that are their source. […]

Criterion #5: Are the broader conditions that affect the phenomenon under study built into its explanation? […] Macrosocial conditions must not simply be listed as background material but linked directly to the phenomena under study through their effect on action/interaction and, through these, to consequences. […]

Criterion #6: Has “process” been taken into account? […] Identifying and specifying change or movement in the form of process is important to grounded theory research. Any change must be linked to the conditions that gave rise to it. Process may be described in terms of stages or phases and as fluidity or movement of action/interaction over time in response to prevailing conditions. […]
Criterion #7: Do the theoretical findings seem significant and to what extent? [...] The question of significance is generally viewed in terms of a theory’s relative importance for stimulating further studies and explaining a range of phenomena. (p. 17-9)

Glaser and Strauss (1999 [1967]) most surely did not have the system dynamics approach in mind when they defined the grounded theory research method. Nevertheless, by structuring a theory as a qualitative system dynamics model, almost all the criteria in the list above are addressed and managed. Concepts, in the shape of variables, are generated and systematically related as an influence diagram, thereby fulfilling criteria #1-2. In this study, the variables and the links are defined throughout the text, and there are also formal definitions of the variables listed in Appendix 5. Criteria #3-6 implicitly concern issues of dynamic complexity, model boundary and conceptual distance. These concepts are of vital importance in the development of a qualitative system dynamics model and are consequently carefully considered throughout the study. The last criterion in the list suggested by Corbin and Strauss (1990: 17-9), coincides with Hammersley’s (1992) ‘relevance criterion’. This criterion is not possible to fulfil by referring to the system dynamics approach. Although I strongly believe the findings presented by this study are relevant, the question will be returned to in the final chapter of this work.

In order to be able to judge the quality of the findings correctly, it is important to ‘help the reader to assess some of the components of the actual research process’ (Corbin & Strauss 1990: 16). The purpose of this chapter has been to clarify the most important aspects of this process. Although it is difficult to show exactly for instance how the material was theoretically coded, the chapter has described which measures has been taken to ensure that the research process is adequate and well-structured. The aim of this description has been to establish a high level of credibility and plausibility, in order to ascertain the validity of the model and the conclusions made by the study.

In the five chapters leading up to this point, general assumptions have been explicated, the theoretical platform has been carved out, and the research process has been presented. It is now time to define the Music Industry Feedback Model.
The purpose of this study is to contribute to the understanding of copyright industry dynamics in general and music industry dynamics specifically. In order to achieve this purpose, an analytical tool in the shape of a qualitative system dynamics model is developed. As already stated in the preceding chapters, the model is based on combination of established theories, previous music industry research and empirical data. In this chapter, the model, which I choose to call the Music Industry Feedback Model, is introduced. The current model is the last in a series of model revisions which has evolved during the research process. Figure 6.7 on page 131 depicts the model in its entirety, but in order to facilitate the understanding of the model’s structure and logic, it will be introduced in a number of sections. Each new section begins with a short definition of those variables which are added to the model in that particular section. A comprehensive list of all these definitions is found in Appendix 5. Each section also includes an illustration which highlights the structures which are added to the model (e.g. Figure 6.1 or Figure 6.2). The variable definitions and the illustration are followed by a text where the new structure is laid out and discussed. In order to keep these texts as condensed as possible, no explicit quotes from the personal interviews have been included. Rather, in those occasions where a segment of the model structure is based on information from personal interviews, only a label (e.g. Interview #n) is used as a marker. It should also be noted that in the presentation of the model, variables are written in THIS STYLE, in order to make it easy to locate the model components in those illustrations which correspond to the relevant wording.

The sections which define the model are structured as follows: The first section introduces variables and links which are related to the firm’s relationship with the audience (section 6.1). Second, issues related to the firm’s...
creative processes are added to the model (section 6.2). Third, variables and links related to the firm’s marketing and licensing effort are defined and added to the model structure (section 6.3). Fourth, the logic which is related to the firm’s financial performance and relationship to its shareholders is presented (section 6.4). Fifth, issues related to costs and risk willingness are added to the model (section 6.5). In the final section (6.6) no new variables are added, and merely a few concluding remarks are made.
6.1 The Audience-Media Engine

The following variables are introduced in this step:

<table>
<thead>
<tr>
<th>New variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATTRACTIVENESS OF IP PORTFOLIO</td>
<td>The ability of the firm’s intellectual property portfolio to gain approval among the audience.</td>
</tr>
<tr>
<td>AUDIENCE ACTION</td>
<td>The fraction of the total audience who perform actions related to the music firm’s intellectual properties. E.g. purchase a CD; make a mixtape 37; share a song via a peer-to-peer network; attend a music concert; publish a fanzine…</td>
</tr>
<tr>
<td>AUDIENCE APPROVAL</td>
<td>The fraction of the audience who respond positively when they are exposed to firm’s intellectual properties.</td>
</tr>
<tr>
<td>AUDIENCE REACH</td>
<td>The fraction of the total audience who are reached by the music firm’s intellectual properties through the media.</td>
</tr>
<tr>
<td>MEDIA PRESENCE</td>
<td>The total number of media outlets where the intellectual properties of the music firm currently appear.</td>
</tr>
</tbody>
</table>

This section will introduce those structures of the model which are related to the interaction between the music firm and the audience. The music industry has been defined as the aggregate of ‘those companies concerned with developing personalities and musical content which can be communicated

37 A mix tape (commonly the two words are stuck together as mixtape) is a home-made compilation of songs recorded in a specific order, traditionally onto a Compact Cassette.
across multiple media’ (cf. p. 31). Those ‘personalities and musical content’ are
the intellectual properties (IP) of the music firm. The firm’s IP portfolio may
consist of compositions, lyrics, recordings, images, contracts with symbol
creators, specific sounds, brands, etc. Some of these properties are protected by
copyright law, but not all of them. For instance, the sound of ABBA or of the
songwriter/producer trio Stock, Aitken and Waterman, was very characteristic
and important to their successes, but it was not protected by copyright law (e.g.
Haynes 2005: 14; Carlén-Wendels 2005: 24). One very important model variable
is the “attractiveness” of this IP portfolio (Figure 6.1). The ATTRACTIVENESS
OF IP PORTFOLIO is both difficult to define and measure, but the model is
taking the perspective of the audience in order to make the definition. A highly
attractive IP portfolio is simply able to gain a wider AUDIENCE APPROVAL than
a less attractive portfolio. The variable AUDIENCE APPROVAL is defined as the
fraction of the entire audience who “respond positively” when they experience
the music firm’s ‘personalities and musical content’.

In order for the audience to discover the content and the personalities in
the portfolio, the content has to appear in the media (e.g. Hirsch 1970;
Newman 2003; Interview #14). The aggregate of the music firm’s media
appearances at a particular moment is represented by the two variables MEDIA
PRESENCE and AUDIENCE REACH (Figure 6.1). MEDIA PRESENCE represents
the number of media outlets (television shows, radio shows, videogames,
magazines, etc) where the firm’s intellectual properties appear during a specific
time period. AUDIENCE REACH represents the percentage of the total audience
which the firm is able to reach through their MEDIA PRESENCE. For instance, an
appearance in a high-profile media event is able to reach a greater share of the
total audience than an appearance on a media event of less significance. The
relevance of particular media differs between genres, territories, audiences, etc.
For instance, a highly important medium for dance music is the club scene
(Interview #32); the crucial medium for contemporary urban music is visual
media such as MTV and BET (Interview #18); and a few music magazines such
as Gramophone or BBC Music Magazine, are the determining media in the
British classical music scene (Interview #16).

AUDIENCE APPROVAL is certainly important to the business of popular
music, but it is not able to pay the firm’s bills. AUDIENCE ACTION, in its various
forms is what traditionally has been supposed to generate the majority of the
income to the firm. The actions spurred by the audiences’ approval might for
instance be the purchase of a CD, music merchandise, concert tickets or other
music related products. However, every action does not generate income, for
instance, the making of a mixtape to a friend is a significant AUDIENCE ACTION, but it does not generate any revenues to the music firm. Finally, it is important to note that AUDIENCE ACTION does not happen simultaneously with AUDIENCE APPROVAL, since it simply takes a while for approval to build and then for people to decide to act in one way or the other.

AUDIENCE ACTION also has a similar delayed feedback effect on MEDIA PRESENCE. One example of this feedback is the logic of the ‘Top 40’ radio format. As has been mentioned previously, a radio station which follows this format plays the 40 most popular songs during a certain week. ‘Most popular’ is in this case equal to the records which have sold the most during the previous week. In other words, AUDIENCE ACTION, in the shape of sales at record stores, feeds back to MEDIA PRESENCE, as radio airplay.

Another, more specific example of this feedback concerns the Swedish pop act Roxette which was completely unknown in the US until Dean Cushman, an American exchange student from Minneapolis, brought a copy of the Roxette album *Look Sharp!* home from Sweden for the 1988 holiday break. Cushman urged a local Minneapolis radio station, KDWB 101.3 FM, to play the song and based on feedback from positive callers, the station’s program director copied the song and distributed it to other stations. Within weeks the song became popular throughout the region, and ultimately nationwide. On April 8, 1989, the single *The Look* reached the number one position of Billboard Hot 100 and eventually Roxette turned out to be one of the most successful Swedish exports since the days of ABBA (e.g. Burnett 1996: 127; Thorselius 2003; Billboard 1989). There are many other kinds of audience action, for instance fanzines, fan sites, weblogs, or college radio that has a similar influence on MEDIA PRESENCE.

The links, which connect MEDIA PRESENCE, AUDIENCE REACH, AUDIENCE APPROVAL and AUDIENCE ACTION, constitute a reinforcing feedback loop38 which plays a crucial role in the dynamics of the music industry. The loop may serve as an engine which gives rise to (or ends) fads, brands, acts or genres. If this *Audience-Media Engine* is working against an artist or a music firm, it will be difficult or impossible to reach any kind of success. Similarly, if the music firm (as in the case of Roxette) is able to get this loop to work in its favour, only the sky is the limit39.

38 The feedback loops in the influence diagrams will not be labelled as balancing or reinforcing in order to keep the illustrations as plain as possible.

39 Of course, the sky is not really the limit; there are limits to growth much closer to ground in the music industrial system as well as in every other system (e.g. Meadows, Meadows, Randers, & Behrens III 1972).
The Audience-Media Engine provides an alternative perspective on what Jenkins (2006) refers to as ‘participatory culture’. The Audience-Media Engine illustrates the role of audience participation (or AUDIENCE ACTION) in ensuring that the wheels of the music industry keep turning. Jenkins argues that “new” media technologies increase the importance of this feedback loop since the new technologies open up for greater and more sophisticated audience participation compared to the “old” technologies. This reasoning may certainly be valid, and this study will return to a similar argumentation later in the text. However, according to the logic which is encapsulated by the Audience-Media Engine, participatory culture rests on the same basic structure, regardless if the media technologies are new or old, and regardless if the AUDIENCE ACTION is a purchase of a CD at the local record store or a posting of a homemade music video on YouTube.

The Audience-Media Engine is a typical example of a chaotic system which is very difficult to predict and control. The system is extremely sensitive to minor changes in its initial conditions. Apparently insignificant events (as in the Roxette story) can lead to radical shifts in the system’s behaviour. This effect is often referred to as the ‘butterfly effect’ (Lorenz 1984), which initially was intended to explain why the weather is so difficult to predict: The atmosphere is certainly a chaotic system; and the flight of a butterfly in one continent may generate a thunderstorm in another (Lorenz 1984). A similar logic governs the Audience-Media Engine. Although it may be possible to reduce uncertainty and risk by the use of various strategies, the system is fundamentally chaotic and unpredictable in its nature.

Some aspect of MEDIA PRESENCE is included in most music industry models. Hirsch (1970) referred to media presence as the gatekeeper sub-system which filters the songs on its way to the audience. As has been previously discussed, Hirsch’s concepts of filters and gatekeepers have been criticized by several scholars (e.g. Negus 1992). I agree that the gatekeeper/filtering concept is unable to capture the complexities of the industry dynamics and suggest the Audience-Media Engine as a more useful representation.

This section has defined those model structures which are related to the interaction between the music firm and the audience. The next section will also to some extent discuss similar issues as the focus is turned to those parts of the model which among other things concern intellectual property development.

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40 http://www.youtube.com
6.2 Unanswerable questions

The following variables are introduced in this step:

<table>
<thead>
<tr>
<th><strong>New variable</strong></th>
<th><strong>Definition</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>IP DEVELOPMENT</td>
<td>Resources invested by the music firm in intellectual property development.</td>
</tr>
<tr>
<td>NOVELTIES</td>
<td>Outcome of the IP development process. Novelties add to the attractiveness of the IP portfolio.</td>
</tr>
<tr>
<td>OBLIVION</td>
<td>A natural process of decay which reduces the attractiveness of the IP portfolio. Oblivion affects different IP’s in different ways. While the longevity of some properties is measured in weeks, others have a lifespan that lasts for decades. The variable is exogenous.</td>
</tr>
</tbody>
</table>

Figure 6.2: Structures explaining the firm’s creative processes.
The new structures of the model which are introduced in this section show how ATTRACTION OF IP PORTFOLIO is influenced by NOVELTIES and OBLIVION (Figure 6.2).\textsuperscript{41} These structures reflect an important assumption which the model is based upon, namely that the newness of an IP portfolio to a great extent influences the portfolio’s ability to gain AUDIENCE APPROVAL. This assumption may be contested since some of the most valuable popular music IP portfolios (by composers such as Jackson, Lennon/McCartney, Wonder, etc) are pretty far from new. However, though a few and exceptional works have been able to sustain their value, some kind of novel ingredient is often added, even to these assets, in order to increase their appeal.\textsuperscript{42}

OBLIVION is the process where musical content and personalities become obsolete, irrelevant and loose their attractiveness. The speed of this process varies between different intellectual properties. Some properties may be relevant and valuable decade after decade, while other properties loose their value after a month or two (e.g. Hirsch 1970). NOVELTIES are the results of activities which occur at many places in the music firm. The most obvious examples are compositions, arrangements, and audio recordings. However, music video production; graphic design; styling; making of promotion material; as well as acquisition of content; are all activities which may add to the ATTRACTION OF THE IP PORTFOLIO.

How to create NOVELTIES which will be appreciated by the audiences is a key question to any copyright firm. The model simplifies this question by letting three drivers govern the NOVELTIES generated. Two of these will be discussed below. First and most straight-forward is the variable INTELLECTUAL PROPERTY DEVELOPMENT. This variable represents the financial resources used by the firm to develop and sustain the ATTRACTION OF THE IP PORTFOLIO. The resources are used to pay salaries, advances to symbol creators and other costs related to the development, production and acquisition of musical content. It should be noted that it may take a considerable amount of time from the decision to spend resources to the day when the NOVELTY is available as a part of the IP portfolio (e.g. Negus 1996: 49).

The second driver of NOVELTIES is the link from AUDIENCE ACTION, referred to by Peterson as ‘the unanswerable questions about the causal links

\textsuperscript{41} The influences of NOVELTIES and OBLIVION on ATTRACTION OF IP PORTFOLIO can be modelled more accurately by introducing the system dynamics modelling concepts stock and flow. These concepts are introduced and discussed in e.g. Forrester (1961), Lyeis (1980), or Warren (2002).

\textsuperscript{42} This assumption is also e.g. supported by Campbell (1987: 89) in his account of ‘modern consumerism’.
between society and culture’ (Peterson 1994: 185). The Music Industry Feedback Model makes no claim of being able to solve these questions, but at least, a link between society and culture (or audience and musical content) is included in the model. The link between AUDIENCE ACTION and NOVELTIES is labelled with a question mark. This label denotes that there is an influence from the audience to the creation of new intellectual property, but it is not possible to refer to this influence in terms of positives or negatives. The influence can be both detrimental and beneficial to the music firm’s creative abilities. It may be detrimental since the influence from audience action may lead to “me-too” products, that is to say the mirroring of products that already exist and are successful on the market. It may be beneficial since by listening carefully to the audiences’ actions and reactions, it is possible to get valuable stimulus which may enable the development of intellectual properties which are both novel and in tune with the tastes of the audience.

This section has introduced those parts of the model which concern the music firm’s creative activities. The next section will explain how the music firm acts in order to influence its presence in the media.
6.3 Drivers of media presence

The following variables are introduced in this step:

<table>
<thead>
<tr>
<th>New variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>LICENSING</td>
<td>Media presence generated by licensing effort.</td>
</tr>
<tr>
<td>LICENSING EFFORT</td>
<td>Resources invested in order to increase the licensing of the media firm’s intellectual properties.</td>
</tr>
<tr>
<td>MARKETING</td>
<td>Media presence generated by marketing effort.</td>
</tr>
<tr>
<td>MARKETING EFFORT</td>
<td>Resources invested in order to increase media presence with the purpose to stimulate audience action.</td>
</tr>
</tbody>
</table>

Figure 6.3: Drivers of media presence.

MEDIA PRESENCE is vital to the performance of the music firm. Although it may be difficult to control the presence of the music firm’s intellectual
properties in the media, most music firms try very hard at least to influence their media presence. This section will introduce those structures of the model which represent the music firm’s effort to propel its media presence.

There are several ways a music firm can influence its presence in the media. The model chooses to categorize these as either marketing or licensing. Promotion tours, street marketing, advertising in its various forms, and of course plugging recordings to broadcast media (e.g. Interview #21; #27) are all examples of activities categorised as marketing. The purpose of all these activities is to boost media presence in order to enhance the sales of various music related products (or audience action if you will).

Licensing is defined as activities where the intellectual properties are used in movies, advertising, videogames, merchandise, compilation albums, etc. Some of these activities could certainly be labelled as marketing since the licensing of a certain intellectual property often has a significant and positive effect on consumer sales (e.g. Interview #28). However, what fundamentally differs licensing from marketing is the purpose of the initiative. The purpose of a marketing initiative is to improve the sales of a certain intellectual property. A licensing activity has no purpose to promote anything. It is purely a business agreement which is finished when the licensing deal is signed.

Major music firms have department(s) working with marketing and promotion of their intellectual properties and another department, usually much smaller, working with various forms of licensing issues (e.g. EMI 2005; Interview #34). This structure may differ though, for instance music publishers have by nature a much stronger focus on licensing and many publishers completely lack consumer oriented marketing resources (e.g. Interview #25). It is the resources spent, and effort made, in these departments that make marketing initiatives and licensing deals happen.

Finally, as with many other links in the model, it should be noted that there is a considerable time lag between a licensing effort or marketing effort and the subsequent impact on media presence.

This section has discussed those parts of the model which concern the drivers of media presence. The following section will introduce the structures that explain how shareholders exert pressure on the firm’s management depending on the firm’s financial performance.
6.4 Profit and pressure

The following variables are introduced in this step:

<table>
<thead>
<tr>
<th>New variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRESSURE</td>
<td>The pressure exerted by shareholders on the music firm in order to reduce profit gap.</td>
</tr>
<tr>
<td>PROFIT</td>
<td>The money that remains after expenses are subtracted from income.</td>
</tr>
<tr>
<td>PROFIT GAP</td>
<td>The difference between required profit and actual profit.</td>
</tr>
<tr>
<td>REQUIRED PROFIT</td>
<td>Financial goals defined by the shareholders. The variable is exogenous.</td>
</tr>
<tr>
<td>REVENUES</td>
<td>Revenues from royalties and audience action.</td>
</tr>
<tr>
<td>ROYALTIES</td>
<td>Fees paid by licensees using the music firm’s intellectual properties in various applications.</td>
</tr>
</tbody>
</table>

*Figure 6.4: Profit and pressure.*
A music firm’s REVENUES (Figure 6.4) stem from either AUDIENCE ACTION in the shape of product sales, or from MEDIA PRESENCE, as ROYALTIES. There are three different kinds of ROYALTIES in the music industry. Performance royalties are paid when a song is performed by an orchestra or singer, played by a radio station, used as a cell-phone ring signal, played in a shopping mall, etc. Synchronization royalties are paid when a song is used together with moving images, for instance a movie or a videogame. Mechanical royalties are paid based on actual sales of sheet-music and audio recordings. (E.g. Vogel 2001: 157-8)

All these REVENUES have a positive effect on the music firm’s PROFIT. When theories of the firm were previously discussed, it was concluded that profit maximisation is required by most major firms in the copyright industries. The Music Industry Feedback Model illustrates this logic as a REQUIRED PROFIT which the firm has to deliver. If the actual PROFIT is not meeting these requirements; a PROFIT GAP develops, which eventually turns into a PRESSURE from shareholders (e.g. Interview #13, #14 #18, #32). The PRESSURE is supposed to motivate the management to revise policies and routines; either with the purpose to decrease costs or to enhance revenues (e.g. Porter 1996).

Figure 6.4 shows a scenario when the music firm is reacting on shareholder PRESSURE by revising strategies with the purpose to increase revenues. Basically there are three revenue enhancing routes the music firm can take. One is the development of the firm’s intellectual property portfolio, the second is to boost media presence in order to increase consumer sales, and the third option is to increase the licensing of the firm’s portfolio. By walking through the model structure, it is clear that these three routes constitute three distinct balancing feedback loops. This ‘mental simulation’ also shows that all these initiatives are associated with significant delays created by time lags in four of the links in the loops. Consequently, it takes a considerable amount of time from the moment when shareholder pressure starts to build until the business strategies actually have been revised.

This structure in Figure 6.4 illustrates the dynamics of a “healthy and prosperous” music firm which is able to gradually adjust its resources, policies and routines in order to satisfy its stakeholders and to evolve and grow in a steady pace. The next section will introduce other strategic routes which, at least short-term, may be able to increase PROFIT and close a PROFIT GAP.
Shifting the burden

The following variable is introduced in this step:

<table>
<thead>
<tr>
<th>New variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>RISK WILLINGNESS</td>
<td>The willingness of the music firm to accept risk during the development of new intellectual properties.</td>
</tr>
</tbody>
</table>

Figure 6.5: Cost-cutting strategies short-circuit the balancing feedback loops of the music firm.

43 Senge (1990: 104)
There are other ways the firm’s management can react on shareholder pressure than by trying to enhance its revenues (Figure 6.5). One way is to address the risks associated with INTELLECTUAL PROPERTY DEVELOPMENT. The level of novelty generated by this development process is heavily influenced by the firm’s willingness to accept risk. NOVELTIES which are far away from the mainstream may certainly be the “next big thing” but it may also go totally unnoticed or unappreciated by the audience. By avoiding such novelties and instead develop intellectual properties which are firmly rooted in the mainstream, it is possible to reduce the level of risk considerably. By using this risk reducing strategy, the firm is hoping to increase its “hit rate” and thereby to reduce the number of failures. However, as always, it is tricky to have your cake and eat it too. A walk through the structures of the influence diagram illustrated by Figure 6.5 shows that reduced RISK WILLINGNESS may lead to fewer NOVELTIES, diminished IP PORTFOLIO ATTRACTIVENESS, and eventually reduced REVENUES, rather than the opposite.

A second approach is focused on the costs associated with the development, marketing and licensing of intellectual properties. A PROFIT GAP can be reduced, simply by spending less financial resources in these three areas. The advantage of cutting costs compared to the implementation of revenue enhancing strategies has to do with the time lags associated with any initiative involving the audience. Cost reductions have almost immediate effects on PROFIT which means that a PROFIT GAP will be reduced much faster than if revenue enhancing initiatives are launched. A cost cutting initiative can have a positive impact on PROFIT within weeks, while revenue enhancing strategies usually require considerably more time before it has an effect on the firm’s financials. (E.g. Lyneis 1980; Warren 2002)

While cost-cutting may solve a problem short-term, it may have detrimental effects on the firm’s long-term performance (cf. section 4.4). By walking through the influence diagram it is possible to conclude that a reduction of costs may lead to fewer NOVELTIES, less MEDIA PRESENCE, decreased AUDIENCE ACTION, and lowered REVENUES which will add to the PROFIT GAP, rather than the opposite. The structures of the “healthy and prosperous” music firm have in other words been converted from three balancing feedback loops which relieve a problem, to four reinforcing feedback loops which in the long-term may make a problem worse. This phenomenon, which is common in many social systems, is often referred to as the ‘Shifting the burden’ structure (Senge 1990: 104). Instead of solving the fundamental problem, a short-term
solution is used in its place. As an effect, the system’s ability to actually solve the fundamental problem is slowly but surely disabled. (Senge 1990: 104-13)

In reality, a music firm is of course not restricted to choose either cost-cutting or revenue enhancement, but the firm is able to mix the two options. In order to illustrate the fact that shareholder pressure can either increase or decrease development, marketing and licensing of intellectual properties, the influence links from the variable PRESSURE has been labelled “+/−”.

6.6 This is strategy

All the components that constitute the Music Industry Feedback Model have now been introduced. This section will conclude the presentation by making a few final remarks on the model.

Section 2.7 addressed the question ‘What is strategy?’ by presenting concepts that particularly are concerned with organisations’ ability to adapt to a changing environment. The Music Industry Feedback Model can be read as an application of these concepts to the business of music. The model shows how emergent strategies are crafted and developed (e.g. Mintzberg 1987) as a response to environmental changes. In the model, the input from the environment to the firm is represented by merely two links, namely revenues from royalties and product sales, and the influence from audience action to the development of new intellectual properties. In reality, influences from the environment to the firm are of course more complicated.

A few words need to be spent on issues of model boundary and conceptual distance. As Figure 6.6 shows, the model boundary is not congruent with the legal boundary of the firm. The reinforcing feedback loop referred to as the Audience-Media Engine, which to a great extent governs music industry dynamics, is for instance placed completely outside the firm’s legal boundary. There are also additional aspects of music industry dynamics which can only be explained by considering the influence from other systems such as governmental bodies, the ICT industries, or other copyright industries. These and related issues will be discussed in the next chapter.

44 For instance, there is usually some kind of information feedback from MEDIA PRESENCE to MARKETING EFFORT. A music firm is monitoring the success of their marketing effort, and if the impact of their effort on media presence is insufficient, this is (or at least ought to be) acted upon.
The conceptual distance determines the level of detail considered by the model (cf. section 4.6). The conceptual distance chosen in this study has ended up with links and variables which are aggregates of complex and sometimes chaotic phenomena. A shorter conceptual distance would have included more detail complexity, but it would not enhance the usefulness of the model. Rather it might have hampered the model's readability and explanatory power.

Figure 6.6: The blob illustrates the boundary of the firm.
This chapter has introduced the Music Industry Feedback Model (Figure 6.7). In the remaining chapters the model will be used as an analytical tool when examining contemporary music industry dynamics. First and foremost, in the next chapter, the model will be connected to a changing media environment, and the impact of these changes on the music firm will be discussed.
Music is an integral part of most media. Movies, radio, videogames, and television all depend on music as the core or the enhancement of their products. The music industry on the other hand is completely dependent on the media, as a promoter, user, and distributor of its products.

The purpose of this chapter is to connect the Music Industry Feedback Model to a media environment. The chapter will explore certain changes in this environment and examine how they influence the behaviour and performance of the music firm. The chapter is structured according to three different relationships that exist between music and the media; the promotion relationship, the usage relationship, and the distribution relationship. The nature of each relationship will be examined, and the changes with relevance to the specific relationship will be discussed.

The model created in the previous chapter will be used to support the argumentation which is brought forward. As the reasoning is laid out, new structures are stepwise added to the model. Each new step includes a short definition of those variables which are introduced. A comprehensive list of model variable definitions is found in Appendix 5. It is important to note that the variables which are introduced in this chapter should not be considered as a part of the Music Industry Feedback Model. The new variables are exogenous to that model, and only serve the purpose of explaining how the model is influenced by its surrounding media environment. In order to be able to separate endogenous from exogenous variables in the influence diagrams, the latter are typed in italic (e.g. Figure 7.1 and Figure 7.2).

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45 Inspired by the last phrases of Jeffrey Atkins’ (aka Ja Rule) *Always on Time*, released as track #5 on *Pain is Love* (Def Jam Recordings / Universal Music Group), in October, 2001.
7.1 The media as a promoter of music

The Audience-Media Engine (e.g. Figure 6.1) illustrates the importance of media as a promoter of music. The audience is exposed to musical content in the media and hopefully a subset of the audience is triggered to spend their monies on some kind of product, for instance a CD (cf. p. 116). Although radio is far from the only tool for exposure, it has a pivotal role in traditional music marketing (e.g. Hirsch 1970: 10; Newman 2003). Those songs which are able to get added to a major radio station’s playlist will most likely be commercially successful. Due to the importance of radio airplay, record labels go to great lengths to increase the probability of getting their songs added to playlists. They give away their music for free; develop the best possible personal relationships to the radio station’s programmer; create more or less ethical incentives for the programmers to play their music; and even let the radio station’s musical demands affect the creative process (Interview #13; #29; #32). For instance, if a song with a certain structure is more likely to be added to radio playlists, A&R professionals will ensure that their artists choose songs with that particular structure. Further, if the most influential radio station in the market is formatted as Modern Rock, artists that fit that particular format are definitely more likely to get a contract and promotion support by a record label compared to artists that do not fit as well in the Modern Rock format. (Interview #18)

Although radio and music companies are dependent on each other, they are working according to two very different business models (Interview #28; Hirsch 1970: 10). While music firms consider the radio to be an important tool for raising the public’s awareness of their new products, radio companies have no immediate incentive to increase the sales of a record. A commercial radio station plays music in order to attract and retain a certain audience which hopefully is of value to the station’s advertisers. If the format followed by the radio station includes new, innovative music, the station will add new, innovative music to their playlist. But if the radio station’s format caters towards an audience which is not interested in new, innovative music, but rather in easy-listening “Oldies” from the 70’s and 80’s, that is what will be played by the station. The loyalty of the radio station is always towards its advertisers and its listeners, never towards the music firm or the artists. (Interview #35)

\[46 \text{ In the realms of radio broadcasting, the term ‘playlist’, is used to refer to an ordered list of songs played during a given time period.}\]
…radio uses music as their programming material and music is what record companies are effectively selling… we’re in different businesses… that is not so say that I don’t think radio is a fairly ungrateful medium, because I think it is! …radio works along a different line than we do but will happily use the programming material we give them to fuel and feed their business… …but on the other hand, airplay is an important factor in selling records, people need to hear it, but things change…. …I am not saying that radio is going to disappear or whatever, but people are going to get their music from different sources, so radio has competition… (Interview #28)

The new ‘sources’ (or media outlets) and the increased competition which the informant is referring to is important in order to understand how the transformation of the media environment affects the music firm.

First of all, there is an increase in the competition between the analogue terrestrial radio stations themselves, primarily due to the governments’ revision of their regulation of commercial radio. Many of these changes were part of the deregulation frenzy during the 1980s and 1990s, spearheaded by the Thatcher and Reagan administrations in the UK and the US. In all the three countries included in this study (Sweden, the UK and the US), important changes in the broadcast regulations were put into effect during this period. The regulatory philosophy which since then governs the radio industries in all three countries can be labelled as ‘light touch’ regulation, which reflects the ambition to minimise the influence of the regulator and to let market forces determine how the industries should evolve (Interview #4; #9).

The regulators in all three countries have opened up new frequencies for commercial radio during the last couple of decades. In Sweden, 87 new stations have been added to the existing public service radio and in the UK, 275 new stations have been added (Norbäck & Ots 2006; Ofcom 2004). In the US, the number of radio stations has increased considerably, due to changes in regulations made during the 1980s: The 6,519 radio stations operating in the US in 1970 had increased to 12,717 stations in 2000. (FMC 2002; Standard & Poor’s 2004)

It is important to note that though the number of outlets has increased in all three countries, the number of owners of commercial terrestrial radio
stations has developed in the opposite direction. Currently, the commercial radio industry in the US has a four-firm concentration ratio of somewhere between 50-60 percent (FMC 2002; Lee 2004; Williams & Roberts 2002), in the UK the same measure is 70 percent (BBC News 2005; Ofcom 2004), and in Sweden, the four-firm concentration ratio is as good as 100 percent (Norbäck & Ots 2006; Sandström 2004; RTVV 2004; 2005).

Analogue terrestrial radio stations also experience increased competition from other kinds of media outlets. Due to the digitalisation of almost every part of the copyright industry value chain (e.g. Figure 2.2); the costs of production and distribution have dropped significantly. This has lowered the entry barriers (cf. section 2.6) into the copyright industries and a number of new media outlets (magazines, TV channels, radio channels, Interactive games, Internet services, etc) have consequently emerged. (E.g. Katz 2004; Lister, Dovey, Giddings, Grant & Kelly 2003; Owen 1999; Thorburn & Jenkins 2003; Ward 2003)

In spite of the abundance of media outlets, people still have to eat, sleep and go to work. Consequently, the total amount of attention these media outlets are able to attract has not increased at the same rate as the number of outlets. This has created the situation which Herbert Simon (quoted on p. 38) referred to as a ‘poverty of attention’ (1971: 40). The increase in media outlets has not resulted in increased media consumption but rather increased audience fragmentation. Audience fragmentation is a trend in copyright industry dynamics that is discussed in most contemporary media textbooks (e.g. Hadenius & Weibull 2003: 455-7; Hollifield 2003: 91; Picard 2002: 109-11)47. The trend has a profound impact on most copyright industries, since revenues often are intimately linked to the size of the audience each outlet is able to attract. Since costs in the copyright industries are mainly fixed (section 2.4), a minor reduction of a single outlet’s revenues has an immediate and severe impact on the outlet’s profitability and sustainability. In order to cope with this unstable situation, copyright companies try to increase their market share and size by controlling as many outlets as possible. In other words, the technological development which leads to reduced entry barriers and audience fragmentation also works as an incentive for mergers and acquisitions among the existing players.

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47 Audience fragmentation is also closely linked to the reasoning on ‘increased product variety’ as presented by Brynjolfsson, Hu and Smith (2003) and popularised by Chris Anderson as ‘The Long Tail’ (Anderson 2004; 2006).
The increase in the number of media outlets discussed above influence the music firms’ ability to use the media as a promotional tool in at least two ways. These two “influence branches” from the media environment to the music firm, will be examined in the two sections below, starting with the influence on the Audience-Media Engine.

**Fragmentation of the Audience-Media Engine**

Figure 7.1 shows how the changes in the media environment discussed above influences the Audience-Media Engine.

<table>
<thead>
<tr>
<th>New variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUDIENCE FRAGMENTATION</td>
<td>The level of fragmentation of the total audience. If the time spent by the audience using media is constant and the number of media outlets increase, the audience fragmentation is assumed to rise.</td>
</tr>
<tr>
<td>MEDIA OUTLETS</td>
<td>The number of relevant media outlets available to the audience.</td>
</tr>
</tbody>
</table>
According to the reasoning above, certain developments during the last couple of decades have significantly increased the number of media outlets available to the audience. Since the time and the resources spent by the audience on copyright products have not increased in the same extent; audience fragmentation has accelerated. In practice, this means that fewer people are tuned to the same outlet, and an appearance on a specific outlet consequently reaches a smaller part of the total audience. It also means that the music firm has to place its acts in more outlets in order to uphold the level of media presence. The marketing department has to work harder, and to spend more resources, to sustain the speed of the Audience-Media Engine:

Previously it was enough to get the artist into *Måndagsbörsen* [a Swedish talk show during the 80s], to make the artist a success, now you have to be on 200 channels and places in order to get through. (Interview #13)

It should be noted though, that there still are some outlets which have the power to single-handedly influence a significant part of the audience:

…there are people who can influence album sales by putting their stamp on the music, like *Oprah* [a US daytime talk show]… If you get played at 4pm on *Oprah* your sales are going to double… (Interview #10)

However, in aggregate, the increased audience fragmentation has a hampering effect on audience reach. In order not to let the Audience-Media Engine slow down, the music firm has to increase its marketing effort, which has a negative effect on the firm’s profit (Figure 7.1 & Figure 6.7).

**Impact on marketing efficiency**

The section above explained how the Audience-Media Engine is influenced by the changes in the media environment previously discussed in this chapter. This section will present the second influence branch which connects the media environment to the structures of the Music Industry Feedback Model.
The following variables are introduced in this step:

<table>
<thead>
<tr>
<th>New variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUDIENCE VOLATILITY</td>
<td>The tendency of the audiences to jump between different media outlets.</td>
</tr>
<tr>
<td>MARKETING EFFICIENCY</td>
<td>Resources required by the music firm to get accepted by a media outlet and added to their events and their playlists.</td>
</tr>
<tr>
<td>MEDIA RISK WILLINGNESS</td>
<td>The willingness among media outlets to accept risk when determining which music content should be added to their events and their playlists.</td>
</tr>
<tr>
<td>PLAYLIST ENTRY BARRIERS</td>
<td>Routines and policies followed by the media when adding new content to events and playlists. These routines and policies govern whether the barriers to enter the events and playlists are easy or difficult to pass.</td>
</tr>
</tbody>
</table>

![Diagram](image)

Figure 7.2: Impact on marketing efficiency and audience reach.

Commercial terrestrial radio stations, as well as any other advertising funded media outlet, live or die by their ratings. The circulation spiral which was briefly discussed in chapter 4 is as applicable to these outlets as it is to newspaper firms. Advertisers often choose to limit their buys to the top three radio stations in an area, and consequently, it is very difficult for a station to survive if it is stuck on the lower ranks (Arbitron 2005).
A media outlet, such as a radio station, can spend resources on the marketing of their brand (Interview #10), but even more crucial for attracting audiences is the outlet’s programming. It is by adjusting the programming that the outlet is able to attract specific audiences. However, the increased number of media outlets has increased the AUDIENCE VOLATILITY significantly (Interviews #3; #29; #35). Programmers at radio stations are therefore extremely careful not to air content which may cause the audience to zap to another station. This decrease in MEDIA RISK WILLINGNESS, combined with a set of facilitating technologies has caused the radio station’s program directors to change their programming policies and routines (Figure 7.2).

In the early days of the Top 40 format, commercial radio was a local medium, operating close to the city or the area where it was based. Although the individual DJ’s had to adhere to the station’s overall format they had some level of freedom to decide which songs should be played during the show. In other words, the programming decisions were decentralized which resulted in a relatively high diversity of the station’s musical output. (E.g. Lee 2004)

This diversity and unpredictability yielded cultural value to the audience but it also constituted a great risk to the owners of the commercial radio stations. If the DJ happened to play a song which the audience did not appreciate, it could result in the radio station losing listeners to other competing outlets. To deal with this volatile situation, radio networks moved the programming decision making from the local DJ’s to a central committee which made the programming decisions on network basis.

…basically everything shrunk… …there are less people making the decisions… …it used to be that 20 years ago, in New York you hear one kind of music and in Kansas you hear another kind of music and in LA you hear another kind of music….same formatted radio stations like Active Rock or Modern Rock, they wouldn’t be the identical playlist…now with very few changes the playlists are pretty standard… (Interview #10)

The effect of the centralised and automated programming of the radio station’s playlists lowered the number of new songs added per week and

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48 In order not to confuse the radio station’s risk willingness with the music firm’s risk willingness, the former is labelled MEDIA RISK WILLINGNESS in the model.
minimised the number of songs that did not exactly fit the station’s format. Well-known, established artists with songs that fit well with the radio format have minor problems to cope with this situation, but less established artists or artists whose songs fall between the defined formats have great difficulties to raise audience awareness through traditional radio. (E.g. Ahlkvist 2001; Ahlkvist & Faulkner 2002; Ahlkvist & Fisher 2000; Lee 2004; Wallis 1995; Wikström 2005; Interview #1; #8; #13)

…there are so many artists trying to get into these boxes whether it be Rock or Modern Rock or Hot AC, you know you have to fit into these boxes for radio […] if you don’t fit […] then it is almost like…it’s a lot harder to work your artist…or maybe we wouldn’t even sign them… (Interview #18)

From the radio station’s point of view, this move is strategically sound since it supposedly makes the radio station’s programming better adjusted to the tastes of the target audiences. An executive at a major US radio company clarifies his point of view: ‘You have to ask yourself why we only play the hits; well we made them into hits’ (Interview #29).

However, from the music firm’s point of view, the radio station’s revision of playlist policies radically reduces the significance of radio as a promotional tool. A high-ranking decision maker at one of the major record labels explains his view of the situation:

Radio stations are very careful and very conservative and everyone tries to go with the same format… which is not good, because you won’t break any artists that way. We have great difficulty getting new artists added to radio playlists. It’s getting harder and harder. They are so tied to their formats; they are so worried about their ad monies, so very few dare to take any chances. (Interview #34)

The end of radio as a promotional tool?

Changes in the media environment have weakened the role of the radio medium as a promotional tool in at least three ways. First, increased AUDIENCE
FRAGMENTATION has reduced the share of the AUDIENCE REACHED by a single media outlet. Consequently the music firm is required to appear in more outlets in order to keep its aggregated level of MEDIA PRESENCE stable. Second, media outlets have decreased their level of (MEDIA) RISK WILLINGNESS. This has caused the outlets to revise their business strategies and to increase PLAYLIST ENTRY BARRIERS. The MARKETING EFFORT that a music firm has to spend to overcome those barriers has thereby increased considerably. A third effect, which has not been presented previously, is discussed by one of the informants: There is a significant part of the audience that is satisfied with the music they hear on radio and do not look for the same songs on physical records. The remaining part of the audience, that actually do buy records, explain that they look for music that is different, new, innovative or interesting. However, the radio stations’ revision of their playlist policies have reduced the amount of new and innovative songs on the radio, which means that the record buying audience is unable to discover music they think is appealing on terrestrial commercial radio. Broadly speaking, the only part of the audience that are happily listening to radio are the ones that are uninterested in buying records, which of course reduces the usefulness of the radio as a tool for breaking new artists. (Interview #12)

…fifteen twenty years ago if you got a hit single on radio you’d sell records! Now there is a ton of examples you can point to…huge [radio] hit single and the record wouldn’t sell… …Mario was number one for eight weeks with the Let Me Love You song but his album didn’t even go platinum! I mean eight weeks on number one … everyone is playing this song … the album isn’t platinum… (Interview #10)

Informants’ statements, such as the one above, illustrate the frustration within the music industry with the development of the radio medium. In general, traditional broadcast media is still the most powerful tool for mainstream music promotion. However, the resources required by music firms to attain a certain level of AUDIENCE REACH have increased, primarily due to those changes in the media environment which have been presented in this section.
7.2 The media as a user of music

The music business has been sluggish during the last five years (e.g. Barfe 2004; IFPI 2004b). However, it is important to note that not the entire music industry is in shambles. Primarily it is sales of physical products, for instance CDs, which have declined. Other music related products are doing fairly well. For instance; revenues from performance and synchronisation royalties have been growing considerably during the last five years.

Figure 7.3 graphs the revenues of three royalty collecting societies in Sweden, UK and the US. Since the size of the markets differs, and the revenue data is measured differently, the graph has been indexed to enable comparison. Although data for Sweden and the US is missing for the years before 2000, the graph shows that licensing revenues have increased with approximately 30 percent between 2000 and 2004.

Another indication of the prosperous state of the licensing business is found in the music firms’ annual reports, for instance from EMI. EMI is a multinational music firm with a business unit for recorded music (EMI Music) and a unit for music publishing (EMI Music Publishing). EMI Music Publishing is the little sister in the family and contributed with only 13 percent of the total revenues in the fiscal year of 1999 (EMI 2002a). However, the publishing unit receives all its revenues from royalties, and the growing licensing industry is
showing in their numbers. In 2005 the contribution from EMI Music Publishing to the total revenues had risen to 21 percent and the unit delivered almost half of EMI’s total profit\(^{49}\) (EMI 2005).

<table>
<thead>
<tr>
<th>New variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONTENT DEMAND</td>
<td>The demand from media outlets to license and use musical content.</td>
</tr>
</tbody>
</table>

\[\text{Figure 7.4: Impact on licensing.}\]

One explanation of the boom in this part of the music industry could be a change in music firms’ business strategies. This will be discussed later, but another explanation is the sudden increase in the number of media outlets discussed in the previous section. Media outlets without content are not very well equipped to attract audiences. Content of some sort is consequently

\(^{49}\) The publishing unit’s contribution to the group’s total profit was 32% in 1999 and 43% in 2005 (EMI 2002; 2005).
required, and since music is an integral part of most media, the demand for licensing of music has increased (Figure 7.4).

The three influence branches originating from the variable MEDIA OUTLETS impact the Music Industry Feedback Model and specifically the Audience-Media Engine in different ways (Figure 7.1, 7.2 & 7.4). As discussed in the previous section, the “AUDIENCE FRAGMENTATION branch” and the “MEDIA RISK WILLINGNESS branch” have a hampering effect by reducing the AUDIENCE REACHED by individual media outlets and by increasing PLAYLIST ENTRY BARRIERS, thereby reducing the music firm’s ability to enter those outlets. The “CONTENT DEMAND branch” works against this dynamics, and increases the music firm’s MEDIA PRESENCE by raising the demand for musical content licenses. These three branches constitute an illustrative example of how dynamic complexity makes it difficult to determine the drivers’ aggregated effect on the dynamics of the music firm. The detailed dynamics is determined by the strength of the branches and the time lag which is involved. A walk through the model structure illustrated by Figure 7.4 reveals that the “CONTENT DEMAND branch” involves less delay than the other two branches. A change in the number of MEDIA OUTLETS has more or less an immediate effect on content demand while the other two branches involve systems (audiences and media companies respectively) with considerable inertia. On the other hand, the impact from the “CONTENT DEMAND branch” is not as significant as the impact from the other two branches. Consequently, the increase in music LICENSING is not able to balance the growing problems generated by the other two branches.

This section has discussed how changes in the media environment not only hurt the music firm, but also has a significant REVENUE enhancing effect. The increase in the number of MEDIA OUTLETS has raised the DEMAND for LICENSING music to be used in those new outlets. Evidence from royalty collection societies support this reasoning as they report a 30 percent increase from 2000 to 2004 of license fees paid.

The next section will discuss the third and last music-media relationship, namely the media as a distributor of music.

7.3 The media as a distributor of music

The distribution of music has since the fifteenth century involved some kind of physical product. Initially, sheet music was the prime vehicle for the distribution
of music, and the music industry was simply just another industry among many other publishing industries such as books, magazines, newspapers, etc. It was the development of new technologies such as the piano roll during the end of the nineteenth century and later cylinders, discs, and a plethora of other twentieth century storage and distribution technologies that established the new industry, separated from the traditional publishing realm. (E.g. Barfe 2004; Coleman 2003; Gelatt 1977; Gronow 1983; Poe 1997; Qualen 1985; Read & Welch 1976)

In the last quarter of the twentieth century, technological developments in the areas of digital computing and computer networking made it possible to use electronic media not only as promoter and user of music, but also as a distributor of music (e.g. Abbate 1999; Alderman 2001; Castells 2001; Coleman 2003). There are numerous technological innovations which have contributed to this transformation. In the section below, three specific technologies which have immediately affected the copyright industries will be presented, namely, Internet high-speed infrastructure, audio compression technologies, and peer-to-peer networking. This presentation will lead into a discussion concerning two parallel processes. The first process concerns how the new technologies facilitate the audiences’ access to music culture. The other concerns how the same technologies make it difficult for music firms to control the dissemination of their intellectual properties, and thereby threaten the value of their IP portfolios.

**Inside Pandora’s Box**

High-speed Internet access is a requirement in order to turn the Internet into a workable music distribution platform. All three countries have relatively sophisticated Internet infrastructures and Internet user habits, compared to many other countries around the world. In June 2005, approximately one third\(^{50}\) of the households in all three countries had high-speed Internet access of some kind. In the US, the broadband Internet infrastructure is primarily based on cable TV technology (55% of all broadband connections) while ADSL is the most common technology used in Sweden (69%) and the UK (72%) (OECD 2005a). In Sweden, fibre-to-the-home (FTTH) technology has been used in a greater extent (15%) than in the other two countries, UK (<1%) and

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\(^{50}\) Sweden: 35%; UK: 32%; USA: 36%. Sources: SCB, UK government, US Census agency, and OECD.
the US (7%). The FTTH technology enables the delivery of high-speed Internet accesses (more than 100Mbps) at lower costs compared to the other technologies. This fact combined with new regulations and the emergence of Internet operators which pursue an aggressive low-price strategy has created a relatively competitive situation in the Swedish market of Internet broadband accesses (Swedish Competition Authority 2005). In Sweden, an Internet access with a bandwidth of 24Mbps is priced at about the same level as a 2Mbps access in the UK and the US\(^{51}\). This means that high-speed Internet infrastructure is more accessible in Sweden compared to the other two markets, and even though household broadband penetration is about the same in all three countries, Swedish households are in general more “well-connected” to the Internet than households in the UK and the US.

Along with the development of Internet access technologies, technologies for digital representation of information have become increasingly efficient. In 1989, the Fraunhofer Institute for Integrated Circuits in Erlangen, Germany, secured a patent for the audio compression algorithm now known as MP3 (e.g. Alderman 2001). This algorithm made it possible to represent sounds about ten times more efficient than previous technologies, with tolerable distortion of the quality of sound. In practice, this means that if an uncompressed audio file requires 100 seconds to be sent across the Internet from A to B, the same sound, formatted as an MP3 file, will only require 10 seconds for the same journey. The MP3 format has become the most widely used algorithm for audio compression. However, technological development continues, and since 1989, other compression technologies (e.g. AAC, WMA, Ogg Vorbis), even more efficient and less harmful to the quality of the compressed sound, have been released. (Alderman 2001)

A third technology which is immediately impacting the copyright industries is called peer-to-peer (or P2P) computer networking. P2P networks differ from traditional computer networks in the sense that they use the computing resources and bandwidths of all participants in the network rather than relying on the resources of a few powerful computer servers. Since the computers used by ordinary Internet users have become more potent and the bandwidth by which these computers are connected to the Internet has increased, P2P have

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\(^{51}\) 2Mbps access is priced at approx. €25 in the UK (http://www.tiscali.co.uk); 3Mbps access is priced at €33 in the USA (http://www.att.com); 24Mbps is priced at approx. €26 in Sweden (http://www.glocalnet.se). All prices as advertised in March 2006.
become an increasingly useful model for Internet based collaboration and networking. (Oram 2001)

The advantage of P2P networks is the significantly increased efficiency in the usage of network resources. In a traditional client-server network, the capability of the network is determined by the server’s resources. If a new participant is added to the network, the load on the server is increased and the resources available to the average participant decrease. In a P2P structure, all participants’ resources contribute to the network’s total capability. When a participant is added, his/her resources become an integrated part of the network’s resource pool. The new participant will consequently not be a burden to the network, but on the contrary, she/he will be a contribution which will enhance the network’s capability. (Oram 2001)

Peer-to-peer concepts have been discussed within the Internet development community since 1969 when Steve Crocker brought the issue to the table (Crocker 1969). Several P2P networks have been launched since, for instance UseNet in 1979 and FidoNet in 1984. In 1999, the concept reached the awareness of the general public in the shape of the Napster software developed by Shawn Fanning and others (Alderman 2001). Napster was actually not a true P2P network since some parts of the system relied on a traditional client-server structure. Napster is probably most known as a tool for sharing media files in a way that infringed copyright law. Due to the success of the system, Fanning was brought to trial by the major actors in the copyright industries, and the court soon ordered Napster to cease-and-desist. Fanning followed that order, but once the peer-to-peer concepts were known among the general public, numerous other technologies soon followed. Some of these did use a true peer-to-peer structure (e.g. Gnutella, FreeNet, and BitTorrent) without an easily identifiable individual or organisation that can be charged as responsible for the legal violations enabled by the network. Although copyright owners in the music, film and videogame industries have spent considerable resources trying to stop illegal file-sharing (discussed in section 8.3), the networks still elude the threats from the copyright industries. As the graph in Figure 7.5 shows, in January 2006, there were more P2P users than ever.
A Jupiter/IPSOS study, ordered by IFPI, shows that Sweden is the European country where most Internet users (15%) actively participate in P2P networks. In the UK, the corresponding number is 4 percent (IFPI 2006a). The study covers unfortunately Europe only, why a comparison with the US is not possible. It is difficult to make a causal connection between broadband infrastructure and consumer behaviour, but at least there is a strong correlation between the two in the cases of Sweden and the UK.

Other technologies that have been important as enablers of new media outlets are micro-payment technologies, mobile communication technologies and technologies for non-volatile information storage, to name but a few. It deserves to be noted that not all media outlets based on these technologies are illegal. Quite the contrary, most media outlets are legal services sanctioned and approved by the copyright industries. In chapter 9, a number of such legal outlets and their implications on the music industry will be further examined.

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52 Globally in January 2006, there were 335 legal online music services in operation. 200 of these services were operating in Europe (IFPI 2006c).
Impact on the music firm

The technologies discussed above have affected the music firm in at least two ways. First, the numerous new ways to listen to and acquire music have increased the ACCESSIBILITY of musical content (Figure 7.6).

The following variables are introduced in this step:

<table>
<thead>
<tr>
<th>New variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCESSIBILITY</td>
<td>The ease or difficulty for the audience to access and use the music firm’s intellectual properties.</td>
</tr>
<tr>
<td>APPROPRIABILITY</td>
<td>The music firm’s ability to convert audience action into actual revenues.</td>
</tr>
</tbody>
</table>

The resources required by the audience to access music, both measured as time or monies, have thereby decreased. This change facilitates AUDIENCE ACTION, since it is easier to explore new musical artists and genres. It is this reasoning which is used by those debaters who are the proponents of uncontrolled distribution of intellectual property (cf. p. 79). These men and women argue that by increasing the ACCESSIBILITY of musical content, more people will be able to discover music and broaden their musical experience.
which is beneficial to the entire music industry. Based on that logic, the appropriate action by the music industry would be to support the uncontrolled circulation of copyrighted material on the Internet, rather than to try to wipe it out.

The other way the new technologies affect the music firm is that they make it more difficult to control the flow and distribution of copyrighted material, including music. This means that though AUDIENCE ACTION is facilitated by the new technologies, fewer actions are appropriable, that is to say possible to convert into actual REVENUES. For instance, a music firm is generally able to collect almost all REVENUES from AUDIENCE ACTIONS which have a high level of APPROPRIABILITY (e.g. the purchase of physical products such as CDs and DVDs). It is much more difficult to collect REVENUES from an audience action such as Internet-based file-sharing which has a very low level of APPROPRIABILITY. In aggregate, new Internet-based technologies for content distribution have reduced the general level of APPROPRIABILITY of AUDIENCE ACTIONS’. (cf. p. 37; Brand 1987; Liebowitz 2002a)

This text has already reviewed the research which has been made on these two processes (p. 79). The conclusion which was possible to make after that review was that although the evidence is far from clear, it seems as the impact from the lowered APPROPRIABILITY on the performance of the music firms is more significant than the impact from increased ACCESSIBILITY.

The purpose of this chapter has been to connect the Music Industry Feedback Model to the media environment and to examine how changes in this environment influence the performance of the music firm (Figure 7.7). The findings reported by the chapter can be summarized as follows.

First, increased AUDIENCE FRAGMENTATION and radio stations’ increased PLAYLIST ENTRY BARRIERS require music firms to increase their MARKETING EFFORT in order to uphold MEDIA PRESENCE. Second, new technologies make it increasingly difficult to transform AUDIENCE ACTION into actual REVENUES. The combination of these two effects increase costs and decrease REVENUES, which significantly deteriorates the music firm’s ability to generate PROFIT.

There are also good tidings. First, the increased number of MEDIA OUTLETS has made REVENUES from music LICENSING more important. Performance and synchronization ROYALTIES have increased by approximately 30 percent between 2000 and 2004 (cf. p. 142). Second, although new technologies make
content distribution difficult to control, they increase the ACCESSIBILITY of musical content which stimulates AUDIENCE ACTION and lubricates the machinery of the Audience-Media Engine.

Figure 7.7: The Music Industry Feedback Model connected to a changing media environment.

The next chapter will continue from this exploration of how the transformation of the media environment affects the music firm. The chapter will examine how music firms have perceived the transformation and how they have acted in order to cope with the new conditions.
Adapt or die

The title of this chapter refers to the evolutionary paths which, according to Rupert Murdoch of News Corp, are open to traditional media companies: ‘The greatest challenge for the traditional media now is to engage with more demanding, questioning, and better educated consumers, adapting their products for new technology’ (Murdoch 2006). That challenge has been very real to most music firms during the recent years. This chapter will examine how music firms have revised their business strategies in order to adapt to the transformation of the media environment discussed in the previous chapter. The chapter will present four strategic themes (sections 8.1 to 8.4); the rationale behind these according to the decision makers; and their implications on the dynamics of the music firms. The first three themes are linked to the structure from the previous chapter as they address changes related to media as promoter, user, and distributor of music. The fourth theme concerns risk management related issues and can not be referred to one specific music-media relationship. Each of the themes will be wrapped up by a short summary which lists the rationale behind the strategy, the model variables which are involved and the unintended side-effects (if any) that have been identified. In the last section (8.5), the aggregated impact of these strategies on the music firm will be summarized and discussed.

The Music Industry Feedback Model will continue to serve as the tool for explaining how strategic initiatives affect the firms’ performance. As in the previous two chapters, walking through the model structure (e.g. Figure 6.7), alongside the stories explicated by this chapter, will further illustrate and enhance the reasoning.
8.1 Shout louder

The primary purpose of the first strategic theme is to improve or sustain media presence by revising the firm’s marketing strategies. The initiatives are launched to address the problem regarding how traditional broadcast media have become less useful or too expensive as promotional tools (cf. section 7.1).

Music firms continually seek new ways to reach their audiences. When one promotional technique loses its effect, new tools are picked up in order to sustain the required level of media presence (Interview #8). Two promotional tools which have become increasingly important during the last two decades are promotional videos and advertising which will be briefly introduced below.

**Music videos in the promotional mix**

There are numerous studies of how the promotional music video has transformed music and developed into an art form in itself (e.g. Frith, Goodwin & Grossberg 1993; Mundy 1999). However, though that is a fascinating development, it is slightly outside the scope of this study which chooses to consider the music video as merely a tool for promotion.

The use of moving images to promote music can be traced back to the 1960s (Bob Dylan, The Monkees, The Beatles, et al.) and the 1970s (David Bowie, ABBA, Queen, et al) but the definitive milestone is the launch of MTV in the US, August 1, 1981 (Denisoff 1988: 37). MTV established a new platform for music promotion and spurred the music firms’ marketing departments to spend a growing portion of their marketing budgets on the production of promotional videos. This portion expanded due to the assumption that in order to reach the audience, the video had to beat the extravagance of the competition. The assumption established a reinforcing feedback process which rapidly accelerated music video production costs, and eventually peaked in 1995 with Michael and Janet Jackson’s *Scream*, directed by Mark Romanek, and often cited as the most expensive music video ever made.

**Advertising in the promotional mix**

In traditional music promotion, the media outlet (at least in theory) decides which personalities and musical content should be aired, reviewed, etc. The music firm may be able to influence the outlet’s decision by using carrot and
stick, but in the end, the decision rests in the hands of the outlet. In contrast, by using advertising as a promotional tool, the music firm is able to fully control its media presence. The firm buys space in a magazine or airtime in broadcast media, and is free to do “whatever” they prefer on that page or during those seconds. However, advertising is much more expensive than traditional promotion which (again in theory) is more or less free of charge. When the usefulness of traditional promotion techniques decline, advertising has been a convenient way to compensate for the loss of MEDIA PRESENCE and AUDIENCE REACH. However, though the turn to advertising has been able to compensate for the reduced potency of traditional promotion, the costs of sustaining the required level of media presence has increased considerably.

When advertising was less common as a promotional tool, it was possible to reach the audience with a moderate advertising investment. Due to the intensified use of advertising, the “advertising noise” has increased. In order to be heard through the noise, advertisers have to “shout louder”, and have to spend more advertising monies. The music firm’s marketing budget for an album project is usually set as a percentage of expected sales. Previously this percentage hovered around 10 percent, but the increased use of advertising has according to some informants caused the marketing budgets to climb closer to 20 percent (Interview #14).

We have accustomed the consumer to music adverts which has created a situation where more TV spots are required to get the consumer to the record store. Today you need maybe five to ten spots when it previously was enough with less than five. (Interview #14)

Caught in a game of chicken

The two reinforcing feedback loops (music videos and advertising) which generate the accelerating marketing costs as discussed above is similar to a ‘game of chicken’. As in any such game, it can not go on for ever. Eventually revenues are unable to cover the costs, profit declines and the promotional strategy has to be revised. In the case of the music videos, this policy shift is clearly marked by the Jackson/Romanek video in 1995, but in the case of advertising, the corresponding shift is not as easily identified.
The ‘game of chicken’ is an escalating dynamics which occurs in many socio-economic systems. It has been the subject of research by several scholars, both within the field of system dynamics (e.g. Senge 1990: 384-5) and within the field of game theory (e.g. Brams 1994: 127ff).

In order to change the structure of the feedback loop, several policy shifts have been launched by music firms. First, music video production budgets have been considerably reduced, and fewer songs are supported by a promotional video.

…when I started in the music business […] I had in the beginning I would say for an average music video up to €150,000. When I left [a multinational music firm] in 2003 I had something like a rule that said €50,000 maximum. (Interview #9)

Second, television advertising is used very selectively in low risk projects where the return on investment is assured, for instance in album compilation projects, which is discussed later in this chapter (e.g. Interview #8; #32). Third, the managerial pressure exerted on the marketing department is increased:

You could feel that the budgets definitely had been reduced…we had to get the same media awareness and same media volume for less budget … […] … we just didn’t have the budgets to work with artists that weren’t priority artists, key artists [that] we were hoping to exploit in other territories … (Interview #9)

The pattern of behaviour created by the music firms’ promotional strategies can be summarized as follows: The transformation of the media environment initially forced music firms to increase their MARKETING EFFORT. Advertising and music videos became important promotional tools, but they were simultaneously hurting the firms’ PROFIT. At first, the Audience-Media Engine continued to run fairly well, but as the media environment continued to evolve, the music firms eventually were unable to follow the evolution by continuously increasing their MARKETING EFFORT. Consequently, the music firms pulled the brakes and revised their strategies again.

This time, MARKETING EFFORT was reduced, but the marketing resources were not evenly distributed across the entire artist roster. MARKETING EFFORT
was instead focused on a limited set of prioritised artists, based on the understanding that you have to focus your resources to be heard through the media noise. The prioritised artists required a wide audience appeal in order to be able to recoup the marketing costs. Consequently, artists in the major music firm’s roster, with a narrow audience appeal, were often less fortunate when competing for the firm’s attention and resources.

The Music Industry Feedback Model (e.g. Figure 6.7) explains how the reduction of the firm’s MARKETING EFFORT and the focusing of the resources on fewer artists reduces the firm’s aggregate MEDIA PRESENCE. The strategy in turn impedes the Audience-Media Engine and eventually also hurts REVENUES generated by AUDIENCE ACTIONS. In other words, when the music firm tried to address a problem caused by exogenous agents, the firm’s strategic shift did not alleviate the problem but rather made the situation worse.

A relevant question is whether the music firms could have acted differently. In hindsight it is easy to realise that the ‘game of chicken’ seldom can be considered as viable strategic thinking. However, in the heat of the battle, it is not easy to determine when to leave the field.

In short: First; increase marketing effort to sustain media presence. Then; limit marketing effort and focus only on priority artists.

Rationale: First; to cope with changes in the media environment. Then; to stop the escalating marketing costs in order to meet financial goals.

Key variables: MARKETING EFFORT; MEDIA PRESENCE.

Unintended side-effect: The strategy leads to reduced media presence which hampers the Audience-Media Engine and shrinks the firm’s revenues from audience actions.

8.2 Increase licensing efforts

As the traditional tools for music marketing and promotion has become less useful (cf. section 7.1), music firm’s marketing departments have become more interested in the use of licensing as a means to increase record sales (Interview #8). The licensing of a song to an advertising campaign or to a film soundtrack, may achieve considerable MEDIA PRESENCE instantly. A high-profile Hollywood production aimed for the big screen usually has a marketing budget
which is considerably larger than the resources allotted to album projects of the greatest of music superstars (e.g. Dale 1997). Such resources are often able to turn even the feeblest soundtrack into a commercial success. Full-length soundtrack albums from films such as Saturday Night Fever (1977), Purple Rain (1984), The Bodyguard (1992), and Forest Gump (1994) have all become some of the world’s best selling albums of all time. Songs licensed to films such as Pretty Woman (Roxette – It Must Have Been Love – 1990), Robin Hood: Prince of Thieves (Bryan Adams – (Everything I Do) I Do It For You – 1991), The Lion King (Elton John – The Circle of Life – 1994), or Titanic (Celine Dion – My Heart Will Go On – 1997) have been propelled into sales charts around the world.

In the advertising space, music has become an increasingly important ingredient in the production of television commercials. One milestone in the history of music in advertising is the British advertising agency Bartle Bogle Hegarty’s licensing of Marvin Gaye’s ‘I heard it through the grapevine’ to promote Levi’s 501 in the UK, in 1985. The commercial, which involves Nick Kamen’s legendary laundrette striptease, has probably been analysed from every angle possible by undergraduate media students around Europe. The commercial worked well for Levi’s UK, but it also launched Nick Kamen’s brief but sparkling career and caused a resurgence for classic soul by Marvin Gaye and his following (Robinson 2000). Another example of a significant event in the history of music in advertising is the licensing of Rolling Stone’s ‘Start Me Up’ for almost €10 million to promote Microsoft’s operating system Windows 95 worldwide (in 1995) (Graff 2003). Today, the days of traditional jingles is long gone, and music is now an integral component of most advertising campaigns (Korte 2005). This increased interest from advertisers and advertising agencies has established the licensing of music to commercials as a viable promotional tool. Regardless if the song is old or new, the media presence generated by the licensing of the song to a television commercial is hard to underestimate.

Another medium which has grown in importance as a licensee of music is the videogame. By mimicking their predecessors in the film industry, videogame producers have started to create soundtracks and license music to enhance their productions (e.g. Schnur 2005). Black Eyed Peas, Franz Ferdinand, Good Charlotte and Pussycat Dolls are all examples of acts where a videogame has been used as an important promotional platform (e.g. Interview #31). A decision maker from the videogame industry compares the marketing muscles of a global videogame brand to MTV:
…this is another platform where you can promote your artist… if we licensed a song in our game it will be heard up to 700 million times… we really provide more marketing value to a record label than MTV would do with a video… and our licenses are all worldwide… (Interview #17)

The final example of media which have created new opportunities for music licensing is mobile telephony. The significance of the mobile phone as a ‘lifestyle gadget’ has grown considerably since the introduction of the technology a few decades ago. As most fashion items, a mobile device serves as a means to construct and communicate an image of the owner’s identity. The actual model of the device is of course of great importance, but other signs and objects constitute the arpeggio which is messaged to the world. Music has been able to become a part of this package, in the shape of ringtones, callback tones, etc. There are many varieties of these sounds (e.g. voicetones, realtones, mastertones), and in all instances, a music license is involved. The music industry has discovered that while young music consumers are increasingly reluctant to purchase music for listening purposes, they are willing to spend €2 for the latest hit as a ringtone without any hesitation.

It is important to note that this business is completely different to the traditional music business. The sounds purchased are often (but not always) based on mainstream pop music, but the consumer need which is satisfied by these products is completely different to the need which is satisfied by “ordinary” music.

Personalization has really driven the mobile content business, people have been looking to express themselves with their phones… when I was a teenager, I wanted to buy a new pair of sneakers… today’s teenagers want to buy a ringtone, because to pay a few dollars to look cool is something that you are willing to do… particularly if it

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53 A callback tone is the sound the caller hears when calling someone. A ringtone is the sound the called party hears when someone is calling her.
54 Prices advertised by Jamster (http://www.jamster.com) in several European markets on May 4, 2006.
A reliable estimate of the size of the global ringtone market is not readily available, but informants who participated in the study estimate the size to ‘billions of dollars’ (Interview #36). The size of this business may be considerable, but from a technical perspective, its longevity is questionable. Mobile devices are increasingly able to use ordinarily formatted songs as ringtones and the need to purchase specifically formatted songs is decreasing. However, so far this development has not been able to hurt the ringtone business which continues on a steady path of rapid growth.

The increased demand for music licensing from films, advertising, videogames and mobile telephony is part of the transformation of the media environment as discussed in section 7.2. Music licensing has always been an integral and lucrative part of the music business, but it has often created a tension in the relationships between music publishers and record labels. Although music is the essential factor to both of them, their aims and their business models differ. To the music publisher or the licensing department of a full-service music firm, licensing opportunities such as the ones discussed above, are the bread and butter of their business. There is simply no other kind of income besides the royalties paid by the licensees. From the record labels point of view, the licensing has a completely different purpose, and that purpose is to promote an act. The licensing fee paid by the licensee is only the icing on the cake, since the record label’s core business is the selling of audio recordings (primarily CD’s) to consumers. In a competition to have a song included in a film, etc, the record label might be inclined to waive the fee in order to win the competition and achieve the much desired media presence.

Media outlets often use the “promotion argument” when negotiating terms of music content licensing. The media outlet argues that the music firm should waive the license fee since the outlet is promoting the artist and the song. A music publisher explains:

…this is a perennial argument that we had with MTV…
…you can argue that most uses of music are promotion, but you have to draw the line… …you can’t give it away free, and the record companies, unfortunately, are being too willing to give music away for free… (Interview #5)
When licensing music to a commercial, the role of the media outlet in the negotiations is assumed by the advertiser or the advertising agency. In these negotiations, the advertiser uses the same argument as the media outlet and tries to get access to the musical content for the lowest possible fee.

…what is happening in the advertising world is concerning… sometimes advertisers want to use very cutting edge music…and it is seen as an opportunity by everyone to break a band, break a new song…[advertisers] are beginning to turn around and say “you know we are breaking your band and we shouldn’t have to pay to use the music”… …there never used to be any question that the advertiser was expected to pay for the music…but I think it has happened during the last two or three years… (Interview #5)

The intense skirmishing in the licensing negotiations has so far not showed any signs of subsiding. It is interesting to note that even in those cases where the music publisher and the record label are parts of the same organisation, conflicts are just as prevalent. From a management perspective, this is an apparent example of sub-optimisation (e.g. Kanji 2002: 8), where individual departments focus on their own success rather than on the success of the entire music firm. The problem can be alleviated by implementing appropriate organisational structures and appropriate evaluation systems which rewards the success of the entire organisation rather than individual departments. Similar implications and suggestions will be discussed in the final chapter.

In short: Respond to the increased demand for musical content by enhancing licensing effort.  
Rationale: It simply makes good business sense to respond to consumer demand.  
Key variables: LICENSING EFFORT; MEDIA PRESENCE.  
Unintended side-effect: Remains to be seen, but there could be a risk of reducing the value of music.
8.3 Maintain appropriability

The third strategic theme is acting as a response to the decreased level of appropriability caused by the development of new media technologies (cf. section 7.3). Intellectual property owners are of course protecting the value of their assets. The intellectual property portfolio often constitutes a major part of the music firm’s balance sheet and if something or someone is threatening to diminish the value of the firm’s assets it is the duty of the management to act. It is not the first time the music industry has been concerned about appropriability levels. When the Compact Cassette technology was developed, it incited a music listening culture with phenomena such as dubbing\textsuperscript{55}, bootlegging\textsuperscript{56} and mixtaping. A whole range of new audience actions was opened up to the public. However, the audience actions had a very low level of appropriability. It was difficult to collect the legitimate revenues from the audience’s new actions. The industry decided to respond by launching information campaigns such as IFPI’s legendary ‘Home taping is killing music – and it’s illegal’ initiative during the 1980s. The industry also successfully lobbied against governments in order to introduce a levy on cassette recorders and on blank, recordable cassettes. The levy should compensate copyright owners for the illegal use (e.g. dubbing) of the cassette technology. In some nations, for instance in the UK, the trade organisations did not want the blank cassette levy. They argued that by introducing such a mechanism, they were indirectly accepting copyright infringements, such as dubbing and bootlegging (Interview #5).

The response from the industry during this period has many parallels to how the industry respond to the current changes of media technologies. The strategic actions within this area have been documented by many scholars, for instance by Barfe (2004), Freedman (2003), and Imfeld (2004). I will only give a brief overview of the initiatives in order to be able to discuss their impact on music firms’ performance and the Audience-Media Engine.

A number of initiatives have been aimed directly towards the consumers. Three such initiatives will be discussed next. First, information campaigns have been launched by trade bodies in all three nations (Interview #11; #12; #37).

\textsuperscript{55} In sound recording, dubbing is the transfer or copying of previously recorded audio material from one medium to another.

\textsuperscript{56} Bootlegging is trafficking in recordings that the record companies have not commercially released and may or may not be legal.
The purpose of these initiatives has been to influence the understanding and the attitudes, primarily among young people, about copyright related issues. The international trade body of the recording industry, IFPI, is running the ‘Pro Music’ campaign in several music markets\(^{57}\). Its US affiliate RIAA has a similar initiative aimed for the domestic market called ‘Music United’\(^{58}\) and in the UK, music publishers operate the ‘Respect the value of music’ campaign, via the trade organisation British Music Rights (BMR). In Sweden, the music industry has not launched any similar initiatives, but trade organisations representing other copyright industries (mainly software and film) operate Antipiratbyran\(^{59}\) (the Anti Piracy Bureau) which is actively working against all kinds of unsanctioned distribution of copyright protected material.

Second, an initiative primarily launched by trade organisations representing record labels consists of lawsuits filed against organisations and individuals who are violating copyright legislations. These lawsuits have been especially prevalent in the US market, where 18,000 cases have been filed by the RIAA during the recent years. Trade organisations in Europe have been less aggressive and have only filed approximately 5,500 lawsuits in 18 countries. (Millard 2006)

Third, the recording industry has supported the development of various techniques to restrict and control the copying of music. However, these technologies have often failed, since some have made the listening of CD’s via certain players difficult, and others have seriously threatened the consumer’s personal integrity (e.g. Borland 2005).

In aggregate, these and other similar initiatives have not been able to change the growth of online piracy. As the diagram in Figure 7.5 (p. 148) shows, the number of simultaneous file-sharers has continued to grow, in spite of the attempts from the industry to stop the activities. It is of course impossible to know what the situation would be if these initiatives had not been launched. Maybe, there would be even more intense online piracy and maybe the size of the music industry would have decreased even further.

If these initiatives have been unable to stop unsanctioned distribution of copyrighted material, it seems as if the single most enduring effect has been a negative impact on the reputation of the music industry. Entertainment industries, including the music industry, have long been suffering from a rather

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\(^{57}\) http://www.pro-music.org

\(^{58}\) http://www.music-united.org

\(^{59}\) http://www.antipiratbyran.com
bad reputation. Keith Negus recognises this reputation by referring to music companies (in somewhat ironic terms) as ‘commercial corrupters and manipulators’ (Negus 1996: 46). Other texts have used Hunter Thompson’s provocative description of the television business to describe the music industry: ‘Mainly we are dealing with a profoundly degenerate world, a living web of foulness, greed and treachery’ (Thompson 1988: 43).

Music industry decision makers are well aware of the damage their efforts to increase appropriability cause their already injured reputation. Nevertheless they see no other option but to do everything possible in order to sustain the value of their intellectual property portfolio:

…it just looks like we are anti every new technology that comes around…but that’s not true really, I mean sometimes it is true but that is for good reason, for good business reason. That’s hard to get across to the media or the public… (Interview #12)

Another kind of strategic initiative that has proven more effective has been to lobby multilateral organisations and governments to revise copyright treaties and legislations. In 1996, the 183 member states of the World Intellectual Property Organisation (WIPO) adopted the WIPO Copyright Treaty. The aim was to adapt the copyright treaty to the development of digital information and communication technologies. The treaty ensured among other things that computer software was protected by the copyright legislations in the member states. This treaty has since 1996, slowly been implemented in the US as the Digital Millennium Copyright Act (DMCA) in 1998 and in the EU as the European Union Copyright Directive (EUCD) in 2001. Almost all the individual member states of the EU have since 2001 implemented the EUCD in their national legislations. In the beginning of 2006, only three EU member states are still to implement the EUCD in their legislations; the Czech Republic, France, and Spain. In the countries where the treaty has been implemented, copyright legislations have generally been tightened and the punishment for infringing and violating the legislation has been increased.

It is not possible to attribute the revised copyright legislation among WIPO member states entirely to copyright industry lobbying. However, the tightening process that has been going on for the last decade has been eagerly applauded by the copyright industries. It is still too early to say which effect the new legislations will have on the illegal file-sharing activities. Again, as the diagram
in Figure 7.5 (p. 148) shows, so far, the illegal activity continues to grow. However, the new legislations provide tools for copyright owners to act more aggressively and maybe they will eventually use these tools to their full capability.

If that would happen, music firms would probably be able to increase the level of APPROPRIABILITY and to convert more AUDIENCE ACTIONS into actual REVENUES. However, as was discussed in section 7.3, the level of APPROPRIABILITY of a certain media technology has an inverse relationship with its level of ACCESSIBILITY. This means that if music firms are able to increase the level of APPROPRIABILITY, they will necessarily also decrease the ACCESSIBILITY to their products. According to the logic described by the Music Industry Feedback Model, such a decrease would have a hampering effect on the Audience-Media Engine, which would work against or maybe even cancel out the REVENUE increase caused by the improved APPROPRIABILITY.

In short: Limit unauthorized usage of the firm’s intellectual properties.

Rationale: To protect our core business from illegal use.

Key variables: APPROPRIABILITY; ACCESSIBILITY.

Unintended side-effect: A) If these initiatives are not played out cleverly, they may hurt the firm’s reputation. B) It is difficult to increase appropriability without decreasing accessibility.

8.4 Reduce risk

The previous three sections have been examining music firms’ strategic initiatives intended to cope with specific changes related to how the media promote, use, and distribute music. In this section, a strategic theme which is caused by a general increase in the PRESSURE from shareholders will be discussed. As the Music Industry Feedback Model shows, if the PRESSURE from shareholders increase, the music firm is likely to respond by decreasing its RISK WILLINGNESS (e.g. Figure 6.7). The reduced exposure to risk has an influence on how the firm uses its intellectual property development resources. This has in turn an impact on the NOVELTIES which are supposed to increase the attractiveness of the firm’s IP portfolio. Risk management is always an important issue on the corporate agenda of every firm, including the music
firm. Nevertheless, this section will point at three examples which illustrate how decision makers in music firms have been able to reduce their RISK WILLINGNESS beyond the ordinary.

Same sounds, new wrapping

Immaterial products such as audio recordings, musical works, and other intellectual properties may be the core product (cf. p. 47ff) of the music industry, but as with most consumer goods, the packaging of the product should never be neglected. Packaging in the music industry is traditionally equal to the physical album. Among the various album formats, the LP record is probably the most important in the history of the music industry (e.g. Gelatt 1977). As a curiosity, among the 50 albums considered by the Rolling Stone Magazine to be most important in the history of popular music, 49 were released on the LP record format, and one (1) was released on a Compact Disc (Blashill, et al 2003).

Although the LP record has a unique position in the history of popular music, the format has been succeeded by other technologies, and it has no longer any practical relevance as a distribution technology for mainstream popular music. One of the technologies which have been able to challenge the LP record is the Compact Cassette, introduced by Philips in 1963 (Daniel, Mee & Clark 1999). The Compact Cassette certainly was a much used technology for pre-recorded music distribution, but the technology transformed music listening in more ways than simply as an alternative physical music carrier. The technology’s enabling of audience actions such as dubbing, bootlegging and mixtaping has already been mentioned (cf. section 8.3). In addition, the Compact Cassette enabled the development of new listening devices such as the first portable cassette player introduced by Sony in 1979, and later branded Walkman (Sony 2006).

The Compact Cassette technology has now to a great extent been superseded by digital technologies, but still the technology is the main music distribution vehicle in a number of infrastructure-poor nations.

The Compact Cassette is one successful technology, but an even more transforming music distribution technology is the Compact Disc. The Compact

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60 Analyses of Walkman history and culture are for instance found in Coleman (2003) or in du Gay, Hall, Janes, Mackay & Negus (1997).
Disc was the first successful use of digital technology in a music distribution application. It eventually pushed both the Compact Cassette and the vinyl record from the centre of the playing field. The Compact Disc was jointly introduced by Philips and Sony in 1982. The new format had considerable advantages compared to the previous technologies and spurred music consumers to replace their LP record collection with new and shiny discs (e.g. Coleman 2003). The introduction of the Compact Disc is often considered as the starting point of one of the more prosperous periods in the history of recorded music. As the illustration in Figure 8.1 shows, in the beginning of the 1990s, only a decade after the introduction of the CD technology, the LP format was gone, and the digital technology was well-established as the main technology for music distribution.

![Figure 8.1: Global music sales by format (OECD 2005b).](image)

The success of the Compact Disc technology, showed the music industry that new packaging may stimulate sales. The music industry decision makers adjusted their mental models accordingly, and rather than to invest in uncertain talent development, investment monies were put into new packaging strategies and distribution technologies. Since the launch of the Compact Disc, numerous technologies for physical music distribution have been introduced by consumer electronics manufacturers and record labels. For instance, the Digital Compact Cassette in 1992; the MiniDisc also in 1992; the Super Audio CD in 1999; the DVD-Audio in 2000; and the DualDisc in 2004 (Coleman 2003; Sony BMG).
2006). It is also worth mentioning EMI’s release of the Rolling Stones album *A Bigger Bang* on a Flash memory card in September 2005 (SanDisk 2005). However, most of these technologies have not been able to reach anywhere close to the success of the Compact Disc.

Successful or not, according to this strategy, **NOVELTIES** do not have to be new artists or new songs to be appreciated by the audience, but might just as well be the same old sounds but in a new wrapping.

*In short:* Create novelties by developing new distribution technologies rather than new personalities and musical content.

**Rationale:** Investing in new songs and new talent involves a great deal of risk. This strategy reduces that risk and makes the firm’s financial performance more predictable.

**Key variables:** RISK WILLINGNESS; INTELLECTUAL PROPERTY DEVELOPMENT.

**Unintended side-effect:** The firms’ talent developing capabilities wither which has severe long-term effect on the firm’s ability to sustain the attractiveness of the IP portfolio.

**Compilations**

A traditional music album consists of recent recordings made by a single artist or a band. However, there are other ways to assemble an album, for instance as a *compilation album* which might be any set of songs arranged according to some specific theme. The theme may be the career of a certain artist (e.g. ‘Best of…’ or ‘Greatest hits…’); a connection to a media brand (e.g. a videogame, a radio station, a film or a TV series); a genre (e.g. Jazz, Garage rock, Opera or Reggaeton); a certain activity or mood (e.g. relaxation, depression, pregnancy or workout); a time period (e.g. hits from the 1980s) a specific season (e.g. Christmas songs or summer songs); a specific record label (e.g. Sun Records; Motown Records); or simply a collection of recent hits.
During the last decades the commercial success of compilation albums in the three nations has been on the rise\textsuperscript{61} (Figure 8.2). The graph shows the percentage of compilations among the best selling albums in each nation. Although data for Sweden is only available from 1991 onwards, the graph illustrates how the success of compilation albums has increased over the years. The data from the UK and USA follow the same pattern, namely only minor changes both before 1991 and after 1995, but a more rapid change between 1991 and 1995. The average value during the first three periods was 21 percent in the UK and 7 percent in USA. The corresponding value during the three most recent periods was 27 percent in the UK and 15 percent in the US. Two interpretations of the pattern could be that a change in the measurement techniques has occurred, or that the shift is truly emerging from of a change of system structure. According to the IFPI affiliate in the UK, no change in measurement techniques has occurred which could explain the sudden increase during the beginning of the 1990s (Crutchley 2005). Consequently, the question which should be answered is in what way the system structure actually has changed.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure8_2.png}
\caption{The average commercial success of compilation albums.\textsuperscript{61}}
\end{figure}

\textsuperscript{61} Methods and data supporting the graph in Figure 8.2 are presented in Appendix 4.
The informants explain the increasing success of compilation albums by pointing to several significant changes. One of these concerns a change in consumer behaviour together with a corresponding change in music firms’ marketing strategies. Previously, the music industry was primarily focused on teenagers, but now, older consumers have become increasingly important. Figure 8.3 shows the percentage of the US recording industry revenues that stem from consumers at age 40 and older.

![Figure 8.3: Percentage of US recording industry revenues that stem from consumers at age 40 and older. (Source: RIAA Consumer Profile)](image)

Comparable data is unavailable for the other two nations, but other, somewhat less detailed data from the UK and Sweden point in the same direction (e.g. Carlsson 2004, Hepworth 2004; Interview #13; #35). The increased focus on an older audience has changed the aggregated consumer behaviour pattern and increased the demand for easily recognisable compilation brands. One of the informants reflects on the link between the new consumer focus and compilations:

…[the compilation industry in the UK] will continue to grow as music moves into secondary distribution… such things as super markets, petrol stations, that kind of things… …you are talking to a probably less discerning, much more impulsive music buying audience, for whom compilations of tracks they are familiar with are more
potent than albums which only has one good track on it…

(Interview #35)

When trying to gain deeper understanding about the ramping success of compilation albums, one first has to note that there are at least two parties involved in any compilation album project: (1) the owner of the album brand (e.g. ‘Beverly Hills Cop’, ‘Levi’s’, ‘Elvis Presley’ or ‘Eurovision Song Contest’) and (2) the owner of the musical content. However, it is of course possible that both roles are acted by one and the same organisation, for instance in productions of single-artist compilations or label samplers62.

The rationale for creating and marketing compilation albums differs between brand owner and content owner. The brand owner does not necessarily have to be part of the music industry, but might be any kind of consumer oriented firm. For instance, the clothing manufacturer Levi Strauss & Co has released a number of compilation albums which include some of the songs licensed for use in their commercials. The brand owner might also be an organisation specifically focused on compilations. One such example is the owner of the Swedish compilation brand ‘Absolute’, Eva Records, which is a joint venture between EMI, Warner Music and Sony BMG Music. The rationale behind the creation of Eva Records and similar ventures is based on traditional brand management strategy (e.g. Kapferer 2004). It is very costly to establish a new brand. First the audience has to learn about the existence of the brand, and then the audience has to attach the right values to the brand in question. These processes are usually both expensive and difficult, regardless of industry or product. Traditional artist brands such as ‘Sahara Hotnights’ or ‘Velvet Revolver’ are considered to be successful if they are able to create four or five profitable albums during their career (e.g. Interview #18). This should be contrasted with compilation brands such as ‘Absolute’, ‘Hits’, ‘Pure…’, or ‘Now, that’s what I call music’. The ‘Now that’s what I call music’ series has for instance released 211 albums between 1983 and 2006, primarily in the UK but also in other markets around the world (http://www.nowmusic.com). Eva Records’ ‘Absolute’ series has released 220 albums between 1986 and 2006 in Sweden only. During 2005, every tenth album sold in Sweden was an ‘Absolute’ album (http://www.absolute.se). This arithmetic shows quite bluntly why it is much more appealing, from a business perspective, to establish a compilation brand compared to a traditional music brand. In addition, compilation brands

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62 A ‘label sampler’ is an album which includes samples from a record label’s IP portfolio.
are in less need of promotion tours and radio airplay, they never get old and never have to spend time on drug rehabilitation programs.

‘Now that’s what I call music’ and ‘Absolute’ are strong brands in themselves, but many years of consistent marketing investments have been required to reach that position. Another brand management strategy involves the extension of a high-profile brand from a “non-music” copyright industry into the music domain. Soundtracks to films, TV series and videogames are such examples. Other examples are compilations which are spin-offs from radio stations (e.g. Kiss FM in the UK) and television shows (e.g. MTV Unplugged).

‘Kiss’ is not just the number one radio station for young people in London, but is now a national radio presence through digital radio, it’s on telly… …and part of the brand extension of time has been to move into compilation albums, so Kiss, Magic, Smash Hits and Kerrang!\(^63\), has led that, in terms of building a fairly successful portfolio of compilation titles working with the record labels… (Interview #35)

From the content owner’s perspective, compilation albums are licensing opportunities rather than anything else. During recent years, content owners have paid more attention to their back catalogue\(^64\), and have tried to find different ways to capitalize on their assets through various repackaging projects, such as album compilations (Interview #14). A marketing director at record label talks about a recent compilation project:

…our catalogue has been licensed into the infinite number of compilations… …last year we put together a compilation of the group [artist’s name] for [territory] on the basis of some interest in the group there and we sold a good few thousands of records… it was a very lucrative venture for us, we put a sleeve on it that kind of works, we just repackaged it, you don’t want four hairy old men playing guitars on the sleeve, you want something that can

\(^63\) These are all radio brands in EMap’s (a UK media conglomerate) media brand portfolio.

\(^64\) A recording is categorised as back catalogue material if the recording was initially released more than two years ago (Crutchley 2005).
sit there with the new releases of that week… you do a
sleeve... in this case a graphic sleeve that enabled us to
kind of update what's a fairly torrid old selection of
songs... ...and it worked to the tune of 50,000 units, that
is an incredible result, very impressive… (Interview #28)

In the passage above, the musical content was found in the record label’s
back catalogue. In those cases there are no competition between the
compilation and some other packaging of the same song. However, when it
comes to hit compilations, that is to say compilations which include new
material; things get a bit more complicated. A song in medium or heavy
rotation$^{65}$ on major radio stations is usually also in demand as a full-length
album. However, if the song also is available as part of a hit collection, it may
have either positive or negative effects on album sales. If the compilation works
as a promotional tool, the compilation is expected to raise the demand for the
core product, which is the full-length album (Interview #2). However, if the
compilation is able to satisfy the consumers’ demand for the song, the
compilation will slow down album sales rather than the opposite. This dilemma
faces the content owner who has to determine the cases where licensing should
be made and the cases where it should not (Lundqvist 2005). Similar channel
management issues (e.g. McCalley 1996) become even more acute as the
number of outlets for music distribution continues to rise. These issues will be
further discussed in the next chapter.

Compilations may also serve as a budget saver for a record label. The
development of new musical content is risky. If the music firm is experiencing
financial pressure, it is very tempting to launch a low-risk compilation album
rather than to develop a new traditional album. A marketing director at a record
label explains:

…every time [record labels] are unable to meet their
budgets...they create a compilation...maybe you find an
old compilation with [artist’s name], and then you release it
again…and every fifth or tenth year you release the same
record in a new package […] we have no risk in this at all,

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$^{65}$ In radio broadcasting, a rotation is a single play of a song. A song in light rotation is typically aired 5–15
times per week, a medium rotation tune goes over the airwaves 10–25 times per week, and songs in heavy
rotation start at 20 or more rotations each week.
and we have no costs creating the record since all songs already exist… (Interview #14)

Conclusively, record labels launch compilations with the purpose to generate NOVELTIES without exposing the firm to the risks associated with traditional product development within the music industry.

In short: Aggressively repack or license the firm’s existing intellectual property portfolio.

Rationale: A) It makes economic sense to capitalise on the firm’s musical assets.
B) Compilation brands are more manageable, predictable and less risky than traditional artist brands.

Key variables: RISK WILLINGNESS; INTELLECTUAL PROPERTY DEVELOPMENT; LICENSING EFFORT.

Unintended side effect: The firms’ talent developing capabilities wither which has severe long-term effect on the firm’s ability to sustain the attractiveness of the IP portfolio.

Revising A& R strategies

The two risk reduction strategies described above mainly involves the repackaging of existing material, either by releasing the songs with a new kind of distribution vehicle or by releasing the songs as some kind of compilation. However, the development of truly novel musical content and personalities is still at the core of the music business. Without developing new musical content or new personalities, the firm will certainly perish, sooner or later. Consequently, though it is risky, music firms have to engage in developing new musical content. However, it is of course possible to reduce the firm’s exposure to risk also within this activity.

Some of the policy modifications intended to reduce risk in this area simply involves quantity. For instance, during the last couple of years, record labels’ artist rosters have been significantly reduced. Artists with a broad audience appeal have been prioritized before artists with niche appeal since artists of the former category are more likely to recoup the firm’s investment in production
and marketing, EMI explain their version of this strategy in a press release from March 2004:

EMI is reducing its global roster by approximately 20 percent, affecting largely niche and under-performing artists. The roster is being rebalanced to focus resources and efforts more effectively on the artists who have the greatest potential on both a global and local level. (EMI 2004)

This change follows the same logic as the revision of marketing strategies described in section 8.1. As fewer artists in the roster get access to the music firm’s marketing support, it makes no sense to keep unsupported artists in the roster. An A&R agent at another major explains his view on the change:

…seven years ago we would have hundreds of artists that we weren’t able to give 100 percent… …but now when we have reduced the number of artists in the roster, I feel that we are able to pay more attention to every single artist…

(Interview #18)

Following the same reasoning, music firms have grown less patient with their artists. Artists have to be continuously profitable; otherwise they will be dropped from the roster. One high-profile example of an artist who was unable to create continuously profitable albums is the R&B singer Mariah Carey. During 2001 Carey was signed to EMI, but when her album Glitter “only” sold about 500,000 units, the label decided to terminate their contract with the artist (EMI 2002b).

The increased pressure does not only affect the labels’ relationships with seasoned artists but also their relationships with less experienced talents. Previously a new artist signed to a major record label was able to learn and evolve during at least two full-length albums. Now, the demands on the new talents have changed quite considerably. The A&R agent quoted above reflects on the situation:

…the executives we play our music for… …when we bring in something that we love…they just ask ‘where is the hit, where is the single?’, they don’t want to hear ‘this is
a great act, let’s put them on the road for two years and see what happens’, they want to hear which is the radio song and what is the immediate plan to gain them some audience… […] …it used to be… …you can build an artist’s career, you might have three albums with that one artist… …if the first album is not successful you have the second album and the third album… …now if the first album is not successful, the artist is probably going to be dropped. You have fewer chances with your artist to make it and to become successful… …it’s got to be now…everything is very immediate… (Interview #18)

This pressure continues all the way to the question of adding new artists to the roster. In the same way as radio stations are reluctant to add unproven songs to their playlists, record labels are reluctant to add artists without proven track record to their roster.

We are signing less number of acts per year, than we probably were, because we don’t have the same amount of money as we used to… […] We definitely look for artists that have built up their fan base already and have experience, because first and foremost, you get better with every show…yes we definitely want more seasoned road warriors to say the least… (Interview #18)

This change of policy could be described as if the record labels outsource the talent development activity completely. During many years, smaller independent record labels have been acting as the research and development departments of the music industry (e.g. Burnett 1996; Wallis 1995). Smaller labels have often developed new artists or genres, which when they have reached commercial success, have been acquired by a major. Either the major has acquired the independent label in full or it has bought out a specific artist in the indie label’s roster. During recent years this routine has been developed further by majors in the shape of ‘upstream deals’ signed with the independent labels. (Interview #4; #18; #25)

An A&R director at a music publisher explains:
[the labels] turn to not wanting to do any of the artist development themselves… labels are now signing production deals with producers and independent labels… [...]…every label wants to do what they call upstream deals…where they sign an independent label and if it is a rock band they’ll let it go in this little indie label first…the indie label develops it… …if it sells 50,000 or 100,000 units it gets upstreamed to the major… [...] …and that is how a lot of different artist are working these days… [...] …they don’t want spend the money on studio time as they used to…they don’t want to give advances to producers just to develop an artist even when they need to grow … maybe on their second record… the labels are not taking those chances anymore…(Interview #10)

The music firms’ ambition to reduce risk is not a new strategy in itself, since risk management is an important point on every decision maker’s daily agenda. However, this section has described a number of strategic adjustments that show how music firms, and especially record labels, have reduced the RISK WILLINGNESS yet another notch.

In short: Work only with artists which already have a proven track record. Keep only artists in the roster that are persistently commercially successful.

Rationale: By avoiding risky projects, profit will more predictable, something which is appreciated by shareholders.

Key variables: RISK WILLINGNESS; INTELLECTUAL PROPERTY DEVELOPMENT.

Unintended side effect: As with all risk reduction strategies, by avoiding risk, the firm may also be avoiding innovation, which is detrimental to the firm’s long-term sustainability.
8.5 These wounds are self-inflicted

The chapter has discussed four general themes in the music firm’s response to changes in the media environment. First, music firms have revised their marketing strategies in order to cope with the decreased usefulness of broadcast media as a tool for promotion. Second, music firms have addressed new distribution technologies in order to maintain appropriability and to secure the value of their intellectual property portfolios. Third, music firms have increased the licensing of musical content to various outlets and purposes. This strategy has served as an answer to the increased demand for musical content, but it has also balanced the growing difficulty to reach appropriate audiences by the use of traditional promotional tools. Fourth, music firms have reduced their willingness to accept risk by backing away from the traditionally risky development of musical content.

It is possible to analyse the four strategic themes by applying the typology suggested by Miles & Snow (1978). None of the strategies can be categorised as proactive and forward-thinking. The strategies are all defensive responses to events that occurred outside the realm of the industry and all are focused on reducing risk and reducing cost rather than to increase revenues by aggressive pursuit of innovation and differentiation. Based on that observation it is clear that the firms that have launched the strategies discussed in this chapter should be categorized as defenders or maybe even as reactors, using the Miles & Snow typology. Following the discussion on page 56f regarding the character of copyright industries and the strategic adaptation processes which are most appropriate in those industries, it is possible to conclude that the strategies are not particularly well chosen in order to create a sustainable business in the music industry. Defenders are often unable to respond to major shifts in their environments, and the transformation of the media environment as presented in chapter 7 fits well in the ‘major shifts’ category.

Another way to analyse the four strategic themes is to apply the understanding of strategic adaptation as organisational learning. All the strategies assume that the traditional logic and structure of the music industry still is valid. They assume that although the media environment is somewhat more difficult to work, and that although new distribution technologies make life a bit more cumbersome, in average, business models, basic structures and

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core business still remain the same. The following statement gives a good illustration of their reasoning: ‘…let’s push these new channels, but what about our core business?! …How are we going to protect that?’ (Interview #12). This kind of organisational learning is best described as single-loop learning (Figure 2.4 on page 59). Information is fed back from the environment and is affecting the firm’s policies, structures and rules, but the decision makers’ mental models remain intact. In the next chapter it will be shown how the traditional logic of the media environment has lost some of its relevance. The chapter will also argue that decision makers in music firms will not be able to make proper decisions nor will they be able to create sustainable businesses based on their traditional mental models of the media environment.

A further understanding on the four strategic themes can be attained by using the Music Industry Feedback Model. As has been stated numerous times in the text, the Audience-Media Engine is a decisive structure in the music business. In order for the artist, song, brand, etc, to be successful, the Audience-Media Engine has to be in synch with the activities of the music firm. However, when analysing the four strategies, it is possible to conclude that though all of them may seem rational in the short term, there are side-effects associated with at least three of the strategies, whose impact on the Audience-Media Engine is impossible to neglect. First, the latter phase of the “Shout louder” strategy shrinks MEDIA PRESENCE since the MARKETING EFFORT is reduced and focused on a limited set of artists. Second, the “Maintain appropriability” strategy limits the audiences’ ability to access and use the firm’s products which in turn has a hampering effect on AUDIENCE ACTION. Finally, the “Reduce risk” strategy may deteriorate the attractiveness of the firm’s IP portfolio. (The impact of the three strategies on the Audience-Media Engine is illustrated by Figure 6.7.) It is clear that the aggregated effect of the music firms’ strategic responses constitutes a considerable impediment to the dynamics of the Audience-Media Engine. Although the rationale behind all the strategies was to improve the performance of the music firm and to restore the firm’s profitability, the Music Industry Feedback Model shows that the effect of a major part of the strategies is the opposite.

The presentations and analyses of the four strategic themes show that many music firms have not been able to cope with the changes in the media environment particularly well. First, the strategies are reactive and defensive
rather than proactive and innovative. Second, the strategies are associated with side-effects that work against the strategies’ original purpose and rationale. Finally, the strategies indicate that they are based on mental models and presumptions of the industry system that has remained intact in spite of a radical development of the media environment.

The next chapter will continue from this analysis and further examine how the traditional logic and structures of media outlets have been overthrown. The chapter will explain why strategies based on the traditional logic are unable to solve the problems currently faced by this troubled copyright industry.
9
Closing the gap

The previous two chapters have reviewed the transformation of the media environment and analysed strategic adjustments made by music firms in order to cope with the new conditions. One of the closing remarks in chapter 8 was that the strategic themes which have been analysed so far indicate that merely single-loop learning has taken place in the boardrooms of the major music firms. The changes in the media environment have spurred considerable revisions of the music firms’ business strategies, but this study indicates that decision makers’ mental models nonetheless have remained intact.

This chapter will build on the analysis in the previous chapters and further examine the transformation of the media environment. A number of new media outlets will be discussed in order to illustrate the transformation of the media environment. Following the presentation of the features of the “new” media outlet structure, the impact of the transformation on the music firm will be examined. The chapter will also point at some examples where music firms actually have embraced the new logic and made strategic adaptations according to their revised understanding of the industry and the environment.

9.1 The crucial gap

According to the Music Industry Feedback Model, and particularly according to the structure labelled the Audience-Media Engine, the artist’s ability to be present in the media (MEDIA PRESENCE) spurs AUDIENCE ACTIONS, such as the purchase of an album or a song. Traditionally, there has been a certain set of media outlets with the purpose to expose the artist to the audience, and a distinctively different set of media outlets with the purpose to distribute the intellectual properties to the audience. Radio, television, and press have been
and still are members of the first set while sheet music, CDs and Compact Cassettes belong to the second set. All music listening, regardless if it is via a radio or a CD, is some kind of promotion which may stimulate the consumers’ curiosity for more music (e.g. Interview #5). However, from the music firm’s point of view, the most important purpose of MEDIA PRESENCE is to spur the sales of the “core product” which is the audio recording. In contrast, the primary purpose of the CD is to deliver the music which is stored on the disc. There is nothing “after” the CD, a fact which also is illustrated by all the value chain models presented in section 3.1.

It is possible to further understand the two sets of media outlets by applying the concept of option value to the analysis (cf. p. 37). The music firm wants the option value of the first set to be high enough for consumers to start to appreciate the music. Since music is an experience good, the consumer has to be exposed to the music in order to be able to determine whether it is appealing or not. On the other hand, the music firm does not want the option value of the first set of media outlets to be anywhere close to the option value of the second set. Measured on an “option value spectrum”, these two sets have to be distanced from each other; otherwise the consumers will not be motivated to spend their monies buying the same music they have already heard on another medium.

The pricing of the music placed on different media outlets is also depending on the option value. The higher the option value, the higher the consumer price. The music available at the lower end of the option value spectrum (browsing at the record store, listening to the radio, etc) is usually available to the consumer at no charge at all.

The strategies discussed in the previous chapter have a strong focus on strengthening this linear structure and to keep the distance between the two sets of media outlets at a comfortable range. However, as was discussed in chapter 7, changes in the media environment have increased the number of media outlets considerably, and many of these new outlets do not fit well into the two traditional sets. In the next section, examples of such outlets will be presented.

9.2 Disruptive media outlets

The title of this section is leaning against Christensen’s (1997) concept of ‘disruptive technologies’. Disruptive technologies are innovations, products, services, that overthrow existing technologies in a market. Examples of
disruptive technologies are the CD, and of course of significantly greater importance, the steam engine or the automobile. It is still too early to claim that the technologies that underpin the media outlets discussed in this section are truly disruptive, but the evidence is certainly mounting.

The media outlets discussed below have been chosen on the basis of them being “new” in some sense. “New media” is a slippery concept, and the present study will not expound on its formal definition. However, the outlets discussed below are at least enabled by digital technologies and based on business models which are incompatible with the linear media outlet structure discussed above.

The outlets presented in this section are also all legal and sanctioned by the media and music industry establishment. One might argue that the most important disruptive media outlets are the ones used for unsanctioned and illegal content distribution, such as various peer-to-peer file-sharing networks, online communities and instant messaging services. Indeed, it seems as online piracy have severely damaged the legitimate music industry (cf. pp. 79ff), but it remains to be seen whether this development will continue and eventually terminate the music industry once and for all. However, official sales data from 2005 suggest that this is not the case. The decrease of the size of the global market of recorded music has been slowed down during 2005 and a legitimate online music market begins to take shape (IFPI 2005; 2006b; 2006c). In the light of such a development it makes sense to examine those ventures which have been able to create legitimate and viable businesses. The legitimate online music services are now both plentiful and relatively well-established. In January 2006 there were 335 legal online music services in operation worldwide, and online music sales constituted approximately 6 percent of the global recording industry’s total revenues (IFPI 2006c). It is these services that will determine the structure of the virtualised music industry. Therefore, it is these services, and not the illegal services, that will be presented and discussed in the sections below.

The presentation of the media outlets has been structured depending on the business model which is used: The first category is ‘Streaming media services’; both advertising funded and subscription funded. Next, services with a business model which I choose to categorise as ‘Single-song-download’ will

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67 Useful definitions of “new media” and related concepts are found in Bolter & Grusin (1999) and in Lister, Dovey, Giddings, Grant & Kelly (2003).
be presented. Lastly, services which use the business model I call the ‘music rental model’ will be discussed.

*Streaming media services — advertising funded*

One way to distribute media files across the Internet is to first transmit the entire file to the users, who have to wait for the file to be downloaded before they can savour the media content. This may sometimes be rather cumbersome since the users often have to wait a considerable time before the whole media file is completely downloaded. Streaming media services use another approach to media distribution. The transmitting end sends the media file in short fragments; usually of a length of a few seconds. The receiving end is able to view or hear these fragments as they are downloaded, and does not have to wait until the entire file is harboured in the receiving device (computer, PDA, telephone, etc). Since the users only have to wait for the first fragment to be downloaded, they can use the content with a time lag of merely a few seconds from the start of the transmission.

In the first half of the 1990s, radio stations and computer enthusiasts started to experiment with technologies based on the streaming media concept. They used the technologies to distribute content which was exclusively purposed for Internet distribution or they retransmitted the feed which also was broadcasted via analogue broadcast networks. As Internet infrastructure and computing technologies developed and became increasingly accessible, the number of services based on the streaming concept multiplied. Traditional media broadcasters now increasingly use the Internet to retransmit parts of their original programming. Although these Internet based radio and television services is yet unable to challenge the traditional broadcast media when it comes to their ratings (Arbitron 2005; Carlsson 2004; Ofcom 2004), the new outlets are one significant part of the fragmentation of the media environment discussed in section 7.1.

Another flavour of these services is a bit more advanced than the broadcasters’ traditional point-to-multipoint services. There are for instance music services which allow the listener to influence the content which is transmitted by the service. Some services (e.g. http://www.spraydio.com), allow the user to wish for a song which eventually is added to the service’s playlist. Other more advanced services (e.g. http://www.pandora.com) allow the listeners to create their own personal streaming media service based on their
musical tastes. The listener is urged to grade the songs and the artists which are played by the service. This information is then used to generate a “taste profile” which is individual to each listener. Some of these services compare the listener’s profile to the aggregated profiles of other listeners. They are thereby able to predict how individual listeners would react to a specific song, before they have actually heard it. This recommendation technique is known as collaborative filtering and has been used in many commercial and non-commercial Internet services to give personal recommendations to a user, based on aggregated information from other users of the same service (e.g. Rahman & Bignell 2001).

One of these services is Yahoo! Music, which before being acquired by Yahoo! was known as Launch. As with many commercial streaming media services, the basic version of Yahoo! Music, which offers the lowest option value, is funded by advertising and is free to the user. The more times a listener is using the service, the better the service will be at adding songs which the listener will appreciate. Consequently, the active user who invests in the service by frequently adding information to their profile will get a service which is providing an increasingly higher value.

This service structure generates a considerable degree of listener loyalty since the effort invested by the user to create a taste profile is not easily transferable to another competing music service. Hence, the listener’s switching cost is considerable in comparison to traditional music based broadcast services where the consumer’s switching cost is negligible (cf. p. 52). This vendor lock-in, allows the service provider to be more experimental when determining which songs actually should be added to the listener’s playlist. The service provider can be relatively assured that the user will not immediately leave the service simply because she or he does not appreciate a particular song on the playlist. From the music firm’s perspective this opens up a greater opportunity to expose new music to the audience, compared to the traditional broadcast services which are only willing to accept a very low level of risk due to their listeners’ considerable volatility (cf. section 7.1).

Currently, the three dominating global Internet portals (Yahoo!, MSN, and AOL) all have music services with a structure similar to what has been described above. The significance of these services as tastemakers is growing in importance, at the expense of traditional media such as terrestrial broadcast radio (Isquith 2005). Building on the option value reasoning above, it is clear

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that these individualised streaming media services provide a greater option value than traditional broadcast services, but not as high as when listeners actually own a physical copy of the song which they are able to play anywhere, anytime. Individualised streaming media services, based on collaborative filtering are consequently an example where new media outlets reduce the distance between the two sets (exposure and distribution) of media outlets. It is not immediately clear to which set the services actually belong. While the services are able to expose new music to an audience in a way which is more efficient compared to traditional broadcast media, they are also able to satisfy the musical demand of a greater part of the audience. In other words, the services are both increasing and decreasing the demand for traditionally distributed music, and the aggregated effect on the “core business” of the music industry is consequently difficult to determine.

**Streaming media services – subscription funded**

The services discussed above are mainly funded by advertising, but other business models are also used among providers of streaming media services. One such business model is the subscription model, where the user pays a monthly fee to access the service. Providers of streaming media services often offer different versions of their services: A basic version which is free to the user and financed by advertising and an enhanced version which is offered as a subscription service (Shapiro & Varian 1999). Subscription funded streaming media services are available both via the Internet and via other distribution technologies, such as cable, satellite or terrestrial broadcast networks. The services distributed by “non-Internet” technologies are unable to match the level of personalisation offered by corresponding services available via the Internet. Instead, these services (e.g. XM Satellite Radio; Music Choice; Sirius Satellite Radio) compete by offering exclusive content of high technical quality accessible on the go (Interview #7). Internet-based subscription streaming media services are fundamentally identical to the services described in the previous section, but the content is usually offered with a better technical quality and without some of the restrictions which are put on the advertising funded version of the services.

The removal of the advertiser from the business model changes the fundamental logic behind the programming of these services. The risk aversion which is associated to the programming of advertising funded media is lessened
since revenues from subscription fees are more stable and predictable than revenues from advertisers (e.g. Picard 2002). This enables these services to be even more experimental, and their ability to break new artists is enhanced. In the US, satellite based subscription radio has earned considerable attention from the music industry, and the expectations among the music promoters and marketers are high:

…now go to satellite [radio], consumers are paying a monthly fee, there are no commercials…and DJs have full range to decide what they are going to play…and you hear some great music, some very exciting new music, you’ll hear new bands which is very difficult to get on contemporary traditional broadcast radio… (Interview #31)

Subscription based streaming media services (or radio), either on or off the Internet, is yet another kind of media outlet which does not fit into the traditional media outlet structure. On the option value spectrum, the services are positioned in between the two poles (exposure and distribution), and can be considered as members of both sets. As with the services discussed in the previous section, the subscription based services are able to satisfy a portion of the music audience who enjoy music but are happy without actually purchasing the songs on a piece of plastic.

**Single-song download services**

While the two previous examples of media outlets can be considered as extensions from the set of ‘exposure media outlets’, other new media outlets have closer links to the other set; the ‘distribution media outlets’. One such example is the sales and distribution of individual songs via online services such as iTunes and eMusic. The business models in these services are relatively straightforward with only some slight variations. The services offer songs which the user, after the purchase, is able use rather liberally. The users are able to copy the song to a limited number of CDs, and they are able to listen to the

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song from a computer, from a hi-fi stereo system, from various portable devices, etc.

Of all the online services that use this business model, Apple iTunes Music Store is certainly the brightest shining star. iTunes is an online service which at the time of writing carries more than 3 million songs; 16,000 audio books; 3,000 music videos and hundreds of television shows and movies in their catalogue. The service is developed and operated by the computer manufacturer Apple. Although iTunes uses the single-song-download business model, the service should more accurately be described as only a small part of a larger business model which also includes other Apple products. The product with closest links to iTunes is the iPod, a portable media player developed and marketed by Apple. The combination of iTunes and iPod has been able to achieve an incredible level of success: In December 2005, music sales on iTunes constituted more than 80 percent of the global legal online music market and iPod sales constituted 75 percent of the portable media player market. Since the launch of the iTunes service in 2003 more than 1 billion songs have been sold and since the launch of the iPod in 2001 more than 45 million media players have been sold worldwide. (Jobs 2006)

Different single-song download services have opted for somewhat varying pricing structures. Some of the services (e.g. iTunes), offer individual songs or albums at a fixed price, and just as in any brick-and-mortar record store, the users are able to browse the catalogue and listen to short pieces of the songs free of charge, and purchase the items they like. Another pricing model offers the downloading of a certain number of songs at a monthly fee (e.g. eMusic). The fee is paid by the subscribers regardless if they use their monthly quota or not. Other variations of the concept include mobile access to the service. This particular technology has gained considerable attention from the music industry, primarily since the easy access enables impulse purchase of songs anytime, anyplace (e.g. Hirschman 2006).

Just as the music industry is hopeful about the streaming media services as a new way to establish a MEDIA PRESENCE, the hopes and expectations among music industry decision makers about Internet based music distribution is massive. The IFPI chairman John Kennedy summarises the industry’s expectations on the new distribution technologies when he exclaims that ‘we expect to see continued growth online and more innovative mobile services attracting music fans into the legal digital market’ (IFPI 2006b). The revenues from these new outlets have to some extent been able to compensate for the limping CD business (e.g. IFPI 2006b; 2006c). The structure of the services is
also relatively similar to traditional music business models, which makes the concept easy to understand and accept for the conventional music industry decision maker.

Single-song download services seem to develop into yet another distribution technology, next to the CD, Compact Cassette, etc. The services may have a tremendous impact on several parts of the music industry, particularly those previously involved in physical music distribution, but also those parts concerning for instance the relationship between the artist and the music firm. However, although the impact of these services is considerable in some aspects, the services play a less significant role in the fundamental transformation of the media outlet structure discussed in this chapter. The option value offered by the single-song download services is similar to the option value of the traditional physical distribution technologies. Consequently their impact on the traditional two-set media outlet structure is limited.

Music rental services

While the challenge from single-song download services to the traditional media outlet structure is minor, there are other music services which play a more disruptive role. One such service category offers access to a large music library at a monthly fee (e.g. Napster, Urge or Rhapsody70). The subscriber is then able to download and listen to an unlimited number of songs from that library. As with songs downloaded from single-song download services, the user is able to listen to the songs from the computer, from a hi-fi stereo system, or from a portable device. The snag is that the license associated to the acquisition of the songs is tied to the subscription to the service. If the users terminate their subscription, the songs on their computers or portable devices will within a short period of time be useless and impossible to listen to.

Music rental services also come in a slightly different flavour which collect revenues from advertising rather than from monthly fees paid by the users (e.g. SpiralFrog71). The users consequently “pay” for the service by being exposed to commercial messages on a web site which they are required to visit regularly (at

70 The services are available at http://www.napster.com, http://www.urge.com and http://www.rhapsody.com. The versions of these services which allow the transfer of songs to portable devices are branded as Napster-To-Go, Urge-All-Access-To-Go and Rhapsody-To-Go.

71 http://www.spiralfrog.com
least on a monthly basis) in order for the downloaded content to stay active and working.

These services, regardless of flavour, create a completely new relationship between listeners and their music collections. By subscribing to a music rental service, the listener immediately gets access to a music collection which literally includes millions of songs. However, the option value of those songs is somewhat lower compared to the traditional music distribution technologies. The music industry decision makers greet these rental services positively but with a slight hesitation:

…from a content owners perspective, one of the issues I think we all have is that if you as a consumer can rent music and take it with you and basically have as much music as you want for one monthly fee…. then how does that impact the sales of CDs? …how does that impact the sale of [single-song] downloads?… one thing that we have to ensure as a content owner is that we get the right price and closely monitor how these business models will impact other products of ours, other business models, because it would be great if we got a large percentage of the population to subscribe to the music services […], but again if that product completely replaces […] the need to buy music and own music as traditionally has been the case – if they move from an ownership to a rental model… […] maybe if the price is right the rental model will be great for the music industry and we would not have to worry about selling music for ownership purposes any more … (Interview #36)

Music industry decision makers, such as the informant above, are basically worried about what would happen if every household stops buying music “the traditional way” and starts subscribing to music rental services. The hesitation which is expressed is based on the assumption that such a change would reduce the total size of the industry of recorded music to merely a fraction of its current size. Currently it is sufficient to conclude that music rental services constitute yet an example of a media outlet which is difficult to fit in the traditional media outlet structure.
The remaining sections in this chapter will make conclusions regarding the transformation of the media environment, and its impact on music firms as manifested by the new outlets discussed above.

### 9.3 A different logic

The primary purpose of the outlets presented above is not easily defined as either exposure or distribution. As has already been stated, all music listening, regardless if it is via a radio or a CD, is some kind of promotion which may stimulate the consumers’ curiosity for more music (e.g. Interview #5). However, the new media outlets are also able to satisfy a greater portion of the audience’s demand for music than traditional mass media. This means that with the introduction of the new media outlets, the fraction of the audience who will be motivated to actually purchase the music on CDs, Compact Cassettes, DVDs, and nota bene, via single-song downloads, etc, shrinks.

The informants who participated in the study perceive this process very differently. Some decision makers in the traditional copyright firms do not recognise the change as particularly significant:

> There is no risk that the development of radio will make people stop buying music. People want to have immediate access, want to be able to listen to their favourite song fifteen times in a row. That is not possible yet. The problem arrives when you get on-demand music for free. That is not available yet, well yes from Yahoo Launch, but otherwise not. As long as you separate on-demand media from streaming media there will not be any risk that people will stop buying records. (Interview #29)

Free (and legal) on-demand music may still be rare, but there certainly are a number of services available which offer musical content on-demand to users for free. Both Yahoo! Music and Napster offer on-demand music for free (advertising funded) under relatively liberal access conditions. At the time of writing, other advertising funded services such as Qtrax, SpiralFrog and YouTube have recently signed agreements with major music firms which will enable them to offer on-demand content to users for free (e.g. SpiralFrog 2006; YouTube 2006). In addition, communication infrastructure providers (e.g.

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Vodafone – UK, 3 – Hong Kong, or SK Telecom – South Korea) bundle musical content with their offerings. A person who is subscribing to their telephony services may also get access to an extensive music library. Clearly, the informant cited above has slightly misjudged the state of the media environment, since the services he considers merely as a distant threat already are present and available to consumers.

Another informant makes a considerably more radical interpretation of the disruptive role of the new media outlets:

…yes there is a blurring of the lines between a Napster-To-Go and a digital radio station and a satellite radio station, these are just kind of just similar items, but where they contrast to traditional terrestrial radio is in their purpose… their purpose is not to drive sales of something else, as a record company you are just happy your song was played and listened to…that generated income… period… there doesn’t have to be anything past that… …that is the revenue… …now, talk to people at labels and they may not completely have got their head around this concept but as it begins to proliferate, these small pennies, which accumulate every time there is a listen, where there is a stream, begin to look like a substantial revenue stream, and then they will actually start to treat it differently… …right now they just looking at it as, “here is one more way to put it out there to sell our records”, but that is really not necessary true in a world five or ten years from now… (Interview #20)

The two statements cited above manifest two very different mental models of the media environment and the workings of the music firm. While the former is holding on to the traditional structure, the latter informant is describing a system which is radically different. The latter mental model describes a logic where revenues do not primarily come from the sales of songs or albums, but where the primary revenues are generated by royalties from the use and playing of songs in various media outlets. In other words, the informant is envisioning a music industry which is dominated by a music publisher logic rather than a record label logic. The rising importance of revenues from royalties has already been discussed in the text, however, in that
earlier analysis the increase in revenues has been described as merely a positive but minor side-effect from the transformation of the media environment. The analysis in this chapter shows that the change is more profound since the increase in revenues should not be considered as an add-on to the existing business but as a substitution of the existing business. The core product of the music industry is to a lesser degree the song or album sold to a consumer, and to a greater degree a license sold to a media outlet.

This change is received differently by different music firms depending on the focus of the specific firm. The record label, which is focused on the sales of CDs, and similar products, perceives the new logic as a threat. In the statement below, a record label representative talks indirectly about the difficulty of managing media outlets aimed for distribution versus outlets aimed for exposure:

…the other thing that the record companies need to start thinking about is that maybe the limited [radio] playlists are quite a good thing… because […] if you had access to all this wonderful content, […]… you might be disincentive to subscribe a music service or buy [the album]… so at the moment they should rightly campaign on variety but you never know it might be in their best interest to stop that… …if the radio station wants to play the most popular fifty songs over and over again, fine let them do that…

(Interview #12)

The informant contemplates how the music industry should act in order to keep the two traditional sets of media outlets distinctively separated. In other words, his statement can be interpreted as an illustration of the traditional mental model. As a contrast, the blurring of the two sets is both recognised and quite well received by music publishers who are slowly being reinstated as the main character in the music industrial drama. A music publisher is pondering on the situation:

…I think publishers have the advantage… …they’ve been in the rights business for a very long time… …[publishers] are used to adapting to new streams and new models in a way the record industry has to learn for the first time… …that business has been so focused on selling plastic, and
it has taken them time to realise that they also operate in the rights business. (Interview #5)

The question of how copyright firms should adapt to a changing media environment is essential to this study. According to this informant, the record labels are less capable to adapt to the new media environment, while music publishers are more able to cope with the transformation. In the previous chapter, strategies based on the old logic were discussed and critiqued. The chapter showed that the strategies were either focused on how to expose personalities and musical content in an effective way, or how to ensure that the media presence encouraged consumers to purchase music at the distribution outlets assigned by the industry. This chapter continues from that analysis and shows that the reason why these strategies are unable to solve the record labels’ problems is that there is a “new” media outlet structure which differs significantly from the “old”. In order to be able to craft strategies which can deal with this new situation, decision makers have to challenge their old mental models, and engage in double-loop learning (cf. section 2.7).

There are examples of music firms who have launched strategic initiatives which seem to be based on a new understanding of the media outlet structure. Some of these examples will be discussed in the section below.

### 9.4 A music publishing renaissance?

‘I think anyone who loses is anyone who tries to protect their traditional business. I think you’ve got a bad 10 to 15 years ahead of you if you try to do that’ (Chernin 2006). The statement was uttered by one of the world’s most influential media executives, Peter Chernin, president of News Corp. Most of the strategies discussed in the previous chapter were intended to protect the music firms’ traditional businesses. In this section, a number of less defensive initiatives will be discussed. The initiatives indicate that they are based on an understanding of the media environment which differs from traditional mental models. It should be noted though, that while these strategies at least so far seem to be successful (from a commercial standpoint), it is possible that they are not at all based on careful thinking but simply are the fruition of plain luck and good timing.
Everything is core business

If a music fan in the beginning of the last century wanted to listen to music, she most likely had to play the music herself. She probably learned about music from friends, or by listening to music at the local bandstands and vaudevilles. When she heard a song that she liked, she bought the sheet music at the local stationery store, in order to play the piece on the piano in her living room.

The centre of gravity in the industry which produced the sheet music was located on 28th Street between Broadway and Sixth Avenue in New York City. In this area, often referred to as Tin Pan Alley72, offices of music publishing companies were packed wall to wall. In some rooms, songwriters wrote tunes at a piano, in another room a lyricist were trying to come up with new catchy phrases and somewhere else in the building, promoters were peddling the songs to vaudeville performers, in the hope that the songs would be picked up and used in their next shows. The publishers were in the driver’s seat, controlling the intellectual properties, and actively seeking new songwriters and outlets where their songs could be displayed73. (E.g. Barfe 2004; Poe 1997)

The world has changed in many ways since the days of Tin Pan Alley, and so has the music industry. The gramophone, radio and film completely changed the world of entertainment and created the industry which is in the focus of this study. Sheet music is since long pushed into the periphery, and recorded music has supplanted its previous position as the core business of the music industry. However, the process discussed in the previous sections is once again transforming the structure of the industry. Parts of the value chain that previously were hidden to the audience or only considered as means to support the sales of audio recordings have suddenly become as important as the audio recordings themselves. This section will point at three manifestations of this phenomenon.

The first example shows how the A&R process has been branded, made public, and transformed into a revenue generating media event. Pop Idol and other similar televised talent shows (e.g. Fame Academy, Fame Factory, and Pop Star) have since the beginning of this millennium evolved into well-established brands and profitable businesses74. As most unscripted television shows, these are not particularly well-respected by artists with “cred” or by the

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72 The name “Tin Pan Alley” was originally a reference to the sound made by many pianos all playing different tunes in this small area, producing a cacophony comparable to banging on tin pans.
73 A short history of the international music history is presented in Appendix 1.
nations’ cultural elites (e.g. Hansson 2004; Svenska Dagbladet 2004). However, the shows receive high ratings in all three nations and make good economic sense to the parties involved. Broadcasters are happy since the format attracts an audience that advertisers are willing to purchase. Music firms are also happy since they are able to find talented personalities. Most importantly, the Audience-Media Engine is kick-started since these personalities become well-known among the mainstream audience before the actual start of their musical careers. The format also allows the producers (e.g. the broadcaster, the telecom operator, and the music firm) to extend the show to products such as videogames, DVDs, websites, merchandise and live performances. (E.g. Deans 2004; Guardian 2003)

One of the more successful formats, Pop Idol, co-owned by Fremantle Media and 19 Entertainment (UK), has been commissioned and produced in 32 territories around the world. It has been watched by an audience of 110 million, and since the launch of the programme in the UK in 2001, 1.7 billion telephony votes have been cast by viewers around the world. Performers, who remain in the show until the end of the season, are offered a studio recording contract and possibly also marketing support by the participating music firm. An album is released and available in stores immediately after the final show. So far the media presence stirred by the show has been able to bring every winner’s album immediately to the top tier of the nation’s weekly chart. (http://www.freemantlemedia.com)

Some of the talents scouted during these shows, for instance Kelly Clarkson, Carrie Underwood, Darin Zanyar, Agnes Carlsson, Will Young, Gareth Gates, and many others, have had a strong development of their careers. For instance, Kelly Clarkson (US) was the winner of American Idol in 2002. Her two albums since her Pop Idol appearance have been commercial successes and the last album received two US Grammy awards in February 2006. Clarkson is the only Idol personality that has been able to expand her career beyond the national borders. Darin Zanyar (SE) and Will Young (UK) both have been able to launch careers that span more than one album. Young has received several Brit Awards and Zanyar received a Swedish Grammy in February 2006. However, neither Young nor Zanyar has been able to take the step from national recognition to international stardom. (http://www.bpi.co.uk; http://www.riaa.org; http://www.ifpi.se)

These talent shows are interesting examples of multimedia productions based on a complex business model and involving numerous media channels. However, the phenomenon will not in itself have a significant impact on the
workings of the music industry. The format has simply not room for more than one or possibly two new personalities per year and territory, and that is of course not enough to sustain an entire industry. It is also likely that the format’s repetitive structure eventually will wear down the current interest from the audience. While the show in the beginning of 2006 was still hugely successful in both Sweden and the US, signs from the UK indicate the format’s approaching demise (Deans 2006). However, though Pop Idol and its siblings may be unable to sustain the entire music industry, the productions are illustrative examples of how music firms are able to make good business by embracing the logic of the new media environment (Gibson 2006).

Another example of how the music industry is able to establish viable business models by converging with other copyright industries is found in the videogame domain. It has already been discussed in the text how music firms work with the videogame industry, both as a user and a promoter of music. However, there are other examples where the collaboration between music firms and videogame producers has been developed even further. During the production of their album Monkey Business in 2004, the Los Angeles based Hip-Hop group Black Eyed Peas (A&M Records/Cherry Lane Music Publishing) collaborated with the videogame producer Electronic Arts and the videogame the Urbz: Sims in the City (Interscope 2004). The music publisher explains the general thinking of the project:

…beside just licensing some tracks to the game we were actually having the band members as characters inside the game…we loaded the game with nine songs in Similish75… …So we used the game as a launching pad for their next album called Monkey Business…and there was tracks from Monkey Business put into the Urbz game and we tied in iTunes as when you purchased the album in iTunes you got four free Similish songs as well… …so we really looked at it as a full turn key promotion instead of just seeing it as “Let’s see how much money we can get for putting in the music”… (Interview #31)

75 ‘Similish’ is the language used by the characters in the Electronic Arts videogame franchise ‘the Sims’.
The music manager at Electronic Arts working with the project explains how intimately the videogames producer was involved in the production process:

…we get invited by the artist to the studio to listen to the songs, maybe change the lyrics if they are not politically correct… …I spent like, I don’t know how many hours, with the Black Eyed Peas in the studio, because they said “We want to be in the game, what do we need to do, what does the song need to sound like?”… (Interview #17)

Though this project is very different from the televised talent shows discussed earlier, both phenomena are examples of how the changing media environment transforms the core business of the music firm. While the core business previously was the selling of audio recordings to a mass audience, the new core business is to contribute in the production of multimedia products based on complex business models, multiple media channels and multiple revenue streams.

The third and very noticeable example of the core business transformation is different than the previous two, since it does not involve any aspect of media convergence. Due to the development of various media technologies, the music video has attained a value which is greater than merely promotional. As Figure 8.1 (p. 166) shows, the sales of music videos are beginning to make a trace in the global sales statistics. This statistics are only showing sales of physical products, but in addition, the online music retailer Apple iTunes started selling music videos according to the “single-song download” model to the US and UK market during 2005. Further, in September 2006, Warner Music signed a deal with the video sharing service YouTube to allow YouTube users to view Warner’s music videos for free, while Warner and YouTube share the revenues generated from advertising (YouTube 2006).

The recognition of the music video as a valuable copyright product in itself rather than merely a tool for promotion, has spurred some music firms to move the costs of music video productions from the marketing budgets to the production budgets. From an outside point of view, this revised accounting practice is primarily of symbolic importance but essentially underscores the

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76 The sales of music videos illustrated in Figure 8.1 do not only include the sales of promotional videos, but also other kinds of music related videos, such as live concert videos.
process which is in progress. It shows yet again how the traditional business models based on a two-set media outlet structure become obsolete and how a multitude of other more complicated business models take its place.

Conclusively, the three examples presented in this section illustrate how activities that in the past were considered merely as activities supporting the core business now are viewed in a different light. Previously, activities and objects such as the ones discussed above were considered as means to create media presence, to achieve exposure, which then were supposed to generate sales of the core product, that is to say the audio recording. In the new media environment, revenues immediately generated from these tools for exposure are growing in importance while revenues from the sales of audio recordings are falling in significance.

Music publishers challenge the record labels’ domain

The increasing importance of revenues from various forms of music licensing has raised the significance of the music publisher at the record label’s expense. The music publisher which since many decades have been reduced to the record label’s side-kick, have regained some of its original weight. This process has been predicted by several scholars, for instance by Wallis (1995), but the change is no longer in the future but is rather a matter-of-fact. Several observations show how the role of the publisher is changing. This study has already reported how revenues from performance and synchronization royalties increase while revenues from mechanical royalties decrease. What is also interesting is how tasks that previously were a part of the record label’s domain increasingly are performed by music publishers. One such example is the control of the master recording. Traditionally, music publishers have only been controlling the composition and the lyrics on behalf of the song-writer while the record label has been controlling the actual recording on behalf of the performer. During recent years it has become increasingly common that artists employ a music publisher to control not only the composition but also the recording. This enables the music publisher to act in new ways. The music publisher is able to license the recording to various purposes, without the need to involve a record label. Since music licensing is the core business of the music publisher, the publisher is often more capable and motivated than a licensing

77 A master recording is an original recording from which copies may be made.
department at the record label in getting the most licensing monies out of a
certain intellectual property.

…there is a need to exploit the master side as well…it is
not very different from the publishing side when you come
to think about things as synchronization and even some
new media… […] …so we then have to put on our record
label hat for a little while… …so essentially it’s a
necessity…for our clients they need someone to look after
both sides and why not have us do it… …it makes
sense… […] …being in control of publishing and the
master side is very helpful, particularly in the new media
where companies want to deal with one entity…
(Interview #31)

The control of the master recording also enables the music publisher to act
as a record label in other areas than the licensing domain. The decreased risk
willingness among some music firms, especially record labels, has made the
labels’ A&H process slow and bureaucratic (Interview #14). Some music
publishers have reacted to the record labels’ revised A&R strategies by cutting
the labels completely out of the loop and to release the records themselves (e.g.
Interview #4). When physical distribution is required in a project, the music
publisher may contract a record label to handle distribution, but if the song is to
be exclusively distributed via the Internet, no involvement whatsoever from a
label is required.

Other similar trends are discernable among music publishers. For instance,
when record labels are reluctant to invest in new performer talent,
opportunities have been opened up to music publishers. Some publishers have
decided to nourish inexperienced performer’s careers in a way which is similar
to traditional record label activities:

…I think you really have to go back to the days of the Brill
Building years and the Tin Pan Alley, when there was no
record labels because there were no records yet… …the
publishers were actually the promotional force behind the
artist, because there was no medium outside the piano roll
and the sheet music and it was the publishers that sort of
peddled, they went door to door and promoted… […]

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Conclusively; not only is the revenue stream from the licensing business growing in importance, in addition, the role of the music publishers is changing and is challenging the traditional domain of the record labels. While the record labels are on the retreat, music publishers are on the advance, and it is no longer obvious where the line between a record label and a music publisher should be drawn.

9.5 Indications of double-loop learning

The analysis in this chapter has shown how the traditional media outlet structure, which has been underpinning the music industry, is weakened due to the regulatory and technological development. The chapter has argued that the new media outlet structure makes old business models obsolete and challenges the industry’s traditional power structures.

It is no longer possible to expose music at one outlet in the hope that it will lead to sales of the same music at another. Rather, while every instance of “music usage” is promotional, it should also be considered as an instance of distribution.

TV and radio has built their business models on the assumption that they have access to free content from content owners. Content owners have assumed that to be promotion for their physical products. However, since physical product sales are going down, content owners have begun to demand royalties for the use of their content on outlets such as radio, TV, etc. (Interview #29)

The informant pinpoints how the traditional media outlet structure is falling apart and how music firms respond by collecting their revenues as performance royalties rather than from the traditional core business.

This chapter has also pointed at examples where music firms have embraced the new logic and used their intellectual property to develop novel
multimedia products based on complex business models. It seems as these strategic initiatives are based on a revised mental model of the media environment. The decision makers have recognised the new workings of the industry and have adapted their strategies accordingly. In other words, it seems as double-loop learning rather than single-loop learning has occurred.

It is also clear that these strategic initiatives are crafted by organisations which follow more aggressive adaptation policies than the organisations launching the strategies presented in the previous chapter. New products and unknown market opportunities are explored in order to develop the firm’s businesses. The strategies are less defensive in their character and may consequently be placed relatively close to the *prospector* pole, using the Miles & Snow typology (cf. pp. 56f). Based on this observation and the reasoning in section 2.7, it is possible to conclude that these initiatives are more appropriate in a copyright industry setting than the strategic initiatives discussed in the previous chapter.

A relevant question at this point is whether the old and new music industry models discussed and developed by this study are able to represent the new industry dynamics. On the one hand, the old models presented in section 3.1, are all to a varying degree linear in their structure and intended to describe a music industry with clearly separated media outlets for exposure and distribution. These linear value chain models put their emphasis on the audio recording as the core product and explain how a set of sequential activities support the sales of those products. As has been established by the reasoning in this chapter, that logic is increasingly irrelevant and most linear music value chain models are consequently meeting a similar fate. On the other hand, the Music Industry Feedback Model (Figure 6.7, p. 131), which is nonlinear in its structure and has no emphasis on a specific product or delivery technology, is still able to capture the essence of the music industry dynamics. The new media outlet structures may be more complicated than previously, but MEDIA PRESENCE still is essential to gain AUDIENCE REACH and AUDIENCE APPROVAL. The Audience-Media Engine still is crucial for the music firm to function. In spite of the hampering strategic initiatives examined in the previous chapter, the Audience-Media Engine keeps on running at a steady pace. Primarily due to technological innovations, AUDIENCE ACTIONS are more intense than ever, but without generating the same kind of REVENUES as during the good old days.

In the next and final chapter, the contributions and findings made by this study will be summarised, conclusions will be made and suggestions how to forward will be given.
The best of times?

It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way…

(Dickens 2003 [1859])

The opening phrases of A Tale of Two Cities refer of course to the French revolution. Revolution is a label that far too often is used to denote almost any kind of transition. I will not argue that the changes which are examined by this study should be characterised as a revolution. Nevertheless, Dickens’ words, work as an excellent illustration of current attitudes among music industry decision makers. Some express their frustration and despair, while others are unable to curb their enthusiasm.

This chapter will summarise the findings made by the study and make some general conclusions based on these. The chapter will then discuss the implications from the findings; for the copyright firm in general and for the music firm specifically. Suggestions will also be given how decision makers ought to change their behaviour in the light of the new findings. Finally, the chapter will suggest directions for how the study could be taken forward in future research projects.
10.1 Summary and conclusions

The study has taken a relatively broad approach to the evolution of the music industry. In this section, the main currents of the study will be summarised, and conclusions based on the reasoning will be presented.

Reluctantly virtual

The purpose of this study has been to increase the understanding of music industry dynamics. The study has been focused on music industry decision makers and how they have perceived contemporary changes within the media environment. It has also examined how music firms have revised their strategies, policies and routines, in order to cope with the new conditions.

The extended answer to these questions is given by all the previous chapters, but the condensed answer is as follows: The contemporary dynamics of the music industry and music firms’ strategic adaptation processes could be characterised as reluctantly virtual. The term virtual is used as suggested by Castells (1997: 403-6), namely as an adjective which denotes a phenomenon occurring within the realms of electronic media, rather than in physical space. The study has shown how music firms in general have responded defensively to the changes in the media environment and with the main objective to protect their existing businesses. Decision makers have not challenged their mental models of the media environment but have remained focused on preserving the pivotal role held by their physical products.

The study argues that one of the most significant changes of the media environment is the development of new media outlets which are incompatible with the “traditional” media outlet structure. According to these traditional structures, a certain set of media outlets (primarily radio and television) is used by music firms to expose music to audiences, while a distinctively different set of media outlets (physical carriers such as CDs and Compact Cassettes) is used for distribution purposes. New media outlets are not as easily defined as either tools for exposure or tools for distribution. Rather, the new media outlets are members of both sets, at the same time. According to this new logic, it is no longer possible to expose music at one outlet and expect that it will generate sales of the same music at another. The audiences may be listening and enjoying music as ever before, but their actions are not immediately translatable into revenues.
While revenues from consumer sales are falling in significance, other revenues are rising. The growing number of media outlets increases the demand for various kinds of music licensing. These licensing opportunities might be a plain and simple license to use a song in a soundtrack or a radio playlist, but it might also be a music firm’s cooperation with other copyright firms in a joint development of multimedia products based on complex business models, multiple media channels and multiple revenues streams. The study has pointed at a few examples of these kinds of multimedia products from the realms of interactive entertainment and unscripted television.

The study argues that while some music firms remain attached to the old models, other music firms, primarily music publishers, have recognised the transformation and are beginning to thrive in the new environment. They have challenged their old mental models and embraced the new logic.

There are some indications that the courage to abandon an old core business and to search for new opportunities is growing among many music firms, not only among music publishers. For instance, some music firms are ‘trying to create a 360-degree entertainment proposition rather than a straight up and down record company’ as Clive Rich of Sony BMG Music Entertainment explains (Gibson 2006). Other music firms seem to be heading in the same direction (e.g. SpiralFrog 2006; YouTube 2006), and seemingly, after many years of resistance and hesitation, music firms are reluctantly recognising the realities of a virtualised environment.

Modelling copyright industry dynamics

A qualitative system dynamics model, the Music Industry Feedback Model, has been developed to support the reasoning which was summarised above. The study argues that the linear music industry models developed by previous music industry research are unable to explain the new music industry dynamics. However, the Music Industry Feedback Model is quite able to do so. For instance, one of the vital structures of the model, termed the Audience-Media Engine, illuminates the reinforcing feedback loop which is the driving force behind any sound or song, band or brand. Other parts of the model explain the different strategic routes open to the music firm and how these influence the firm’s operations and financials (Figure 6.7).

Section 3.1 (p. 73) argues that the value of a model should not be judged in terms of right or wrong but rather in terms of the usefulness of the model.
Section 5.5 (p. 111) argues further that models are preliminary ‘versions of the world’ (Goodman 1978) which should be in a continuous state of development. Without a doubt, it is possible to continue the iterative development of the Music Industry Feedback Model in order to improve its ability to explain reality. However, in its current state, the model is already both useful and relevant as a tool for explaining music industry dynamics. This usefulness has been confirmed during the elaboration of the analysis in chapters 7 to 9, when the model was used to support and strengthen the arguments put forward.

A relevant question is whether the reasoning would hold even without the support from the model. The answer to this question is most likely ‘Yes’. However, the written language may serve well to describe linear processes with a beginning and an end, but it has a limited ability to efficiently explain nonlinear dynamic phenomena (e.g. Ong 1982). A visual language such as influence diagramming, is more appropriate for such an endeavour. Therefore, though written language alone would have been able to examine the industry dynamics to some extent, the Music Industry Feedback Model is able to bring the analysis to a higher level and to increase the understanding of the music industry dynamics considerably.

10.2 Implications and suggestions

One important marker of a research project’s quality is the relevance of the findings presented. The relevance is to a significant degree governed by the range of phenomena which they are able to explain, or ‘the extent to which the findings are transferable to other settings’. (E.g. Corbin & Strauss 1990: 19; Hammersley 1992: 64)

It would be appealing if the validity of the Music Industry Feedback Model could be immediately extended to copyright industries other than the music industry. Indeed, without any major structural changes, the model has relevance as an analytical tool when examining aspects of other copyright industries, such as the book, videogame and the film industries78. However, the model is less apt to explain the dynamics of copyright industries where licensing revenues are of less importance and revenues from advertising are more significant. In order to build a model with relevance to all copyright industries, more empirical data

78 The model also has some relevance to firms which are developing a media brand portfolio on a corporate level, for instance media conglomerates such as Dow Jones, Bonnier, EMap, and many others.
need to be gathered, something which remains for future research projects to do.

Although the model is not immediately transferable to every copyright industry, the reasoning and the conclusions facilitated by the model are of major relevance to many of these industries. In the sections below, implications of the most significant findings have been summarised. In connection to each finding, some suggestions are given how copyright firms may go forward. It should be noted that the findings discussed below are not completely distinct, and that some parts of the reasoning may be mentioned more than once.

**Explicate and challenge mental models**

One of the most fundamental reasons why decision makers are unable to adapt their organisations to a changing environment is the inflexibility of their mental models (e.g. Argyris 2004; Beinhocker 2006; Sterman 1994). The structure and logic of the world change, but the decision makers’ understanding of that world remains intact. The study has shown how decision makers in the music industry continue to defend their old core business although a radical transformation of the media environment is taking place.

In order to be able to continuously challenge their mental models, it is important that the decision makers are able to explicate and surface their beliefs and assumptions. One way of explicating mental models is to use a modelling technique such as qualitative system dynamics. By developing influence diagrams which represents the decision makers’ mental models, the assumptions are brought out from the subconscious and into the open. This process then makes it easier to overcome some of the learning impediments and defensive routines discussed earlier in the text (p. 60). Thereby, the development of an organisation that is able to swiftly adapt to changing environmental conditions is facilitated. (E.g. Senge 1990; Sterman 1994)

Even though the Music Industry Feedback Model is not a visualisation of a specific decision maker’s personal mental model or a music firm’s shared ditto, it may nevertheless be used to support a music firm’s decision making processes. One structure that probably is especially relevant is the Audience-Media Engine. If decision makers are able to grasp the logic encapsulated by the Audience-Media Engine and thereby are able to foresee the dynamic impact of their decisions, the likelihood of making decisions which are directly damaging to this structure, might at least be somewhat reduced.
Another day, another core business

The study shows how a new media outlet structure makes old business models obsolete. New opportunities have to be explored in order to sustain in an environment characterised by continuous development. The study shows how music industry decision makers struggle with the new media outlet structure. Their struggle mainly concerns how to take advantage of new opportunities without hurting old businesses. This challenge is shared by players in other copyright industries:

Clearly, the trick in media’s brave new world is to structure emerging distribution modes so that they are additive, not cannibalistic, to new and existing content exhibition windows while providing new venues for advertisers.
(Mermigas 2006)

Surely this ambition is understandable, but it is also associated with a high level of risk. By applying a relatively defensive strategy, such as suggested by Mermigas, the firm runs the risk of being unable to respond to major shifts in their environment (Miles & Snow 1978). Quite self-explanatory, such a strategy is not very appropriate in the roaring copyright industries. A more appropriate adaptation strategy is the prospector approach where innovation is of highest priority. The prospector is a more sustainable strategy although it, in the short term, may yield lower profit levels than the defender strategy.

The study points at a few examples of how music firms in cooperation with other copyright firms have been able to launch successful business initiatives (pp. 194ff). These examples are not businesses that will remain viable for decades; rather, they will probably be outdated quite soon. However, it is initiatives like these which music firms continuously have to develop (and abandon) in order to create a sustainable copyright business. No doubt, Schumpeter’s (1942) principles of creative destruction remain as valid as ever.
Cost-cutting and risk reduction is not strategy

The previous section discussed innovation and risk from a business model perspective, but the true core of the music industry is of course the songs and the personalities. No business model, no matter how ingeniously designed, is able to support a firm that lacks good songs or charismatic personalities. Nevertheless, the study shows how music firms are trying to reduce costs, and to create novelties without engaging in risky intellectual property development.

The music firms’ risk aversive strategy is to some extent understandable. In order to meet short-term financial goals, defensive strategies such as risk reduction and cost cutting often are closer at hand than the revenue enhancing strategies which usually are associated which considerable time lags (cf. section 6.5). However, cost-cutting strategies are rarely able to solve a firm’s long-term difficulties. Operational effectiveness is of course a necessity to any firm, but it is difficult to replace offensive revenue enhancing strategies with defensive cost-cutting initiatives. Operational effectiveness initiatives are easily mirrored by the competition, which quickly eradicates any competitive advantages that might have been established. In order to regain the advantage, new cost-cutting initiatives have to be launched. Thereby, a reinforcing feedback loop, sometimes labelled ‘hypercompetition’, is established (Porter 1996). This study has discussed a similar kind of dynamics in relation to accelerating marketing costs (p. 154ff). Hypercompetition is an analogous ‘race of chicken’, where the contestants get ever thinner and more homogenous. Michael Porter describes the phenomenon as follows:

Continuous improvement has been etched on managers’ brains. But its tools unwittingly draw companies toward imitation and homogeneity. Gradually, managers have let operational effectiveness supplant strategy. The result is zero-sum competition, [...] and pressures on costs that compromise companies’ ability to invest in the business for the long term. (Porter 1996: 64)

In a copyright industry, cost-cutting and risk reduction strategies is even more devastating than in most other industries. It is not by developing intellectual properties more efficiently that will make a copyright firm successful in the long term; it is by developing intellectual properties differently that will. This differentiation is only achievable by creating an environment where risk is welcomed, and intrinsically motivated creativity is allowed to flourish.
Convergence within the organisation

The study shows how previously distinctively separate concepts converge. First, the line between distribution and exposure outlets is blurred. Second, the definition of a music publisher and a record label is no longer as clear-cut as previously. Third, due to the declining difference between outlets for distribution and outlets for exposure; licensing and marketing activities become increasingly indistinguishable.

In spite of these processes, the organisational structures within major music firms are still functionally structured as licensing, marketing, publishing, etc. The communication and cooperation between the different departments is limited, and leads to sub-optimisation and inflexibility.

The convergence in the marketplace needs to influence the internals of music firms. The cooperation between publishing branches and recorded music branches needs to be improved and the current organisational structures need to be challenged.

Fiery negotiations await between content owners and media outlets

The study shows how revenues immediately gathered from audience actions are diminishing, while revenues from licensing are growing in importance. This shift of balance has a significant impact on the contractual agreements between owners of content and media outlets. A quote from an informant indicated previously (p. 200) how content owners demand higher royalties from media outlets to compensate for the reduced sales of physical products. A quote from another informant (p. 160) indicates how media outlets push hard to lower the royalties since they argue that exposure of the content is of significant value to the content owner. This clash will intensify as the transformation of the media environment continues. The music industry will most likely take the lead in this process since their situation is a notch more desperate than that of the media outlets. Based on the reasoning brought forward by the study, the music industry’s argument weighs somewhat heavier than the argument from media outlets. Consequently, when negotiating the fee for using a song in a particular setting, the potential promotional value of the exposure should not be exaggerated. The fee should primarily be determined by the artistic value the
song brings to the media outlet and should only be minutely influenced by the promotional value the exposure may bring back to the owner of the intellectual property.

One way to resolve the potential stalemate might be to increase the license fee paid by media outlets to content owners, but to let the fee be influenced by the advertising revenues the content owner collects. This contractual structure has already been used for instance in the agreements between SpiralFrog and EMI and between YouTube and Warner Music (SpiralFrog 2006; YouTube 2006). It is still too early to determine the robustness and longevity of the model, and it remains to bee seen whether it eventually will spread into more traditional media outlets such as terrestrial broadcast radio.

10.3 The media research agenda

The copyright industries, and the products these organisations create, are increasingly important in our societies. It is consequently of great importance to increase our understanding of these industries and products. Many issues and questions need to be explored. During many years, media research has been focused on questions regarding the meaning and interpretation of these products while issues related to their creation have been somewhat pushed into the margin. It may certainly be highly motivated to explore the meaning of copyright products and the interplay between copyright products and society. However, without understanding how and why copyright products were created, the knowledge from these research initiatives is incomplete and sometimes even irrelevant. In order for media research to increase its relevance, the attention of media researchers needs to be moved away from subjective speculations of how “art imitates life” and closer to empirically grounded examination of organised production of culture.

In those cases where media researchers have been exploring production issues; sociological or behavioural sciences have often been the dominating theoretical lenses. Much can be learned by assuming these perspectives, but there are also insights that are missed or only vaguely understood. Organised production of culture, both commercial and public service, is highly influenced by economical aspects. The understanding of the production of culture can consequently be taken much further by combining the traditional perspectives used by media researchers with the body of knowledge accumulated within the realms of economics and management research.
This particular study is one small contribution to the kind of research proposed above, but of course there still remain much ground to be covered. A few suggestions how the study could be taken forward are presented below.

**Continued model development**

The approach used in this study could be expanded to other copyright industries. For instance, the transformation which currently is experienced by the “audio” industries (e.g. radio and music) is rapidly moving on to the “video” industries (e.g. television, film). Qualitative system dynamics is an effective approach for modelling complex dynamic phenomena and could also be used to increase the understanding of these evolutionary processes. Probably, the Music Industry Feedback Model could be used as a starting point in such an endeavour.

The model might also be extended into other settings, such as issues related to intellectual property portfolio management in general (e.g. patents or consumer brands). Another relevant enhancement of the model would be the introduction of more advanced system dynamics concepts (e.g. stock and flow diagramming or computer modelling and simulation) in order to further deepen the understanding of copyright industry dynamics.

**On new tastemakers**

A tastemaker is someone or something that is able to influence which fads or fashions that are in vogue or not. Broadcast media has been the most important tastemaker in the music industry during several decades, but new Internet based services are challenging the role of these traditional players. The study has already presented various media outlets that are performing the role of the tastemaker (section 9.2) but there are other outlets aiming for that position. Internet based services such as betterPropaganda, Last.fm, Pandora, and online communities and social networking services such as Bebo, Lunarstorm, MySpace, etc79, constitute new opportunities for experimentation and communication between symbol creators, music firms and audiences. The

understanding of how these services will influence the fads and fashions in the music industry is still unsatisfactory and there is a need for future research initiatives to look into the issue.

**On the relationship between symbol creators and copyright firms**

One of the implications from the study concerns the changing relationship between content owners and media outlets, and how this will require a revision of the contractual agreements between these parties (p. 209). Indications from the study also show that the relationship between the symbol creator and the copyright firm is changing in a similar fashion. For instance, the concept of the music album which previously has been a structuring factor behind most aspects of the music business seems to be of diminishing importance. This transformation may have implications on many aspects of music production, including the contractual relationships between symbol creators and music firms. These and other related issues are outside the scope of this particular study, but the attention of future research initiatives needs to be turned towards the matter.

**10.4 A final word**

Music may permeate most parts of society, but the music industry per se, plays a relatively peripheral role in the global economy. Nevertheless, the knowledge attained by exploring this small but dynamic industry can be of considerable value to many copyright industry decision makers. The aim of this study has been to provide such knowledge, and to facilitate these decision makers’ understanding of contemporary copyright industry dynamics. Hopefully, they will thereby be better equipped in order to create sustainable and adaptable copyright businesses, where creativity and diversity is championed, to the benefit of creatives, audiences and shareholders, alike.
Appendices, etc
Appendix 1:
A very short history of the international music industry

This appendix gives a very condensed account of the evolution of the music industry, with a particular focus on the multinational music firms and on changing distribution technologies during the last century. Several reports of the history of the international music industry have been written and published during the last decades (e.g. Barfe 2004; Coleman 2003; Gelatt 1977; Gronow 1983; Gronow & Saunio 1998; Qualen 1985; Read & Welch 1976). This presentation is in its entirety based on these sources.

The music industry, or more particularly the recorded music industry, is by definition intrinsically connected to the development of technologies for recording and disseminating music. Various technologies have been developed for that purpose, and the table below lists some of the more important milestones in this evolution.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1877</td>
<td>Edison demonstrates cylinder phonograph.</td>
</tr>
<tr>
<td>1887</td>
<td>Emile Berliner granted patent for disc gramophone.</td>
</tr>
<tr>
<td>1906</td>
<td>Victor introduces the Victrola, the first successful mass-market phonograph.</td>
</tr>
<tr>
<td>1925</td>
<td>The Victor Co. releases the first commercial electrical recording.</td>
</tr>
<tr>
<td>1948</td>
<td>Columbia introduces the 33 RPM record.</td>
</tr>
<tr>
<td>1949</td>
<td>RCA introduces the 45 RPM record.</td>
</tr>
<tr>
<td>1958</td>
<td>Audio Fidelity releases the first commercial stereo record.</td>
</tr>
<tr>
<td>1964</td>
<td>Philips presents the Compact Cassette tape (CC) format.</td>
</tr>
<tr>
<td>1979</td>
<td>Sony offers a personal tape player called the Soundabout, the first Walkman.</td>
</tr>
<tr>
<td>1982</td>
<td>Sony and Philips introduce the compact disc (CD) format.</td>
</tr>
<tr>
<td>1989</td>
<td>MP3 compression technology patented by Fraunhofer Institute in Erlangen, Germany.</td>
</tr>
<tr>
<td>1993</td>
<td>IUMA (Internet Underground Music Archive) opens.</td>
</tr>
<tr>
<td>1998</td>
<td>Portable MP3 player created by Diamond Multimedia.</td>
</tr>
<tr>
<td>1999</td>
<td>Shawn Fanning launched Napster, the first popularized file-sharing peer-to-peer network.</td>
</tr>
<tr>
<td>2003</td>
<td>iTunes Music store launched by Apple.</td>
</tr>
</tbody>
</table>
At numerous times throughout history, transitions from one technology to another has challenged industry power structures. For instance, before the advent of the cylinders and the discs, printed sheet music was the primary vehicle for music distribution. The pre-Edison music industry was very similar to the book industry, and music publishers were considered as its most important actors.

The new sound recording technologies, primarily developed by Edison, Columbia, and Victor, challenged the old industry structure, and changed the core product of the music industry from printed sheet music to shellac discs. Initially, these three companies considered musical content as merely a means for promoting gramophone sales, but during the 1920s the focus was more and more turned towards the musical content and away from the hardware.

The three firms more or less defined the role of the “record company”. They chose to include the task of finding and developing new musical personalities, as well as the manufacturing, marketing and distribution of the physical products as parts of their businesses. The music publishers which previously had been such important actors in the music industry were reduced to administrate copyrights of composers and lyricists, and to collect royalties from the sales of records and other kinds of music licensing.

During the 1930s and 1940s the music industry continued to be moulded by societal and technological developments. The three original major music firms evolved through mergers, bankruptcies and acquisitions into a new trio – RCA/Victor, EMI and CBS Records. These three companies came to dominate the international music industry during the following decades and they still constitute the core of two world’s largest music firms (EMI and Sony BMG). A few new record companies (e.g. Decca, Mercury, and Capitol) joined the trio during this period, but the music industry structure largely continued to be characterised by a high level of concentration.

In the end of the 1950s and during the 1960s the consolidated structure of the music industry were shaken in its foundations. The development is usually explained by referring to the advent of rock ‘n roll music in concert with changes in the broadcast media environment. First, although the major firms successfully signed a number of significant rock ‘n roll acts, the new genre enabled smaller innovative firms to become at least temporarily commercially successful on the expense of the major firms. Second, in broadcast media, the growth of the television medium forced radio stations to revise their programming. In order to face the competition from the new medium, the
radio turned to music in order to get access to popular content for free or at a low price.

One important consequence of the evolution of the media environment was the establishment of the radio medium as the music firms’ most important promotional tool. By exposing their music in the broadcast media, a portion of the audience was encouraged to purchase the same music in the record stores. This straight-forward business model, which was established in the mid 1950s, has been prevailing for several decades, and it has not been challenged until the coming of Internet-based music distribution technologies at the end of the last century.

During the 1970s, a new wave of consolidation ensued as music firms were faced by the global economic recession and an inability to keep up the creative vitality from the rock ‘n roll era. Industry revenues declined and several small independent record labels, were acquired by the dominating firms. The beginning of the 1980s marks the end of these difficult times and the start of one of the most prosperous eras in the history of recorded music. The launch of MTV in 1981, in combination with the introduction of the compact disc technology in 1983 enabled the industry to grow at a previously unseen rate. This period of strong growth peaked in 1999, the very same year a student at Northeastern University in Boston, USA, launched the Internet based peer-to-peer network known as Napster. The version of Napster which was launched in 1999 is now closed, but similar technologies still enable unsanctioned music distribution via the Internet, and thereby constitute a major concern for the music industry.

As this very brief account of the history of the international music industry illustrates, the industry has at most times been dominated by a small number of large multinational organisations. At the time of writing, this statement still remains true, as currently a handful of organisations dominate the international music industry: EMI Group; Sony BMG Music Entertainment; Universal Music Group; Warner Music Group; and the music publishers BMG Music Publishing and Sony/ATV Music. In Appendix 2, some significant features of these organisations are presented.

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80 The development of music industry concentration has been the subject of several research initiatives (e.g. Peterson & Berger 1975) and is discussed in section 3.2 on pp. 74ff.
Appendix 2: The majors

This appendix presents relevant features of the organisations which currently dominate the international music industry. The information used to create this compilation has primarily been gathered from different corporate websites\(^8\). However, some data has been difficult to attain for all the relevant organisations which unfortunately has caused the presentation to be only partially complete.

The international music industry is currently dominated by a handful of multinational organisations: EMI Group; Sony BMG Music Entertainment; Universal Music Group; Warner Music Group; and the music publishers BMG Music Publishing and Sony/ATV Music. The illustration below explains the ownership of the world’s major record companies and music publishers.

Warner Music Group, EMI Group, and Universal Music Group are “full service” music firms and consist of divisions both for recorded music and music publishing. While Warner Music and EMI are publicly traded, Universal Music is a fully owned subsidiary of Vivendi (France). Sony BMG Music Entertainment is a record company jointly owned by Bertelsmann (Germany) and Sony (Japan). The joint venture was created in 2004 and did not include the publishing units of the two participating music organisations. Consequently, BMG Music Publishing is still owned by Bertelsmann and Sony/ATV remains as a joint venture controlled by Sony and Mr. Michael Jackson.

There are continuously rumours concerning potential mergers and acquisitions among the majors. At the time of writing Bertelsmann is considering a divestment of all their music assets and a bid from Vivendi for BMG Music Publishing was in September 2006 accepted by Bertelsmann. In addition, EMI has during several years tried to acquire Warner Music Group (and vice versa), but no deal has yet been realised.

Company: BMG Music Publishing (Music publisher)
Headquarters: New York City, USA
Global presence: Offices in 25 countries.
Global market position (music publishing): #3 or #4
Parent company: Bertelsmann AG (Germany) 100%
Management: Nicholas Firth (Chairman and CEO)
Employees worldwide: 575
Turnover (2005): €372 million
Administers or owns works by artists/songwriters such as:
Erykah Badu; Backstreet Boys; B.B. King; Coldplay; Elvis Costello; The Cure;
R. Kelly; Natalie Imbruglia; Joan Jett; Annie Lennox; Limp Bizkit; Linkin Park;
Kenny G; HIM; Maroon5; Alanis Morissette; *NSYNC; Britney Spears; Justin
Timberlake; Pete Townshend; Robbie Williams; and Wu-Tang Clan.

Company: EMI Group (Music publisher and record company)
Headquarters: London, UK
Global presence: Offices in 50 countries.
Parent company: Publicly traded at the London Stock Exchange.
Management: Eric Nicoli (Chairman)

Recorded music (EMI Music)
Headquarters: London, UK
Management: Alan Levy (Chairman and CEO)
Global market position (recorded music): #4 (Market share: 13%)
Employees worldwide: 6,000
Turnover (2004/2005): €2.43 billion
Operating profit (EBITA) (2004/2005): €212 million
Controls record labels such as: Angel, Blue Note, Capitol, Mute, Parlophone,
Virgin, etc.
Represents artists such as: Richard Ashcroft; Anita Baker; The Beach Boys;
the Beatles; Blur; David Bowie; Sarah Brightman; Kate Bush; Coldplay; Daft
Punk; Dandy Warhols; Depeche Mode; Gorillaz; Ed Harcourt; Iron Maiden;
Janet Jackson; Norah Jones; Kraftwerk; Lenny Kravitz; Kylie; John Lennon;
Massive Attack; Paul McCartney; Moby; Pet Shop Boys; Pink Floyd; Iggy Pop;
Queen; Radiohead; Cliff Richard; the Rolling Stones.
Music publishing (EMI Music Publishing)

**Headquarters:** New York City, USA  
**Management:** Martin Bandler (Chairman and co-CEO)  
**Global market position (music publishing):** #1  
**Employees worldwide:** 630  
**Turnover (2005/2006):** €614 million  
**Operating profit (EBITA) (2005/2006):** €154 million  
**Administers or owns works by artists/songwriters such as:**  
ABBA; Arctic Monkeys; Louis Armstrong; Count Basie; Natasha Bedingfield; James Blunt; Blur; David Bowie; Kate Bush; Phil Collins; Sean ‘P. Diddy’ Combs; Miles Davis; Depeche Mode; Fats Domino; Duran Duran; Earth, Wind & Fire; Norah Jones; Judas Priest; Alicia Keys; John Lennon & Yoko Ono; Nirvana; The Prodigy; Queen; Rod Stewart; Sting; Usher; Kanye West; White Stripes; Pharrell Williams; Stevie Wonder.

---

**Company:** Sony BMG Music Entertainment (Record company)  
**Headquarters:** New York City, USA  
**Global presence:** Offices in 43 countries.  
**Global market position (recorded music):** #2  
**Parent company:** Sony (Japan) 50%, Bertelsmann AG (Germany) 50%  
**Management:** Rolf Schmidt-Holz (CEO) and Andrew Lack (Chairman)  
**Employees worldwide:** Approximately 6,000  
**Turnover (2005):** €3.5 billion  
**Controls record labels such as:** Arista Records; Burgundy Records; Columbia Records; Epic Records; J Records; Jive Records; LaFace Records; Legacy Recordings; RCA Records; Sony BMG Nashville; SONY BMG Masterworks; Sony Urban Music; Sony Wonder; Verity Records
Represents artists such as: Celine Dion; Bob Dylan; Foo Fighters; Kenny G; Alicia Keys; Avril Lavigne; Sarah McLachlan; Elvis Presley; Eros Ramazzotti; Santana; Shakira; Bruce Springsteen und Rod Stewart.

Sony/ATV Music Publishing

Company: Sony/ATV Music Publishing (Music publisher)
Headquarters: Santa Monica, USA
Global presence: Offices in 40 countries.
Global market position: #5
Parent company: Sony (Japan) 50%, Michael Jackson (USA) 50%
Management: David Hockman (Chairman and CEO)
Administers or owns works by artists/songwriters such as:
Babyface; the Beatles; Brooks & Dunn; Leonard Cohen; Miles Davis; Neil Diamond; Bob Dylan; The Everly Brothers; Jimi Hendrix; Sarah McLachlan; Joni Mitchell; Graham Nash; Willie Nelson; Roy Orbison; Stephen Stills; and Hank Williams.

Universal Music Group

Company: Universal Music Group (Record company and music publisher)
Headquarters: Santa Monica and New York City, USA
Global presence: Offices in 71 countries.
Parent company: Vivendi (France) 100%
Management: Douglas Morris (Chairman and CEO)
Employees worldwide: 7,915
**Turnover (2005):** €4.9 billion
**Operating profit (2005):** €480 million

**Recorded music**

**Global market position (recorded music):** #1 (Market share 25.6%)

**Controls record labels such as:** Geffen; Interscope; A&M; Decca Music Group; Def Jam; Island Records Group; Lost Highway; MCA Nashville; Mercury Nashville; Motown; Polydor; Stockholm Records; Universal Records; and Verve Music Group.

**Represents artists such as:** Akon; Erykah Badu; Beck; Black Eyed Peas; Mary J. Blige; Bon Jovi; Mariah Carey; Sheryl Crow; Eminem; 50 Cent; Hoobastank; India Arie; Jay-Z; Diana Krall; Ludacris; No Doubt; Snoop Dogg; Gwen Stefani; Shania Twain; Stevie Wonder; Sting; Weezer; Kanye West; Bryan Adams; A-Ha; The Cardigans; The Hives; Elton John; Kaiser Chiefs; Keane; Ronan Keating; Rammstein; Sugababes; Texas; U2; and Zucchero.

**Music publishing (Universal Music Publishing Group)**

**Global presence:** Offices in 41 countries.

**Management:** David Renzer (Chairman and CEO)

**Global market position (music publishing):** #3 or #4.

**Administers or owns works by artists/songwriters such as:**
U2; Shania Twain; Bon Jovi; Prince; Ashanti; Mary J. Blige; Anastacia; 50 Cent; 3 Doors Down; The Corrs; Chemical Brothers; No Doubt; Blink-182; Godsmack; Glen Ballard; Stereophonics; Eve; Musiq, Everclear; Andre Rieu; The Beastie Boys; Fatboy Slim; Noir Desir; Sonique; Zucchero; Miguel Bosé; and Brian McKnight.
Company: Warner Music Group (Record company and music publisher)
Headquarters: New York City, USA
Global presence: Offices in 41 countries.
Parent company: Publicly traded at the New York Stock Exchange.
Management: Edgar Bronfman, Jr. (Chairman and CEO)
Employees worldwide: Approximately 4,000.

Recorded music

Global market position (recorded music): #3
Turnover (2005): €2.3 billion
Operating profit (2005): €48 million
Controls record labels such as: Asylum; Atlantic; Bad Boy; Cordless; Elektra; East West; Lava Maverick; Nonesuch; Reprise; Rhino; Sire; Warner Bros.; Word.
Represents artists such as: Eric Clapton; Faith Hill; Green Day; Led Zeppelin; Madonna; Red Hot Chili Peppers; Rob Thomas; and T.I.

Music publishing (Warner/Chappell Music)

Management: Richard Blackstone (Chairman and CEO)
Global market position (music publishing): #2
Turnover (2005): €480 million
Operating profit (2005): €19 million
Administers or owns works by artists/songwriters such as:
George and Ira Gershwin; Cole Porter; Eric Clapton; Madonna; Laura Pausini; Green Day; Morrissey; Dr. Dre, and Nickelback.
Appendix 3:
Informants

The table below lists the informants who participated in the study. Do note that Organisation, Position, and Country may have changed since the time of the interview.

<table>
<thead>
<tr>
<th>Name</th>
<th>Organisation</th>
<th>Position</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michelle Bayer</td>
<td>Shelly Bay</td>
<td>Founder &amp; CEO</td>
<td>US</td>
</tr>
<tr>
<td>Catherine Bell</td>
<td>Chrysalis Music</td>
<td>Director of Rights</td>
<td>UK</td>
</tr>
<tr>
<td>James Brown</td>
<td>International Artist Managers’ Assoc.</td>
<td>Managing Director</td>
<td>UK</td>
</tr>
<tr>
<td>Scott Cohen</td>
<td>The Orchard</td>
<td>Founder &amp; VP International</td>
<td>US</td>
</tr>
<tr>
<td>Jim Collins</td>
<td>Sirius Satellite Radio</td>
<td>VP Corporate Communications</td>
<td>US</td>
</tr>
<tr>
<td>Niclas Ekstedt</td>
<td>BMG Sweden</td>
<td>Head of Marketing</td>
<td>SE</td>
</tr>
<tr>
<td>Antje Fallen</td>
<td>Electronic Arts</td>
<td>Music Marketing Manager</td>
<td>US</td>
</tr>
<tr>
<td>Ray Farrell</td>
<td>eMusic</td>
<td>VP Label Acquisition</td>
<td>US</td>
</tr>
<tr>
<td>Sarah Faulder</td>
<td>British Music Publisher’s Assoc.</td>
<td>CEO</td>
<td>UK</td>
</tr>
<tr>
<td>Andrew Feigenbaum</td>
<td>Atlantic Records</td>
<td>Manager A&amp;R</td>
<td>US</td>
</tr>
<tr>
<td>David Ferguson</td>
<td>British Academy of Comp. and Songw.</td>
<td>Chairman</td>
<td>UK</td>
</tr>
<tr>
<td>Victor Fredell</td>
<td>Sony BMG Sweden</td>
<td>Head of Business Development</td>
<td>SE</td>
</tr>
<tr>
<td>Neil Gardner</td>
<td>Ofcom</td>
<td>Radio Executive Content &amp; Standards</td>
<td>UK</td>
</tr>
<tr>
<td>Thomas Gewecke</td>
<td>Sony BMG</td>
<td>SVP Global Digital Business Group</td>
<td>US</td>
</tr>
<tr>
<td>Chris Green</td>
<td>British Academy of Comp. and Songw.</td>
<td>CEO</td>
<td>UK</td>
</tr>
<tr>
<td>Tim Grimsditch</td>
<td>Frukt Music Marketing</td>
<td>Head of Research and Insight</td>
<td>UK</td>
</tr>
<tr>
<td>Thomas Hagström</td>
<td>EMI</td>
<td>COO Continental Europe</td>
<td>UK</td>
</tr>
<tr>
<td>Keith Harris</td>
<td>MusicTank</td>
<td>Chairman</td>
<td>UK</td>
</tr>
<tr>
<td>Eric Hasselqvist</td>
<td>Stockholm Records / Universal Music</td>
<td>Deputy Managing Director</td>
<td>SE</td>
</tr>
<tr>
<td>Keith Jopling</td>
<td>IFPI</td>
<td>Head of Market Research</td>
<td>UK</td>
</tr>
<tr>
<td>Christer Jungenyd</td>
<td>Radiobranschen</td>
<td>CEO</td>
<td>SE</td>
</tr>
<tr>
<td>Justin Kalifowitz</td>
<td>Spirit Music Publishing</td>
<td>Senior Director A&amp;R</td>
<td>US</td>
</tr>
<tr>
<td>Karin Kiesbye</td>
<td>MNW</td>
<td>Head of Marketing</td>
<td>SE</td>
</tr>
<tr>
<td>Florian Koempel</td>
<td>British Music Rights</td>
<td>Legal Affairs Advisor</td>
<td>UK</td>
</tr>
</tbody>
</table>
(List of informants (cont’d))

<table>
<thead>
<tr>
<th>Name</th>
<th>Organisation</th>
<th>Position</th>
<th>Country</th>
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</thead>
<tbody>
<tr>
<td>Carl Lindencrona</td>
<td>SMFF</td>
<td>CEO</td>
<td>SE</td>
</tr>
<tr>
<td>Ben Malén</td>
<td>Air Chrysalis Scandinavia</td>
<td>Managing Director</td>
<td>SE</td>
</tr>
<tr>
<td>Gerrit Meier</td>
<td>Clear Channel Online Music &amp; Radio</td>
<td>VP &amp; General Manager</td>
<td>US</td>
</tr>
<tr>
<td>Roger Östman</td>
<td>SSG Publishing</td>
<td>Creative Director</td>
<td>SE</td>
</tr>
<tr>
<td>Stephen Palmer</td>
<td>EMap</td>
<td>Strategy and Development Director</td>
<td>UK</td>
</tr>
<tr>
<td>Patrik Pihl</td>
<td>Bonnier Amigo</td>
<td>Head of Marketing</td>
<td>SE</td>
</tr>
<tr>
<td>Thomas V. Ryan</td>
<td>EMI</td>
<td>SVP Mobile Development</td>
<td>US</td>
</tr>
<tr>
<td>Roland Sandberg</td>
<td>STIM/MIC</td>
<td>CEO</td>
<td>SE</td>
</tr>
<tr>
<td>Richard Stumpf</td>
<td>Cherry Lane Music Publishing</td>
<td>VP Strategic Marketing</td>
<td>US</td>
</tr>
<tr>
<td>Ricardo Torres Ortiz</td>
<td>Ultra Records</td>
<td>Int’l &amp; Single Sales &amp; Promotion Manager</td>
<td>US</td>
</tr>
<tr>
<td>Julian Wall</td>
<td>Sanctuary Group</td>
<td>VP Int’l Marketing &amp; Promotion</td>
<td>UK</td>
</tr>
<tr>
<td>Simon Wheeler</td>
<td>Beggars Group</td>
<td>Head of New Media</td>
<td>UK</td>
</tr>
<tr>
<td>Nick White</td>
<td>Virgin Mobile</td>
<td>Head of Value Added Services</td>
<td>UK</td>
</tr>
<tr>
<td>Therése Wieselqvist</td>
<td>SMFF</td>
<td>Public Relations</td>
<td>SE</td>
</tr>
</tbody>
</table>
Appendix 4:
Measuring compilation album success

Sales data is required to be able to examine the commercial success of different kinds of albums. However, accurate and detailed sales data is not readily accessible, simply due to the music firms’ unwillingness to reveal that kind of information about their businesses. In some markets, for instance the UK, fragments of accurate sales data are available, but the data is not available electronically, which makes the data processing a very labour-intensive endeavour. However, there are other ways to measure the commercial success of albums within a specific market.

One way is to use the well established sales charts which announce which albums are commercially successful during a specific period. In different markets, different organisations have been able to establish themselves as the provider of the official chart. In Sweden this organisation is Grammofonleverantörernas förening (GLF); in the UK, the local IFPI organisation (BPI) presents the charts; and in the US the most recognised chart is provided by the trade magazine Billboard. Chart data has been used to indicate an album’s commercial success in several music industry research initiatives. For instance, most of the research on concentration and diversity has been based on this kind of data (e.g. Burnett 1990; Christianen 1995; DiMaggio 1977; Dowd 2000; Lopes 1992; Peterson & Berger 1975).

Another method is based on the Silver-Gold-Platinum award system used by the local IFPI organisations to recognise commercially successful albums. The thresholds for the different awards vary between countries depending on the size of the market. For instance, the threshold for the Platinum award is 300,000 units in the UK; 60,000 units in Sweden, and 1,000,000 units in the US.

The availability of data differs between the three countries. Domestic charts announcing the top 100 best-selling albums during a year were available in Sweden and in USA. In Sweden, data was available between 1991 and 2005, and
in USA data was available between 1976 and 2005. In the UK no corresponding chart data was available. Therefore, lists of Platinum awarded albums between 1976 and 2005 had to be used in the analysis.

When all data regarding the albums had been collected, the titles were categorised as either a compilation or a traditional album. Most albums were easily identifiable, simply by the title of the album (Best of…; Now that’s what I call music; Absolute…; Greatest hits…). However, some albums which could not be immediately identified were looked up in Gracenote’s Internet based music database CDDB.

Next, the percentage of compilation albums in the charts or lists during each year was determined. However, since the data fluctuates heavily from one year to another, average values were calculated to make trends more discernable and to facilitate the analysis. Averages were calculated for the periods ’76-’80, ’81-’85, ’86-’90, ’91-’95, ’96-’00, and ’01-’05, and used as the basis for the graph which is illustrated by Figure 8.2.

<table>
<thead>
<tr>
<th>Year</th>
<th>SE</th>
<th>UK</th>
<th>US</th>
<th>Year</th>
<th>SE</th>
<th>UK</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>-</td>
<td>8%</td>
<td>9%</td>
<td>1991</td>
<td>20%</td>
<td>28%</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>-</td>
<td>28%</td>
<td>10%</td>
<td>1992</td>
<td>27%</td>
<td>31%</td>
<td>-</td>
</tr>
<tr>
<td>1978</td>
<td>-</td>
<td>14%</td>
<td>5%</td>
<td>1993</td>
<td>26%</td>
<td>24%</td>
<td>11%</td>
</tr>
<tr>
<td>1979</td>
<td>-</td>
<td>25%</td>
<td>6%</td>
<td>1994</td>
<td>47%</td>
<td>29%</td>
<td>14%</td>
</tr>
<tr>
<td>1980</td>
<td>-</td>
<td>16%</td>
<td>7%</td>
<td>1995</td>
<td>38%</td>
<td>30%</td>
<td>17%</td>
</tr>
<tr>
<td>1981</td>
<td>-</td>
<td>27%</td>
<td>8%</td>
<td>1996</td>
<td>37%</td>
<td>28%</td>
<td>13%</td>
</tr>
<tr>
<td>1982</td>
<td>-</td>
<td>12%</td>
<td>7%</td>
<td>1997</td>
<td>42%</td>
<td>24%</td>
<td>18%</td>
</tr>
<tr>
<td>1983</td>
<td>-</td>
<td>26%</td>
<td>5%</td>
<td>1998</td>
<td>42%</td>
<td>28%</td>
<td>19%</td>
</tr>
<tr>
<td>1984</td>
<td>-</td>
<td>13%</td>
<td>9%</td>
<td>1999</td>
<td>46%</td>
<td>26%</td>
<td>15%</td>
</tr>
<tr>
<td>1985</td>
<td>-</td>
<td>29%</td>
<td>6%</td>
<td>2000</td>
<td>34%</td>
<td>26%</td>
<td>10%</td>
</tr>
<tr>
<td>1986</td>
<td>-</td>
<td>22%</td>
<td>7%</td>
<td>2001</td>
<td>45%</td>
<td>34%</td>
<td>12%</td>
</tr>
<tr>
<td>1987</td>
<td>-</td>
<td>20%</td>
<td>4%</td>
<td>2002</td>
<td>46%</td>
<td>23%</td>
<td>21%</td>
</tr>
<tr>
<td>1988</td>
<td>-</td>
<td>29%</td>
<td>4%</td>
<td>2003</td>
<td>49%</td>
<td>27%</td>
<td>18%</td>
</tr>
<tr>
<td>1989</td>
<td>-</td>
<td>22%</td>
<td>7%</td>
<td>2004</td>
<td>40%</td>
<td>32%</td>
<td>15%</td>
</tr>
<tr>
<td>1990</td>
<td>-</td>
<td>24%</td>
<td>6%</td>
<td>2005</td>
<td>26%</td>
<td>16%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Table: Measurements for each year from Sweden, the UK and the US

82 Data from the US market was missing for the years 1991-1992.
83 http://www.gracenote.com/music
## Appendix 5:
Model variable definitions

The table below lists the definitions of the endogenous variables used in the Music Industry Feedback Model (Figure 6.7).

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATTRACTIVENESS OF IP PORTFOLIO</td>
<td>The ability of the firm’s intellectual property portfolio to gain approval among the audience.</td>
</tr>
<tr>
<td>AUDIENCE ACTION</td>
<td>The fraction of the total audience who perform actions related to the music firm’s intellectual properties. E.g. purchase a CD; make a mixtape; share a song via a P2P network; attend a music concert; publish a fanzine…</td>
</tr>
<tr>
<td>AUDIENCE APPROVAL</td>
<td>The fraction of the audience who respond positively when exposed to the firm’s intellectual properties.</td>
</tr>
<tr>
<td>AUDIENCE REACH</td>
<td>The fraction of the total audience who are reached by the music firm’s intellectual properties through the media.</td>
</tr>
<tr>
<td>IP DEVELOPMENT</td>
<td>Resources invested by the music firm in intellectual property development.</td>
</tr>
<tr>
<td>LICENSING</td>
<td>MEDIA PRESENCE generated by LICENSING EFFORT.</td>
</tr>
<tr>
<td>LICENSING EFFORT</td>
<td>Resources invested in order to increase the LICENSING of the media firm’s intellectual properties.</td>
</tr>
<tr>
<td>MARKETING</td>
<td>MEDIA PRESENCE generated by MARKETING EFFORT.</td>
</tr>
<tr>
<td>MARKETING EFFORT</td>
<td>Resources invested in order to increase MEDIA PRESENCE with the purpose to stimulate AUDIENCE ACTION.</td>
</tr>
<tr>
<td>MEDIA PRESENCE</td>
<td>The total number of media outlets where the intellectual properties of the music firm currently appear. Equals the sum of MARKETING and LICENSING.</td>
</tr>
<tr>
<td>NOVELTIES</td>
<td>Outcome of the IP DEVELOPMENT process. Novelties add to the ATTRACTIVENESS OF THE IP PORTFOLIO.</td>
</tr>
<tr>
<td>OBLIVION</td>
<td>A natural process of decay which reduces the attractiveness of the IP PORTFOLIO. Oblivion affects different IP’s in different ways. While the longevity of some properties is measured in weeks, others have a lifespan that lasts for decades. The variable is exogenous.</td>
</tr>
<tr>
<td>PRESSURE</td>
<td>The pressure exerted by shareholders on the music firm in order to reduce PROFIT GAP.</td>
</tr>
</tbody>
</table>
**Model variable definitions (cont’d)**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROFIT</td>
<td>The money that remains after expenses are subtracted from income.</td>
</tr>
<tr>
<td>PROFIT GAP</td>
<td>The difference between REQUIRED PROFIT and actual PROFIT.</td>
</tr>
<tr>
<td>REQUIRED PROFIT</td>
<td>Financial goals defined by the shareholders. The variable is exogenous.</td>
</tr>
<tr>
<td>REVENUES</td>
<td>Revenues from ROYALTIES and AUDIENCE ACTION.</td>
</tr>
<tr>
<td>RISK WILLINGNESS</td>
<td>The willingness of the music firm to accept risk in the development of new intellectual properties.</td>
</tr>
<tr>
<td>ROYALTIES</td>
<td>Fees paid by licensees using the music firm’s intellectual properties in various applications.</td>
</tr>
</tbody>
</table>

The table below lists the definitions of the exogenous variables used to contextualise the Music Industry Feedback Model in a changing media environment (defined in chapter 7).

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCESSIBILITY</td>
<td>The ease or difficulty for the audience to access and use the music firm’s intellectual properties.</td>
</tr>
<tr>
<td>APPROPRIABILITY</td>
<td>The music firm’s ability to convert AUDIENCE ACTION into actual REVENUES.</td>
</tr>
<tr>
<td>AUDIENCE FRAGMENTATION</td>
<td>The level of fragmentation of the total audience. If the time spent by the audience using media is constant and the number of MEDIA OUTLETS increase, the audience fragmentation is assumed to rise.</td>
</tr>
<tr>
<td>CONTENT DEMAND</td>
<td>The demand from MEDIA OUTLETS to license and use musical content.</td>
</tr>
<tr>
<td>AUDIENCE VOLATILITY</td>
<td>The tendency of the audiences to jump between different media outlets.</td>
</tr>
<tr>
<td>MARKETING EFFICIENCY</td>
<td>Resources required by the music firm to get accepted by a media outlet and added to their events and their playlists.</td>
</tr>
<tr>
<td>MEDIA OUTLETS</td>
<td>The number of relevant media outlets available to the audience.</td>
</tr>
<tr>
<td>MEDIA RISK WILLINGNESS</td>
<td>The willingness among media outlets to accept risk when determining which music content should be added to their events and their playlists.</td>
</tr>
<tr>
<td>PLAYLIST ENTRY BARRIERS</td>
<td>Routines and policies followed by the media when adding new content to events and playlists. These routines and policies govern whether the barriers to enter the events and playlists are easy or difficult to pass.</td>
</tr>
</tbody>
</table>
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**Journalistic articles**


**Oral sources**


Other documents – press releases, newsletters, research reports, etc


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Web sites

http://music.aol.com
http://music.msn.com
http://music.yahoo.com
http://www.absolute.se
http://www.antipiratbyran.com
http://www.apple.com
http://www.att.com
http://www.bebo.com
http://www.bertelsmann.de
http://www.betterpropaganda.com
http://www.bittorrent.com
http://www.bpi.co.uk
http://www.dcpp.net
http://www.emigroup.com
http://www.emusic.com
http://www.fcc.org
http://www.freemantlemedia.com
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http://www.gracenote.com
http://www.ifpi.org
http://www.imesh.com
http://www.itunes.com
http://www.jamster.com
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http://www.limewire.com
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http://www.microsoft.com
http://www.mozilla.com
http://www.music-united.org
http://www.myspace.com
http://www.napster.com
http://www.nowmusic.com
http://www.nyse.com
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http://www.pandora.com
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http://www.sony.net
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http://www.tiscali.co.uk
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http://www.urge.com
http://www.vivendi.fr
http://www.wmg.com
http://www.youtube.com
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The copyright industries, such as the book-, film-, videogame-, and music industries, are gaining in importance to the global economy and to our daily lives. Due to new media technologies, these industries are currently experiencing a very turbulent and defining phase in their evolution. The music industry has been particularly troubled since the turn of the millennium. Sales of recorded music have plummeted and most players in the industry have been forced to redefine their raison d’être.

This doctoral dissertation contributes to our understanding of contemporary music industry dynamics. Based on interviews with decision makers in the American, British and Swedish music industrial ecosystems, the study reveals how decision makers in multinational music firms perceive and cope with changes in the media environment. The study also presents a qualitative system dynamics model which is used to facilitate the reasoning brought forward and to show how new media technologies make old music business models obsolete and challenge the industry’s traditional power structures.

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