Emerging Patterns of Digitalization in the Estonian Music Industry

Technological developments and digitalization have affected nearly every industry in the last two decades, but especially the media and the content industries. 2014 marked the first year when digital music sales surpassed physical music sales globally, whereas music streaming has become a dominant growth driver in the recorded music industry. New technologies have lowered the barriers of entry to the global music market, but at the same time intensified international competition among artists and the industry’s intermediaries. Digitalization has opened various opportunities for artists and their fans to create direct connections and monetize music consumption more effectively, whereas some of the intermediary roles have become obsolete. These developments can be jointly referred to as the emerging patterns of digitalization. This thesis is the first attempt to study the emerging patterns of digitalization in the music industry in a specific context in a comprehensive manner. As a highly digitalized country, Estonia provides a suitable study case. This thesis aims to understand how the emerging patterns of digitalization are reflected in the Estonian music industry from the four relevant perspectives that represent both the supply and the demand side of the industry: music artists, music companies, collective management organizations, and music consumers.
EMERGING PATTERNS OF DIGITALIZATION
IN THE ESTONIAN MUSIC INDUSTRY

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by
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ABSTRACT


KEYWORDS: Music industry, patterns of digitalization, music consumption, Estonian music industry case study

For the last two decades, technological developments and digitalization have affected nearly every industry, including the music industry (Leurdijk & Nieuwenhuis 2012; El Gamal 2012). The year 2014 marked the first year when digital music sales surpassed physical music sales globally (IFPI 2015), while music streaming has become the dominant source of revenue for the recorded music industry. New technologies have lowered the barriers of entry to the global music market, but also increased competition among artists. Digitalization has opened various opportunities for the artists and their fans to create direct connections and monetize music consumption more effectively. Some music companies have recalibrated their entire business models, while some of the intermediary roles have become obsolete. These developments in the music industry can be jointly referred to as the emerging patterns of digitalization.

This thesis is the first attempt to study the emerging patterns of digitalization in a specific context in a comprehensive manner. As a highly digitalized country (DESI 2017), Estonia provides a suitable study case. Considering the aim of this thesis, the following central research question (CRQ) was formulated: “How are the emerging patterns of digitalization reflected in the Estonian music industry?” In order to approach the issue in a comprehensive manner, the CRQ was divided into two research questions, where RQ1 represents the demand side of the industry (the consumer perspective), while RQ2 investigates the supply side of the music industry (music artists, music companies, and collective management organizations).

First, to understand the emerging patterns of digitalization in more detail, the most important developments in the music industry are discussed from the perspectives of transforming business models (Vaccaro and Cohn 2014), transforming institutional structures (Dolata 2011), radical innovation (Bourreau, Gensollen, & Moreau 2012), transforming roles of intermediaries (Perritt 2011), new distribution models (Wikström 2012), copyright (Cameron 2013, Günther 2016), transforming consumer behavior (Huber 2013; Flath and Beate 2015; Luck 2016; Aguiar 2016, Borja et. al. 2015), and transforming revenues (Aguiar and Martens 2016; Lee, Choi, Cho, Lee 2016; Renard et. al. 2013; Gamal 2012; Winter & Scherer 2015). The music industry’s fundamental value chain and underlying revenue streams are
considered important concepts to understand and approach the ongoing processes in the music industry systematically.

Based on the aim of this thesis and the nature of the CRQ, a case study approach was considered most appropriate. The thesis follows a typology proposed by Yin (2012, 7), with a **holistic single-case design with an embedded subcase**. Having divided the CRQ into the demand (RQ1) and supply (RQ2) side, Studies 1 and 2 were designed to answer RQ1, while Studies 3, 4, and 5 aim to answer RQ2.

**The first research question (RQ1) explores the differences in music consumption patterns between the different age and gender groups in Estonia.** Based on a survey conducted in 2015 with 1,544 respondents, and a similar survey by KantarEmor in 2017 with 905 respondents, **Study 1** reveals that free and legal access to recorded music has had only a limited impact on music consumption. Over 40% of the respondents still prefer physical music consumption over digital music consumption for various reasons. The differences in music consumption patterns call for distinct communication strategies towards these groups to help convert freemium users into paying subscribers and thus monetize digital music consumption more effectively. **Study 2** focuses on the differences in consumption patterns between different demographic groups in Estonia using the example of Fanvestory, a music industry start-up that allows fans to invest in songs and earn copyright royalties with the artists. The embedded sub-case combines data from 282 payment transactions from the first two crowdfunding campaigns and a follow-up questionnaire with 105 respondents. The results reveal the differences in consumption patterns between various age and gender groups, and how these groups provide different kinds of value for the artists.

**The second research question (RQ2) investigates the emerging patterns of digitalization from three important perspectives on the supply side of the music industry.** **Study 3** focuses on two major music companies in Estonia, which are regional branches of global leaders in their respective field of business–Universal Music Group and Live Nation Entertainment. In-depth interviews with the executives of these companies reveal that in most respects the global music industry’s patterns of digitalization in Estonia describe a similar pattern to that on a global scale. While the experience of live music has remained essentially unchanged, digitalization has first and foremost affected the recorded music industry. The study shows that although various intermediary functions could be performed by the artists themselves, the “do-it-yourself-approach” (DIY) has not proven to be a sustainable solution for Estonian artists yet. **Study 4** explores the artists’ perspective in the example of 17 top artists from various music genres in Estonia as of 2017. The study finds additional support for existing research on the artists’ revenues (Flath 2015; Christman 2018) and argues that live concerts continue to provide the main source of income for artists in the digital era, regardless of the music genre. It also investigates differences in revenue proportions among artists and shows that the importance of physical music sales (CDs, vinyls) has
not decreased in the digital era. **Study 5** investigates the perspective of collective management organizations (CMO) using the example of the three leading CMOs in Estonia that represent music authors, publishers, music performers, producers, and record labels. The study shows how the music ownership-based model is increasingly being replaced by the music access-based model, and discusses its effects on the rights-holders. The study also sheds light on the role of the CMOs in the digital era and argues that although various digital applications can increase the transparency and speed of transactions, the role of CMOs has not decreased, as managing thousands of direct licenses with the end consumers would entail a lot more effort from the rights-holders and its economic advantage would be marginal.
INTRODUCTION

Technological developments and digitalization have affected nearly every industry, but especially media and content industries (El Gamal 2012; Leurdijk & Nieuwenhuis 2012), giving rise to a wide range of implications in our everyday lives. These changes are clearly described in the music industry, where production and distribution have shifted from physical to digital domains (Günther 2016). The music industry has seen some major developments since the end of the 20th century, but especially in the early years of the 21st century in terms of how music is produced, distributed and consumed (Leurdijk & Nieuwenhuis 2012; Nakano & Fleury 2017). As the literature suggests, digitalization has triggered changes within the music industry’s economic and organizational structures (Perritt 2011; Dellyana, Simatupang, & Dhevanto 2017), caused music companies to transform their business models (Berry 2011; Cameron 2011; Bourreau, Gensollen & Moreau 2012), contributed to the constitution of new market relations (Dolata 2011; Thomson 2013), and modified music consumption patterns (Aguiar 2015; Halttunen 2016; Aguiar and Martens 2016) along with monetization mechanisms (Renard, Faulk, & Goodrich 2013; Aguiar 2017). It has produced a new understanding in the 21st century that recorded music is essentially free (Stanley 2015). These changes in this context are jointly referred to as the emerging patterns of digitalization in the music industry.

Although the issue of digitalization in the music industry has attracted a lot of attention from various authors and perspectives, this is the first comprehensive case study that aims to explore how the patterns of digitalization in the global music industry form in a small but relatively highly digitalized country – Estonia (DESI 2017). Assuming based on previous literature that digitalization has been the single most important driver of innovation and transformation in the music industry since the end of the 20th century, the following central research question (CRQ) is formulated: How are the emerging patterns of digitalization reflected in the Estonian music industry?

The thesis is divided into three main chapters. The first chapter sets the scene for the study and discusses the literature related to the effects of digitalization in the music industry. The chapter starts by explaining the key concepts of “music industry” and “digitalization” and how they are used in this thesis. The chapter then explores the most important milestones and trends in the music industry that have affected and continue to affect how music is produced, distributed and consumed. The music industry’s fundamental value chain and underlying revenue streams are considered important constants that help understand and approach the ongoing transformations in the music industry in a systematic manner. The final sections of the chapter investigate the main characteristics, trends, and dominant business models along with new consumption patterns and music monetization mechanisms in the digital era.
The second chapter starts by providing a rationale for selecting Estonia as an appropriate study case. The chapter then explains how the qualitative research approach is applied in this thesis to answer the CRQ. Although various authors (e.g. Stake 1995; McDonough & McDonough 1997; Edwards 1998) have proposed different typologies of case studies, the holistic single-case design with an embedded subcase proposed by Yin (2012, 7) was found most appropriate considering the nature of the CRQ. The CRQ is then divided into two research questions, where RQ1 represents the demand side and RQ2 the supply side of the music industry. The chapter explains the research process, data collection, analysis and implementation processes. Studies 1 and 2 relate to the first research question (RQ1) about the differences in music consumption patterns between various demographic groups in Estonia, while Studies 3, 4, 5 were conducted to explore the emerging patterns of digitalization from the perspectives of music artists, music companies and collective management organizations in Estonia (RQ2).

The third chapter constitutes the analysis and discussion of the research results. The chapter is structured around RQ1 and RQ2. Study 1 explains the changes in the behavior of music consumers in Estonia based on two surveys carried out in 2015 and 2017. Study 2 is an embedded case study which explores the consumption patterns between the different demographic groups using the example of a music industry start-up called Fanvestory. Study 3 focuses on the ongoing trends, and changes in revenue structures from the perspective of two major music companies in Estonia – Universal Music Group and Live Nation. Study 4 explores how digitalization has affected the activities and revenue streams of the top Estonian artists as of 2018. Semi-structured interviews were conducted with 17 of the 35 nominees in the Estonian Music Awards Gala 2018. Finally, Study 5 investigates the emerging patterns of digitalization from the perspective of the three collective management organizations (CMOs) that represent music authors, publishers, producers, record labels and performers in Estonia.

The third chapter also discusses the achievement of the research goals, highlights the importance of this work and explains the theoretical and practical implications. It acknowledges the limitations of this thesis and provides directions for further research in this area. The conclusion summarizes the thesis by highlighting the most important findings and answering CRQ, RQ1 and RQ2.
1. SETTING THE SCENE: KEY DEVELOPMENTS IN THE MUSIC INDUSTRY

This chapter sets the scene for the study and discusses the most important milestones and trends that have affected and continue to affect the music industry, especially since the end of the 20th century, in relation to digitalization. The various processes, trends, and developments in the music industry are studied through the prisms of transforming business models, emerging patterns in consumer behavior, transforming roles of the intermediaries, and changes in the revenue structures. This chapter looks at each of those areas in more detail to understand the ongoing transformations in how music is produced, distributed, and consumed in the digital era.

First, the key concepts of music industry, digitalization, music consumption, and consumer behavior are discussed. After that, this chapter explores the most important milestones and trends in the music industry that help understand the ongoing digitalization process in context. The second half of this chapter focuses on the most important trends in the digital music era. It provides insights into the study of the music industry’s business models, which forms the largest body of research in this area. It then looks at the digital music consumption in more detail with the focus on transforming consumer behavior and digital music revenues.

1.1 Defining the music industry

The music industry in this context is defined as a coherent and highly intertwined system where individuals and companies perform multiple functions that are related to the creation and/or distribution of music. This section explores the scope and roots of the music industry and identifies some of the most important milestones that have changed the way music is created, produced, distributed and consumed.

1.1.1 Defining key concepts

The music industry is understood as an integral structure that involves individuals and companies who create and/or sell music and its related products or services. The live music industry has been in place as long as there have been gatherings of people to watch musicians perform in exchange for money or value. Smith (2012) notes that the experience of performing music to live audiences has been one and the same for hundreds of years. Music publishing and sheet music have been available since the 1600s, after the introduction of printing technologies, while liturgical chants were among the first works to be reproduced in paper form. Prior to this, music was often copied out of hand. Smith (ibid.) adds that the industrial revolution in the 1800s paved the way for a more structured delivery of music to wider audiences, which had until then taken place at the most part with the support of aristocracies or churches. Composers could then write, publish, and sell their
works in the form of sheet music. Music management and concert promotion can be traced back to the mid-18th century when composers and performers such as Wolfgang Amadeus Mozart began to seek commercial opportunities for their artistic talent and music. During that period, concerts started to gradually expand from courts and churches to public concert venues. In short, the live music experience has remained essentially unchanged, whereas the recorded music industry has seen some major transformations.

A remarkable change came along with the introduction of sound recording and playback technologies in the second half of the 19th century. This paved the road for the commercialization of published music and the sales of musical recordings. Smith (ibid.) notes that the ability to record a band performing a particular composition using the sheet music for it created the recorded music industry, which put much more focus on the musicians themselves and away from the composers. The first commercial releases in the late 1880s were followed by widespread radio broadcasting in the 1920s. This period also saw significant developments in terms of record music industry’s institutional structure, as five of the six initial major record labels date back to the 1920s.

Since the mid-2000s, the barriers of distributing and promoting music have lowered, a trend that reached its climax with the emergence and spread of the Internet in the 1990s. Since the end of the 1990s, the recorded music industry has seen many disruptions as a result of digitalization, which essentially refers to the use of digital technologies to produce and distribute music.

There are different approaches to the scope of the music industry (e.g. Roland 2016; Barney 2013; Thomson 2013; Leurdijk & Nieuwenhuis 2012), but most of them include individuals and companies who:

- create, interpret or perform music (e.g. artists and interpreters);
- record, mix and produce music (e.g. music studios, producers and sound engineers);
- distribute and market music (e.g. record labels, music publishers, retail sellers, and various distribution channels and platforms on the Internet);
- organize concerts and other musical events (e.g. promoters and marketing companies);
- represent various parties collectively (e.g. authors’ societies, performers’ societies, phonogram producers’ societies);
- support the professional careers of artists (e.g. music managers, agents, lawyers, music industry consultants, marketing and public relations experts);
- broadcast music (e.g. television, radio, the Internet and other channels);
- write about and cover issues related to music or music business (e.g. television and radio journalists, print press, new media);
- offer music education (e.g. instrument teachers);
- produce products related to music (e.g. music instruments, technical equipment, applications).
In addition to identifying the industry’s participants and their distinct roles, the following characteristics apply to the contemporary music industry (Leurdijk & Nieuwenhuis 2012; Wikström 2012):

- a highly concentrated market: the global music industry is dominated by the three major record labels as of 2017: Universal Music Group, Sony Music Entertainment, and Warner Music Group;
- countless SMEs with relatively trivial market shares that apply various different business models, strategies, and operate on all stages of the music industry’s value chain;
- high dependency on certain trends, such as digitalization, which allows researchers to analyze potential evolution scenarios of the business models within the industry (Leurdijk & Nieuwenhuis, 2012);
- high up-front costs (ibid., p. 31);
- uncertain demand, hit-driven (ibid., p. 31).

**Digitalization** is understood in this context as the process of converting analog music streams into digital files as well as the integration of corresponding technologies and means into everyday life. “Digitization” and “digitalization” are closely associated terms that are sometimes used interchangeably. The Oxford English Dictionary (OED) traces the uses of “digitization” and “digitalization” in conjunction with computers to the mid-1950s. However, there is a difference between them, as *digitization* refers to “the action or process of digitizing; the conversion of analog data [...] into digital form”, whereas *digitalization* involves “the adoption or increase in use of digital or computer technology by an organization, industry, country, etc” by OED. The focus of this thesis is not only on the introduction of digital sound recording, editing, and playback capabilities but also the development and spread of corresponding digital communication infrastructure, first and foremost the Internet.

**Music consumption** in this context is understood as experiencing music live or through a choice of technology, as well as the purchasing processes. Lacher & Mizerski (1994, p. 366) defined music consumption as follows: “Listeners may now consume music on one of two ways: by attending a live performance or by listening to recorded music, which may be in the form of personally owned recordings or some other medium.”

**Consumer behavior** in this context refers to the research area that aims to understand why and how consumers tend to switch, stay or change their consumption patterns.
1.1.2 Technological innovation and important developments in the music industry

This section identifies some of the most important technological developments and trends in the music industry that have played and continue to play a significant role in how music is produced, distributed and consumed. First, a starting point of the music industry needs to be determined. While live music has been essentially unchanged for as long as there have been gatherings of people to watch musicians perform in exchange for money or value, the recorded music industry started in the end of the 19th century with the introduction of the first playback devices and releases of the first commercial recordings (Smith 2012). The next decades saw significant improvements in the recording and playback technologies along with the growing institutional structure, including recording studios, record labels, radio stations, record stores, and other types of music companies and organizations (Leurdjik & Nieuwenhuis 2012). For example, five out of six initial major record labels were formed in the 1920s.

A shift from live music to recorded music along with the introduction of various playback devices and a corresponding infrastructure can be considered the first major development in the recorded music industry. Prior to the introduction of sound recording and playback devices, music could be experienced as a live experience. There was a turning point in the history of sound recording in 1857, when Parisian inventor Édouard-Léon Scott de Martinville patented the first phonoautograph that could record the human voice for the first time. These recordings were called the «phonoautograms». According to Rosen (2008), Scott’s device had a barrel-shaped horn attached to a stylus, which etched sound waves onto sheets of paper blackened by smoke from an oil lamp. She notes that these recordings were not intended for listening—the idea of audio playback had not been conceived yet. As the initial purpose of this device was to record sounds visually, it could not play back the recorded material until 2008, when modern technology was applied to convert the graphically encoded sound into a corresponding digital audio file.

The phonoautograph was followed by the first sound recording and reproduction device called the mechanical phonograph cylinder, which Thomas Edison patented in 1878. In the next two decades, the phonograph became widely popular along with the development of mass-production techniques in the end of the 19th century. Cylinder recordings became a major new consumer item in industrial countries. This also marks the beginning of commercial recording, distribution, and sales of recordings. At the end of 1880s, Emile Berliner developed a new system what he called the “gramophone”, which was a step further from Edison’s wax cylinder. The first gramophone discs were 13 cm in diameter. While commercial recording began already with Edison’s invention, the music industry really took off with Emile Berliner’s gramophone at the end of the 1890s and the introduction of various formats of discs that were released by the first record companies. However, the record business was challenged by the growing popularity of radio, which made
music available to the masses. According to Garofalo (1999), the introduction of 
the radio initially lessened the appeal of records, and to avoid bankruptcy, major 
record labels started to merge, while major radio networks acquired some of their 
record divisions.

In the middle of the 20th century, many important inventions were introduced, 
such as magnetic tapes and tape recorders that allowed to record, erase and re-
record sound on the same tape multiple times, but also duplicate recordings with 
a minor loss of quality. This marks the beginning of recorded sound editing. By 
1948, the oil industry had developed a thermo-plastic, polyvinylchloride (PVC), 
which was suitable for making recording tape and gramophone records with very 
low surface noise. Stereo LPs became available in the 1950s, improving the sound 
quality and length of music on one disc.

Compact Cassette, introduced by the Philips electronics company in 1964, replaced 
the competing formats and having become a major consumer audio format, allowed 
the development of the Sony Walkman, which was introduced in the 1970s. This 
was the first portable music player and facilitated the mass distribution of music 
recordings. Listening to music was no longer tied to particular spaces, as music 
players became portable. The cassettes which were portable and recordable could 
be used for production, duplication, and dissemination of music. However, the 
possibility of home taping made copyright infringement easier and eventually led 
to a decline in industry revenues of LPs (Cammaerts & Bingchun 2011).

The next major development in the recorded music industry was the introduction of 
digital sound recording and the Compact Disc (CD), developed in the late 1970s by 
Philips and Sony independently and released commercially in 1982. CDs and CD 
players became extremely popular, facilitating the mass distribution of recorded 
music. The unified design of the CD by Philips and Sony allowed consumers to 
purchase any disc or player from any company, making it a dominant format for 
the at-home music market. As the music recorded on the CDs was more durable, 
the vinyl market became a niche by the 1990s.

It can be argued that technology has often functioned as a counterforce to 
various limitations imposed by the music industry, especially by the major 
record labels. For example, the first CDs that became available to the consumer 
were read-only CDs without a possibility to be copied. Various authors (e.g. Perritt 
2011, Bourreau et al. 2012) have argued that technology has a tendency to move 
faster than the legal system surrounding it. For example, soon after introduction, 
the CDs could be copied, allowing a new form of music piracy. The possibility to 
copy CDs without compromising the quality of the sound recording along with the 
constantly increasing number of personal computer ownership and the spread of 
the Internet is often considered to be among the most important reasons, why the 
modern music industry saw a decline in the recorded music sales. Since then, the 
consumer market has seen many revolutionary developments, including various
uncompressed and compressed digital audio formats with corresponding music players, such as MiniDisc. It can be fairly argued that the shift from analog to digital laid the foundation for the biggest development in the history of recorded music.

After the introduction sound recording and playback devices in the end of the 19th and the first half of the 20th century, **digitalization can be considered the single most important event to transform the music industry, as it radically changed the way music was created, produced, distributed and consumed.**

Various authors (e.g. Leurdk and Nieuwenhuis 2012, Bourreau & Gensollen 2008, Sexton 2009) have tried to summarize the impact of digitalization and its positive or negative effects on the creation, production, distribution, and consumption of music. The authors acknowledge the following positive outcomes:

- music consumption has shifted to online and thus traditional music business models are disrupted;
- music can be consumed and accessed with a multitude of different devices, such as personal computers, digital music players, smartphones;
- music has become cheaper, more easily accessible and easier to purchase for consumers globally;
- artists have more possibilities to produce and distribute their music, independent of intermediaries;
- record companies are losing importance as key distributors and promoters of recorded music. As a result of this, there is less pressure for profit sharing for online music distributors;
- prices are kept low to compete in the global music market.

At the same time, they argue that digitalization has had the following negative effects on the artists and the music industry’s intermediaries:

- increased competition in the global music market among artists and intermediaries;
- promoting music or artists has become increasingly difficult in a global fragmented music market;
- an overall decline of revenues (Leurdk & Nieuwenhuis 2012, 29);
- the disruption of traditional business models has undermined the artists’ and intermediaries’ ability to orientate in the functioning in the music market, thus increasing the overall uncertainty in the music industry.

Bourreau (2008, 23) concludes that digitalization has had two main consequences for the record labels as the most important institutional intermediaries in the recorded music industry. First, content loses its value, because it can be copied and exchanged. Second, the modes of promotion of music are radically changing and online-word-of-mouth is playing increasingly important role in informing the public about their existence and quality. Perritt (2011, 71) adds that **digitalization has brought the greatest uncertainty with respect to the shape of the music**
market: (i) who will perform the necessary intermediation, (ii) how they will perform it, and (iii) what business models are utilized to do it. He emphasizes (ibid., 75) the importance of technological changes in the revolutionized structure of the music industry, especially since the second half of the 1990s. Cameron (2011) points out that digitization and the Internet have profoundly changed the underlying relationships in the music industry. According to her, each of the three main functions of record companies—finding talent, recording music, and promoting or distributing songs—has been affected by it. Dolata (2011) explains that new technologies are an important factor influencing the socio-economic and institutional transformation of economic sectors. He studied the acceptance of new technological challenges by the music industry companies and concluded that they initially reacted with blockades and containment strategies and only defined a strategic repositioning upon massive and undeniable pressures to change. According to him (ibid.), the low ability of the music companies to anticipate and adapt to these technological, organizational and institutional challenges is based on the interplay of the following actors: (i) general difficulties in anticipating the socio-economic impact of fundamentally new technological opportunities; (ii) complex and time-consuming processes of establishing a new techno-institutional match; (iii) technological conservatism; (iv) the oligopolistic structure of the sector; and (v) the hierarchically structured focal companies.

Technology is seen as a key driver of innovation in the music industry, allowing more music with better quality to reach larger audiences in easier ways and for lower prices. Perritt (2011, 154–155) concludes the effects of the availability of new technologies for making, distributing, and listening to music are the following: (i) they reduce the costs of making music and distributing it, thereby increasing the number of musicians; (ii) they increase the demand for music by making it more portable; and (iii) they reduce the costs of consuming it. He notes that the combination of these three effects reduces revenue streams available for each musician and intermediary, thus increasing the uncertainty with respect to the shape of the new music market. Digitalization has created a situation where music is no longer tied to physical recordings, which would have allowed for controlled production and distribution. As a digital product, it can be copied numerous times without any loss of quality, distributed over the Internet and managed from a computer.

At the core of digitalization lies the invention of MPEG Audio Layer 3 (MP3), an audio compression technology introduced in 1987 for compressing CD-quality sound files. Ka-man (2010) explains that with MP3 compression technology, files occupy only about 1/12 as of the CD disk space occupied by uncompressed files. While MP3 reduces the storage space needed for a sound file, it offers a near-CD quality sound. Digitalization also introduced a new form of music piracy in terms of simplicity and scale. The possibility to copy CDs without compromising the quality of the sound recording along with the constantly increasing number of personal computer ownership are often considered to be among the most important
reasons the modern music industry saw a decline in the recorded music sales. The MP3 file allowed users to search the Internet for any desired song and then save it to their personal devices. While analog recordings (e.g. cassette tapes) could be copied in relatively small quantities and compromised sound quality, MP3 format offered them a method for copying and sharing music without the loss of quality, giving rise to the first wave of music piracy at a global scale. The invention of MP3 also led to the emergence of music sharing communities, both legal and illegal. Bramley & Duffin (2010) explain that consumer demand for music was first created and exploited not by the industry, but by unauthorized sites with digital tracks originally made available through peer-to-peer (P2P) file sharing. According to him, the music industry has been playing catch-up ever since. Dolata (2011, 11) agrees that the record companies were taken by surprise at the end of the 1990s by the sudden success of file sharing networks like Napster and the subsequent boom of free online music file sharing. As a result of the MP3 format and digitalization in general, music became more readily available and accessible all over the world, enabling music creators to record and distribute music globally, giving also rise to large-scale music piracy.

Cudahy (2007) illustrates how today’s digital environment has provided artists with a variety of tools and channels for self-promotion, as compared to the “traditional” business model where sales and marketing strategies were driven by the record labels (see Figure 1 below). Although the figure dates back to 2007 but it reveals how digitalization has affected distribution (from retail stores to retail online channels) and promotion (from radio, print, video, and retail to YouTube, social networks, Internet radios, podcasts, and blogging), also changing the roles of the record companies.

Figure 1. Pre-internet (“traditional”) and present (“digital”) business models. Composed by the author based on Cudahy (2007, 1-2).
A more elaborate approach has been proposed by Tschmuck (2016a). He distinguishes between the licensing streams and royalty streams between the different parties in the music industry and shows that while the record used to be the main revenue source in the traditional music industry, music production, and distribution, including PR and marketing activities, were subordinated to the logic of selling records. He adds (ibid.) that even concerts were regarded as promotional tools for record sales. Record labels and music publishers used to be the main gatekeepers, creators had to use their network to disseminate their works, whereas today all those restrictions have been lifted, while the computer has become the main hub for music production, and content aggregators. The Orchard, Believe Digital and others allow artists to distribute their music to all download and streaming services, such as iTunes, Amazon, Google, and Spotify. At the same time, creative commons licensing allows artists to control the use of music apart from traditional collective management organizations. Tschmuck (2016a, 16) concludes that fundamental changes in “all the sectors of the value-added network have turned musicians from dependent contractors into artistic entrepreneurs”.

The first large-scale break-through of commercial digital music distribution occurred thanks to an industry outsider. Since the end of the 1990s, the industry found itself in a state of deep crisis, as recording sales sank, decreasing worldwide from $40.5 billion in 1999 to $31.8 billion in 2006 and to $27.8 billion in 2008 (Dolata 2011, 8). He adds that as the major record labels failed to form strategic alliances and the technologies proposed by them were immature and unattractive for the end consumers, efforts to organize digital music distribution under their own auspices had no viable effect. However, Apple Computers opened its iTunes music store in the USA in 2003, which offered nearly the complete digital repertoire from all major record labels as well as those from over 1000 independent labels. Apple also launched their iPod digital music player in 2001, becoming the first company to offer a commercial downloading and hardware package.

The industry’s attempt to largely eliminate the middlemen and to sell digital music direct to their audiences had failed. By contrast, what happened was the extension upon the traditional role of retailers with the introduction of digital music stores that were granted access to the repertoires of the major companies. All efforts to challenge the predominance of Apple and iTunes in the digital music market were unsuccessful (Dolata 2011, 14).

Apple had thus introduced the first large-scale commercially successful new digital business model based on digital music downloads. Since then, there has been an influx of different services selling digital downloads that are based on the same revenue model. According to KEA (2012, 3), among the 500 licensed online music services in the world as of 2011, many emulated physical record stores by offering “download to own” tracks at a similar price point. “The music market is now increasingly moving beyond the replication of “brick and mortar” stores and
towards innovative models that offer consumers a new digital experience” (ibid.). While physical music distribution had been plummeting during the last couple of decades, digital distribution started gaining importance steadily. The next phase provided consumers a unique opportunity to legally consume recorded music in both paid (iTunes) and nonpaid ways (YouTube, Spotify). Although digital downloads still accounted for 52% of the digital music revenues globally in 2014 (IFPI 2015, 7), there is a growing tendency to move away from business models based on paid digital downloads towards new models based on music streaming.

From album sales to track sales. One of the effects of digitalization is the possibility to buy music by single tracks instead of whole albums, which has been referred to as the unbundling effect. Elberse (2010) argues that digital technology is fueling a trend toward unbundling of many kinds of information or entertainment products, including music. Before the introduction of digital music formats (e.g. MP3), music was available on the physical music carriers (e.g. LPs or CDs) that were limited to the capacity of the music carrier. Physical music carriers along with standardized formats of the carriers have been losing importance. Elberse (ibid.) finds strong support for the hypothesis that revenues for mixed bundles substantially decrease as music becomes increasingly consumed digitally. The analysis of Vivendi’s (owner of Universal Music Group) annual reports between 2011-2015 reveals that recorded music sales of the company’s top ten physical and digital albums decreased by more than 30% between 2011-2015, which can result from increasing tendency to buy and listen to single tracks instead of full albums. Accordingly, the unbundling effect in the music industry also decreases the importance of “hit” songs as drivers for selling full albums, as they could be purchased separately. Elberse (ibid.) proposes a future scenario, where marginally appealing titles might be released as an album only to be sold as a bundle, whereas attractive titles might be sold separately.

Elberse’s research also suggests that the unbundling effect may benefit content producers to invest more in developing and marketing bundles made by established artists and to resort more to single-item releases for creative workers without a strong reputation. Krasilovsky & Shemel (2007) recognize the marketing potential of single downloadable music tracks, but they also see extra potential in selling additional goods with bundled albums. They add that at one time, major labels looked to physical albums for their largest profits, treating singles merely as promotional tools for the ultimate goal of selling albums, but in the digital era, the industry needs to re-evaluate the potential and recognize the marketing potential of single “sownloads”. At the other extreme are boxed sets of multiple albums packaged with elaborate written treatments, including biographies, the story behind the song, and even merchandise, aimed at preserving a unique marketing alternative to downloads (ibid., 2). Zhu & MacQuarrie (2004) add that generally, the industry was only able to charge a single price, which means that there were consumers who would have been willing to pay more but were not required to, and other consumers that would have purchased, had the price been lower. They
argue that there could be slight differences in pricing models, but these models are limited in effectiveness because consumers who have multiple purchasing options would naturally prefer the lower price for the exact same good (a music track).

**From music ownership to music access.** IFPI chief executive Frances More (IFPI 2015, 5), among others, has pointed to a shift in the music industry and other creative industries, which is driven by the consumer’s desire for access to, rather than ownership of creative content, as digitalization continues through new phases. Wikström (2012) adds that experiences are increasingly replacing ownership in the contemporary recorded music industry, as they are usually packaged and sold rather as services than products.

While the ownership model shares features with product-centered industries such as chocolate bars, toothpaste and socks, the access model shares features with service-centered industries such as hotels, restaurants and banks (Wikström 2012, 9-10).

He argues that as the Internet continues to undermine the rights holders’ ability to control the flow of digital information, concepts such as ownership and acquisition have become increasingly irrelevant. The music industry’s response has been a new kind of distribution model, where it is of little relevance whether music listeners actually “own” a song and far more important whether they are able to find and access music, everywhere and at any time. Although the business model centered around permanent digital downloads still continues to provide an important share of digital revenues in the majority of large music markets, it is increasingly being replaced by an **access-based model of music streaming.** The transition of the digital music market is entering the new phase, driven by consumer demand and behavior “towards instant, real-time, anything-anywhere access, facilitated by the integration of services across different platforms and cloud storage” (IFPI 2015, 14). In 2014, music downloads declined in the majority of established markets but continued to grow in some emerging markets (see Figure 2 on the next page).

According to IFPI (2015, 6), 2014 was also the first year when the music industry derived the same proportion of revenues from digital channels (46%) and physical format sales (46%), followed by performance rights and synchronization (8%). In 2014, the number of paying subscribers in all music streaming services combined was estimated to increase by 46.4% to 41 million. The global digital music revenues were $6.9 billion, whereas 52% ($3.588 billion) came from music downloads, 23% ($1.587 billion) from the paid subscriptions, and 9% ($621 million) from ad-supported streams. Therefore, the growing importance of a new business model based on music streaming continues to shape the value creation, distribution, and caption logic in the music industry globally, but the model has not yet proven to be viable in the long run, as the leading companies and service providers in this sector still earned operating losses as in 2015. Moreover, streaming services have been facing criticism from artists claiming they are being unfairly compensated for
their work, while some music industry experts like Abbruzzeze (2015) are already questioning the sustainability and viability of the music streaming business model as a whole.

On the other hand, Wikström (2012, 12-13) argues that this model will eventually lead to the commodification of music access. This means that **universal access to music is seen as a given and value is created by offering related products and services that provide access to music**. For example, car industry might benefit from the co-operation with streaming services (or directly from co-operation with music content providers, such as record labels) to increase their sales by providing free access to music to car buyers; Apple might want to increase the sales of its devices with the help of Apple Music streaming service, etc.

**From stable to rapid business model innovation.** Technological innovations and digitalization have also significantly shaped the structure of the music industry. The stability of the music market was first shaken by the relativization of physical recordings in favor of digital music files. The diversification of music marketing models is especially evident in various subscription models, where music is provided free of charge and paid through advertisements or purchases of other products. This offers various possibilities for the established music companies to get back in the newly structured music market with new competitive approaches. Innovations often require new business models if they are to succeed in the market.
Many new innovative business models have flourished in this industry, and the record companies seem to have positioned themselves almost uniformly across those models; in other words, there is no sign of concentration around any particular model. From a managerial perspective, our result implies that firms should not only invest in experimentation with business models, but should also invest in order to find the “right” experimentation path (Bourreau et al. 2012).

Chesbrough (2010, 354) notes that firms are uncertain about which business model is the “right one” and have to go through an experimentation phase. Demil & Lecocq (2010, 227) note that experimentation implies incremental adjustments of the traditional business model as adoption to the new environment, while McGarth (2010, 247) suggests that firms should invest in experimentation of new potential business models. Teece (2010, 176) argues that innovating firms should excel not only developing new innovative products or technologies, but also at finding out the appropriate business model for their innovation. Developing from Bourreau et al. (2012), technological innovation and innovation in the business model are complementary in the success of a new product or service. The authors studied the impact of a radical technological innovation on business models and their analysis suggests that digitalization has led to a big bang of business models in the music industry rather than to incremental adjustments of the existing business model. While incremental innovations alter the market structure only marginally, radical innovations lead to profound changes in the whole market. In case of radical technological innovations—which has been the case in the music industry–it is important to consider how business models evolve.

Osterwalder et al. (2010, 124-127) refers to radical innovations as the Big Challenge in business modeling that starts by questioning, “Who is my customer?”, then moves on to “What does he or she want?” and “What is he or she willing to pay for?” When companies face radical innovations, they might be forced to make substantial changes to their business models. As various authors (e.g. Teece 2010; Chesbrough 2010) suggest, the music industry provides an ideal case study to research the impact of innovation on business models, as it has been undergoing an extensive transformation during the last two decades.

In the digital music market, there is an ongoing challenge to find a balance between consumer demand and creating revenues for music artists and copyright holders, such as record labels and publishers. In order to achieve this goal, a variety of innovative business models have emerged, which experiment with different possibilities that digital technologies offer. The previous research revealed that some of the most common business models in the digital era include: (i) paying for downloaded music, (ii) free streaming services with advertising, (iii) paying for advertisement-free subscription services. Additionally, there are various combinations of these models.
To provide a framework for understanding the potential development of digital music business models, Bourreau et al. (2012) focus on the two generic strategies for value capture: (i) content protection (the traditional method of value capture), and (ii) transfer of value. The strategy of value capture refers to the protection and sale of content or the sale of complementary goods and services. The strategy of value transfer refers to the selection of talents and the promotion of new music. By combining these definitions, Bourreau et al. (ibid.) define five emerging digital business models (or “scenarios”). Similar approach for understanding different business models in the digital era was proposed in KEA 2012 report, which distinguished between the five types of business models: (i) download-to-own songs or albums on a pay-as-you-go basis, (ii) freemium model, (iii) video sharing (user-generated content platforms), (iv) subscription services, and (v) cloud services. This typology was comprehensive in the year 2012, but it has to be emphasized that digitalization has accelerated the changes in the music market and the variety of digital music business models is a subject to change rapidly.

**Globalization and micro-segmentation.** Globalization has penetrated into all industries and affected the functioning of the music industry in many ways. Halonen & Teye (2011, 25) write, “The world is becoming increasingly flat: we live in a global context with global labor, production, and brand markets.” Globalization should be seen in parallel with the advanced technological infrastructure and constantly expanding access to the high-speed Internet. Dolata (2011, 22-23) argues that although the technology was understood to be an important part of the infrastructure and seen as a precondition for the global music business, it was not understood to be a factor that could restructure the whole market and demand nor as a starting point for the attainment of competitive advantages. It was not at the center of the record companies’ focus and strategy formulation.

Globalization and advanced technological infrastructure have had two main consequences for the music industry. On the one hand, global artists like Madonna, Lady Gaga or Justin Bieber have become international brands and can reach international audiences on a scale like never before. For example, Greenburg (2012) reports that Justin Bieber sold out all of his North American 45 tour shows in a single hour. Some artists like Baauer (“Harlem Shake”), PSY (“Gangnam Style”) or Macklemore & Ryan Lewis Featuring Wanz (“Thrift Shop”) have reached over a billion views on YouTube as of 2018. In 2013, DJ Avicii invited his fans and other artists and music producers to send him ideas for a new hit song and received over 11 000 musical contributions from over 4 100 different artists from 140 countries in just one month. It turned out to be the biggest musical collaboration in the music industry. These examples illustrate that globalization has helped create a mass market for international brands, but also facilitated the conformation of musical works to satisfy the global homogeneous market demand. Advanced technological infrastructure has also opened new possibilities for independent artists as well and contributed to the micro-segmentation and global awareness of the so-called niche products. Levi & Caudill (2007) argue that
the micro-segmentation of markets will replace traditional macro-segmentation, resulting in the parallel transition from macro-focused supply chains to micro-focused supply chains. Micro-focused supply chains are designed for and serving the individual consumer, which assumes detailed information about the needs, wants, desires and behavior of individual consumers.

Knowledge of the customer down to this level of detail will be seen as mission-critical to the enterprise. New market opportunities will emerge as the global economic infrastructure enables the establishment of a middle class with increased disposable income, which will, in turn, foster a larger consumer economy (Levi & Caudill 2007, 10-11).

Halonen & Teye (2011, 25) add that it is increasingly difficult to find one’s customers, as they build their social world from small moments, visions and random experiences, and they do not form a cohesive lifestyle or a world view anymore. They add that customers today follow a wide range of media and peer information platforms that belong to several peer groups and are thus more unpredictable than previous generations. The authors argue that for cultural managers, this means increasing difficulties in getting touch with their clients and predicting what they want. However, in capitalist societies, consumers have always been fragmented into several interest groups, but globalization and continued advancements in technology have opened new possibilities for the fragmented audiences to form larger groups and global niche communities. Therefore, niche artists can reach their potential audiences globally, which increases their potential customer segment substantially and contributes to the prospect of success.

To summarize, globalization and continued advancements in technology and the increasing access to the high-speed Internet have contributed to globalization and micro-segmentation of the international music market and created unprecedented opportunities for both international megastars and niche artists. Independent artists are continuously finding innovative ways to reach their global audiences without the help of the major record companies. Struggle for technological leadership in a new global market is not seen at the center of a competition between the record companies, but it has turned out to be one of the key factors to restructure the new micro-segmented music market.

**Major record labels and independent record labels.** During the last two decades, the music industry has witnessed two trends in the recorded music scene: consolidation of the major record labels (the majors) and an extensive emergence of the independent record labels (the indies). Until the end of the 1990s, the music sector was defined by a handful of companies that were hierarchically managed and vertically integrated and that were virtually in control of the entire value chain. According to Dolata (2011, 23), these companies were capable of integrating artistic and technological innovations that arose elsewhere into their existing production, market and distribution structures. Since 1929, there
have been 6 record companies that have been referred to as the “major record label”. At the end of the 1980’s, during the CD boom, many record companies were established, including two of the majors: Sony Music and BMG Music. In 1997, Polygram merged into Universal Music Group; in 2005 Sony Music merged with BMG Music; and in 2012, EMI merged into Universal Music Group. Since the end of 2012, three major record labels exist instead of the initial six.

The relationship between the major and independent record labels has been discussed by many authors, whereas some have studied their relations through a paradigm of opposition. For example, Perritt (2011) has metaphorically called it a struggle between dinosaurs and beavers with “herds of amiable and talented sloths on the fringes, providing background music”.

The dinosaurs—the major record labels, their defensive myths, and their lobbyists and lawyers—are trying to crush an environmental phenomenon that threatens to make them extinct. The beavers—the indie musicians and the entrepreneurs who are experimenting with new forms of intermediation—are largely oblivious to the thrashing of the dinosaurs and are heroically working to construct structures that work in the new marketplace. Because most beavers focus on the individual trees rather than the forest, most will fail; but some will succeed in proving the viability of a new business model (Perritt 2011, 67).

Since 2012, after the completion of Universal Music Group’s acquisition of EMI Recorded Music, the three major record labels control approximately 70% of the global recorded music market, according to Ingham (2018). As Wallis (2001, 17) argues, the music industry’s history is inextricably linked to the “dynamic relationship between the Big and the Small, and the plethora of smaller enterprises which function as talent incubators all around the world”. Although there are differences in market share locally, the situation entails that on the global scale, all independent labels have to compete for the remaining 30% of the market. It follows that essentially artists have two options: (i) to either go after a contract with one of the remaining three major labels, or (ii) to sign one of the independent labels with fierce competition and marginal market shares in a global scale.

Wallis (2001) and Perritt (2011), among others, have discussed the advantages and disadvantages of signing to a major or an independent record label. Wallis (ibid.) argues that the majority of artists and composers suffer a disadvantage in this relationship in dealing with the major record labels, partly because of lack of knowledge or good advisers, and partly because “the lure of becoming a star tends to cloud wisdom and common sense.” At the same time, the artists depend on them, as the major labels play a vital role in every aspect of the international trade in music products and artists. Although “small is beautiful” approach has been attractive to musicians, a creator casting out recorded music into the Internet is unlikely to find comparable audiences with those record labels that have systematic
marketing activities in place. The smaller operators will still need some form of intermediation that can identify works, collect revenues, set reasonable prices, and distribute income correctly.

Another possibility of looking at the relationship between the major labels and independent labels is through a prism of symbiosis. Authors like Hull (2004) and Dolata (2011) have shown that the majors and the indies have always been intertwined. They argue that emerging talents or even new styles of music (e.g. rock’n’roll, disco, punk, hip-hop, or heavy metal) were first developed and popularized by independent labels and then drawn in by either offering commercially interesting deals directly to artists or through acquisition of independent labels that initially signed these artists. Ahokas (2010), former executive director for the Finnish music export organization has emphasized the versatility and significance of the smaller independent record labels in finding and promoting new talent. According to her, the advantages of the Finnish music market are based on the innovative models: (i) companies put significant effort into developing and promoting new talent, (ii) the independent sector is strong and proactive. Perritt (2011, 82) adds that as fortune turns against the major labels, they are more and more focused on musicians who already are celebrities, and consequently, they are less inclined to invest in new, unproven talent. The major labels are in a better position to sign the most desirable music acts, mostly because unlike smaller independent labels, they can offer a full range of promotional opportunities in addition to merely offering music distribution. These promotional opportunities include music videos, concerts and merchandise.

The second important point in terms of the roles of the majors and indies concerns the new perspectives opened by the development of technological infrastructure. As high-quality digital recording equipment (production technology) becomes widely available with falling prices, the distribution mechanisms are changing accordingly. The production costs decrease while the potential of reaching global audiences with no or relatively low costs increases. Perritt (2011, 80) argues that major labels are large firms with substantial overhead bound by inertia: their business processes and fixed costs were designed to succeed in the environment of the last quarter of the twentieth century, but have not been adjusted to fit current technology. Independent labels benefit from this situation, as they are willing to react quickly to the changed circumstances and can adjust their business models accordingly.

The major labels and their corporate bureaucrats will fade from the scene, much like Hollywood’s studio system, the mass of newspaper linotype machines and stereotype plates in daily newspaper plants, typewriters, and analog tape drives were rendered obsolete by the entrance of new technologies. Some will be nostalgic for the old order, spinning urban legends about how it was better. Notwithstanding the legends, the new music will be better, created by a wider range of artists, and enjoyed by more consumers (Perritt 2011, 82).
Although the major labels still control approximately 70% of the global market, their established position as the central pillars of the music industry is being challenged by the constantly emerging independent labels and even individual artists. The independent labels have been tightening their role as the true innovators and introducers of new artists or even the whole music genres. The majors have channeled capital into promoting artists that have already become famous and thus commercially interesting, while the independent record labels have primarily acted as first movers. As the music industry has already witnessed three large-scale mergers of the major record labels, this trend might continue, while independent labels are growing importance as business model innovators and initial promoters of emerging musical talent. This illustrates the two-fold consequences of digitalization, where the barriers of entry into the global market have been lowered, but the competition has become increasingly fierce.

The do-it-yourself (DIY) trend. DIY in this context is understood as producing and/or distributing music without the help of experts or professionals, such as record companies or publishers. While the traditional music industry supply chain prior to the advent of the Internet was mostly controlled by the record companies, the majority of typical functions such as music production, promotion, distribution, can be performed by artists themselves. Technology has been evening out the playing field for the music industry. Consequently, the role of major labels as effective gatekeepers has been diminishing. Cameron (2011) has discussed the transforming role of the record companies as follows.

Until very recently, it was not easy for individuals interested in music to identify interesting artists on their own. Once artists were signed to recording contracts, the record companies would help them produce albums by identifying and licensing songs to record and by paying all recording costs, including fees for studio time, backup musicians, post-production mixing facilities, and producers. Record companies were needed to defray production costs because high-quality multi-track recording equipment was beyond the reach of most artists until relatively recently. /.../ The record companies also had a primary role in promoting the album to consumers through a variety of means including radio, music videos, branding, print advertisement, in-store positioning, and concerts (Cameron 2011, 3-4).

According to her, two of the most important functions that the record company had to perform were: (i) the selection of artists or repertoire to work with, (ii) promotion and marketing of this repertoire and/or artists. The question is to what extent these functions can be efficiently performed by DIY approach. As it was argued, the independent labels tended to be more efficient in finding new talent as compared to the major record companies, but in the case of DIY approach, the selection process becomes entirely irrelevant, as the artists are promoting themselves.
Bourreau & Gensollen (2008, 8) make a distinction between the centralized (promotion by the mass media, such as radio and television) and decentralized promotion (by word-of-mouth, direct or through the internet). DIY approach tends to lean towards decentralized promotion methods, but as the authors suggest, word-of-mouth has been long recognized as an efficient communication channel to influence purchase decisions. Therefore, although DIY approach tends to apply primarily decentralized methods, these methods can be used efficiently for promoting new musical works. For example, Zoe Keating is a successful Canadian-born cellist, who turns one cello into an entire ensemble and experience, both in the studio and during her live performances. She believes strongly in releasing music directly to fans online without a record label and shares detailed information about her streaming revenues. She has over 1.2 million followers on Twitter and she is a frequent speaker at music industry conferences. Another example is Imogen Heap, an English singer-songwriter and composer, who has been an advocate of using technology to interact and collaborate with her fans. In 2015, she released a single “Tiny Human” on an experimental music distribution platform called Mycelia that uses the blockchain technology called Ethereum. Barlett (2015) explains the importance of it for the whole DIY approach as follows.

The modern music industry was created at a time when it made economic sense to produce a million copies of one vinyl record, and copyright could be successfully enforced. But as the industry went digital, the whole way music was made and sold changed. In the early 00s, many feared the music industry would soon wither away as free streaming services and pirated content made music, de facto, free. /.../ Spotify, iTunes and YouTube, to their credit, came up with ways of monetising music again, turning pirates into paying customers. /.../ But the streaming and revenue-sharing deals that are now so important for the industry have also brought into sharp relief just how opaque and complicated the whole system is. /.../ Taken together, this means transparency and clarity can be introduced into the music industry; a decentralised registry will make it easier to locate the owners of the song to obtain a legal licence to use it; money can be quickly sent where it needs to go with far fewer intermediaries; and there will be a far richer ecosystem of data and information around each song. /.../ Digital technology has for a long time been seen by the artists as part of the problem facing their industry, but now it could be the solution to the very difficulties it’s helped create. “For the first time I think the future is almost blindingly bright for our industry,” says Heap. “But we musicians have to sort this out, because no one else is going to do it for us” (Bartlett 2015).

On the other hand, DIY approach has also aggravated the competition among artists, as the competitors also have access to the new technology: as the cost of entry into recording music decreases, the amount of music being recorded
increases. Therefore, increased competition and an increasing amount of new music have made it more difficult for any particular band to be noticed. In sum, relatively cheap production technology combined with the advent of the Internet has allowed artists to prefer DIY approach instead of signing to a record company. The Internet has created unprecedented possibilities for artists to communicate directly with their audiences and promote their music through social networks and word-of-mouth, without the help of record companies. Consequently, the advanced technological capabilities contribute to the evening out the playing field between the record companies and those who apply DIY approach, as it allows artists to perform some of the necessary promotional activities themselves.

Crowdfunding and crowdsourcing are increasingly important in the music industry. The topic of crowdfunding has become increasingly important, as the global crowdfunding industry was estimated to be a $34 billion industry in 2015 and expected to continue growing at a compound annual rate of 100% over the near term, according to Massolution (2015). Crowdfunding is a wide concept that has drawn inspiration from similar concepts such as micro-financing and crowdsourcing (Poetz & Schreier 2012). The term is ambiguous, as it refers to receiving contributions from the general public, but does not specify in which format, such as investments, loans or donations. Mollick (2014) argues that crowdfunding represents a unique category of fundraising, but because it belongs to an emergent field in a state of evolutionary flux, complete definitions would be arbitrarily limiting. He distinguishes between the broader elusive definition with many uses across various different disciplines and the narrower definition, which he explains as the “efforts by entrepreneurial individuals and groups–cultural, social, and for-profit–to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries” (ibid., 2).

According to Miller (2016), the roots of crowdfunding originated from efforts to support the arts. He adds that some of the oldest and best-known crowdfunding sites began as a way for fans to engage with the artists they love. Today, crowdfunding has gained much importance not only as a way to raise funds but also in creating long-lasting meaningful partnerships between the two sides. Scherer & Winter (2015) emphasize the importance of creating such relationships between the artists and the fans that go beyond the value of simply lending or donating money.

Our research also suggests that future market success will be increasingly built on new relationships within the new digital media network – and no longer steered solely by corporations, but more and more by artists as “artepreneurs” and former fans become “culturepreneurs”. They create value on the basis of these new relationships as new forms of connectivity that can outperform markets, because these new relationships are not only based on money but on value which can be shared or exchanged – so that
financing becomes something of so much more value than mere lending or donating money. That’s what all parties must learn, realise and communicate (Scherer & Winter 2015, 22).

Scherer & Winter (2015, 9) also argue that parts of the former “push-music-economy” where companies produced and distributed music, is in transition and will become a “pull or on-demand economy”. Miller (2017, 9) adds that the new economy is “driven by users who climb the participation ladder using new digital network media, not only to listen to and watch music /.../, but also co-create value with new possibilities to share, comment, criticize, co-create or even produce music, and now they can also co-finance music”.

Various authors (Bourreau et al. 2012, Wikström 2012, Halonen & Teye 2011) have indicated that there is a growing number of consumers who not only expect to experience music as passive users but wish to participate in the creative process as contributors. This also affects the music industry value chain, because in this case, music consumers become co-creators of music, connecting both ends of the value chain. Wikström (2012, 12-13) argues that in the traditional music industry, most of the value created by recorded music was based on the ownership model. During the current music industry’s transitory period, the model based on music access is gaining momentum, but it is also a cul-de-sac and eventually leads to the commodification of music access. “As a consequence, a growing percentage of the value which is created on recorded music is generated by services which take the universal access to music as a given and which provide different tools and features allowing users to “do things” with the music and sounds they cherish” (ibid). In recent years, a number of artists and composers have actually implemented this context model in the production of their works, where their audience and fans are invited to participate in the creative process. For example, Mumford and Sons, a British rock band from London has invited their fans to create T-shirt designs and album covers. The Swedish artist Robyn has created an online-based rhythm tool for her album Body Talk that invites fans to play with sounds and images in collaboration with other fans.

It also follows that the roles of cultural managers have to evolve along with this trend. Halonen & Teye (2011, 25) argue that the traditional role of cultural managers being mediators between artists and audiences is accompanied by a new role where they need to be able to include the former and existing consumers to the development and production process, as the core asset of a producer is a virtual community. Consumers can be mobilized both in virtual and real worlds. She brings an example of Savonlinna Opera Festival that produces a premiere to the opera developed by an open process joined by anyone interested through a shared internet platform.

Sexton (2009) has offered a term “prosumers” by which he refers to online audiences who increasingly reject passive consumption and replace it with deeper
forms of engagement that offer sharing, chopping and remixing. As prosumers have new expectations towards products and services, music companies have to rethink their approach to find new ways to satisfy the needs and wants of this new customer type. He emphasizes that the traditional retail outlets still exist alongside these “new” practices which blur the distinctions between musicians and producers, instruments and studios, or the rise of the sample that causes increasing debates on copyright and creativity as such.

To summarize, along with digitalization, consumers are increasingly eager to get more involved in the process of creating, producing and remixing music instead of passively consuming it. Crowdfunding and crowdsourcing allow audiences to move from passive consumption towards a more intimate relationship with music creators. It is defined in this context as the practice of involving audiences to contribute to a particular task or to a project. Artists communicate directly to their potential consumers to obtain the needed support, such as services, ideas, or even creative content, but most essentially financing for their project. As the power of online communities grows stronger, the basic idea is to gather small contributions, especially from an online crowd to achieve relatively large or significant results. Cameron (2011, 13) argues that in the absence of new business models for generating revenues from recorded music and/or a compulsory blanket license regime, artists may choose to rely on voluntary contributions from their fans.

This approach was famously—and successfully—tried by Radiohead in 2007. A new subscription service named “Patronism” has been set up to allow artists and fans interested in this model to connect. The fan pays a voluntary price to the artists and then receives streaming content in the form of music, videos, and other creative content. The goal is for artists to find a set of patron fans who support them directly through the site (Cameron 2011, 13).

Another example of a crowdsourcing platform is an independent record label founded in 2007, called MyMajorCompany. Its business model is to offer to promote unsigned artists on the company’s website and let the consumers decide which artist deserves to record an album by asking them to contribute financially a small amount in the production of the album. Once $70,000 have been collected, MyMajorCompany signs the artist and produces the album. Although there are various well-functioning online crowdsourcing platforms such as sellaband.com that help artists to communicate directly with their target audiences to finance their projects, the viability of such model has not proven sustainable in the long run yet.

This subchapter started by identifying the roots and scope of the music industry. It identified technology along with the advent of the Internet to be the key drivers for innovation. As Perritt (2011, 72) argues, “There surely is a technology-driven revolution going on, but it began 120 years ago”. Digitalization was understood as technological capabilities of making, recording, modifying, distributing and using
music in new and innovative ways which have evolved in parallel with constantly improving technological infrastructure and increasing access to this infrastructure. While the first innovations in the music industry had to do with developing better recording and playback devices along with corresponding physical music carriers, digitalization changed the whole value creation, production, distribution, and consumption in many ways. While in the traditional record music industry most of the value created was based on the ownership of music, the Internet-based access model has become increasingly popular and music streaming has surged in the majority of music markets in recent years.

Concepts like music ownership and acquisition have become increasingly irrelevant in the digital era as the Internet undermines the rights holders’ ability to control the flow of digital information. We have come to an era of rapid business model innovation where the industry is managing transitions from physical to digital, desktop computer to mobile and from music ownership to music access-based models at the same time. The search for new business and profit models based on digital music has been increasingly rapid due to the relativization of the record companies as the central pillars of the music industry, especially music distribution, as the competition between the involved parties is becoming fiercer. However, the total disintermediation of the market, in other words, the removal of intermediaries and the direct sale of digital music to the final customers have been unsuccessful so far. Although the music industry is going through a radical change, it occurs as a longer process of restructuring, which is characterized by (i) the diversification of the methods of marketing music, (ii) the creation of new forms of distribution, (iii) the redefining of the sector’s institutional framework, (iv) the differentiation of the spectrum of actors responsible for the sector, (v) and the accompanying changes in the sectoral structures of power and influence.

1.1.3 Fundamental value chain in the music industry

This section discusses the music industry’s underlying value chain and some notable changes digitalization has brought to the functioning and power relations of the intermediaries within the value chain. UNESCO (2012, 16) has applied a similar approach to study the impact of cultural policies on the diversity of cultural expressions for development in the creative industries’ sector. UNESCO distinguishes between the phases of creation, production, dissemination, exhibition/reception/transmission, production/consumption. Although different authors (Russ, Kuilboer, & Ashrafi 2014; Leurdijk and Nieuwenhuis 2012) have defined the distinct phases of the industry differently, many similarities can be noted between these approaches. This thesis distinguishes between the four phases of: (i) value creation, (ii) value production, (iii) value distribution, and (iv) value caption. It takes account the comprehensive structure of the music industry by specifying typical players in each of the stages and how they relate to each other (see Figure 3 on the next page). Some of the industry’s participants, such as record labels, artist agents, or artist managements can operate in multiple phases simultaneously.
The value chain in the music industry has essentially not changed, although the distinct roles and business models of the intermediaries have become more intertwined as a result of digitalization. The four phases will be discussed as follows.

Value creation. Value in this context is defined as goods, services, and experiences in the music industry that are considered valuable by the consumers. The entire value chain is based on the creative input from artists, mostly in the form of musical works. Tschmuck (2003, 128) argues that in addition to classifying a person, product, and process as creative, the environment has also to be regarded as creative. According to him, the majority of psychological theories “view persons, processes, products and environments as dependent variables, and consider creativity to be a mental process that resides within the creative person and manifests itself in a creative product” (ibid.).

Artists create, interpret and perform music, and thus lie at the heart of the music industry by offering creative input around which the whole industry functions. Bourreau & Gensollen (2008) point out that one particularity of cultural goods, such as musical productions is that **supply and demand do not meet easily in a standard market**. Instead, supply and demand depend on a complex guidance system that must prepare their qualitative adaptation. They explain as follows.

In a way, supply and demand only react with each other in the presence of catalysts, with the help of a variety of agents who inform, prepare, choose, acculturate, select, etc. The equilibrium of the market does not depend on the goods available and the utilities of consumers so much as on a techno-economic system, designated by the term
“recommendation”, that enables an adaptive supply and a developing, evolving demand to actually meet (Bourreau & Gensollen 2008, 8).

In many musical genres, the roles of the creators tend to merge. For example, Wallis (2001, 13) points out that the combined singer-songwriter (an artist singing his or her own songs) has become the rule rather than the exception in many Western pop genres. According to him, this tendency has been common already for decades, particularly in many developing nations where local songs are regarded as the collective property of the community. As artists can now have more direct contact with the audiences, they might also be involved in the production, and distribution phases of the value chain.

Value production. In this phase, creative input is turned into products, services or experiences. Research on the production phase has so far concentrated mostly on the following areas: (i) different types of products and services available in the music industry (Tschmuck 2003, Bramley and Duffin 2010, Elberse 2010), (ii) types and functions of organizations and companies involved in value production (Graham et al. 2005), and (iii) the impact of advanced technology on the production of music (Hughes & Lang 2003; Ka-man 2010, among others).

Some of the common music industry’s intermediaries in this phase include:

• **Music producers** who are involved in the process of selecting and recording music, but also overseeing a project’s financial side. Executive producers might also take a wider entrepreneurial role, being in charge of the project’s budget, schedules and negotiations with record labels or distributors;

• **Recording studios and sound engineers** who play a central role in transforming music into a tangible format. Recording studios are facilities for sound recording, mixing and mastering, which typically consist of “studio” or “live room”, where musicians perform, and the “control room”, where producers and sound engineers work on recording, editing, and mixing;

• **Artist managers, agents, lawyers, consultants** help artists manage their professional careers. Managers (or artist managers, music managers) are in charge of running the business side of the artists’ careers they represent. One of the central tasks of a manager (or a management company) is to supervise the team working for the artist. Managers of less known artists might also work as agents, promoters, accountants and provide professional expertise for the artists. Managers are usually paid a percentage of the revenues generated by the artists, but sometimes also project-based fees are applied. Agents (or artist agents, music agents, talent agents or booking agents) are in charge of finding jobs for the artists they represent. Agents work closely with promoters, record labels, managements and venues to make practical arrangements of live performances for their clients. They agree on performance dates, artists’ fees, riders and other practical issues. Agents usually get paid a percentage of the proceeds from live performances.
Although some of the music industry’s intermediaries are involved in the production, and distribution phases simultaneously, the production phase typically includes professionals who help artists facilitate their professional careers and turn their creative input into tangible products, services, and experiences, creating an input for the distribution phase.

**Value distribution** refers to various ways of making value available to the consumers. This line of research has focused on the effects of digitalization on music distribution (Vaccaro & Cohn 2004; Sexton 2009), or contrasting the “old” or “traditional” ways of distributing recorded music in the digital era with the “new” or “innovative” ones (Teece 2010; Perritt 2011; Wikström & DeFillippi 2016). There seems to be a consensus between the authors that digitalization has shaken all the phases of the value chain, but first and foremost in the distribution phase. Some of the most influential research in this field will be discussed in the next section.

**Value capture.** In contrast to the traditional model, Bourreau et al. (2012, 5) argue that in the digital environment, record companies can employ two generic strategies to capture value: (i) by protecting content, in which case the record companies continue to capture value by selling content; or (ii) by transferring value, in which case value is captured through the consumption of ancillary products or services. Consumption patterns are also closely related to the changes in distribution channels. As music has been reduced to digital files, it can be reproduced at almost zero marginal cost. Therefore, the new methods of distribution are challenging the traditional method of value capture.

The business model of the music industry’s intermediaries is essentially very simple: they take a share of artists’ profits and provide a service in return which benefits both parties. While some authors (Wallis 2001, Leurdijk and Nieuwenhuis 2012) have questioned the role of the intermediaries in the digital era, Perritt (2011) emphasizes their continued importance in the overall functioning of the music industry.

Gatekeeping, however it is performed in the future, is just half of the matching process; it merely limits the supply of new music that consumers have to consider. Equally important—probably more important as new channels open up and the gatekeepers become more diverse and more numerous—is intermediation that helps consumers focus their discovery efforts on a subset of the supply where search energy is most likely to be productive for them (Perritt 2011, 160).

Power relations within the value chain are also important to understand the transforming roles of the intermediaries. Tschmuck (2003, 134-135) argues that the traditional cultural paradigm in the music industry was based on the three pillars: (i) control of publishing rights, (ii) marketing power, and (iii) control of distribution channels. As the major labels own large publishing departments, the existing
The copyright regime provides them with a crucial gatekeeping function, but also the marketing power over the creative possibilities of the artist. Tschmuck (ibid.) also suggests that large record companies use their marketing power to reduce the market uncertainty by establishing an information monopoly—without enormous funds, most of the music industry superstar careers would be impossible. The third source of the majors’ market power is the control of distribution channels. As the majors possess a global distribution network, they have a global reach to their products.

On the other hand, Tschmuck (ibid.) argues that the emergence of the Internet-based music services has challenged these pillars and traditional power relations, as music creators can communicate with their fans directly. He concludes that sufficient marketing power is still necessary to help certain music stand out among the “seemingly infinite amount of competing music offered on the Internet” (ibid., 135). Perritt (2011, 162) adds that the potential power of traditional intermediaries to shape consumer tastes is decreasing as the decentralized set of the Internet-based intermediaries “undercut the conventional wisdom about the essentiality of validation of establishment critics”. Leurdijk & Nieuwenhuis (2012, 12) support the argument by saying that artists can now have more direct contact with audiences and have access to alternative funding options, such as crowdfunding. Wallis (2001, 14) also predicted a power relations shift in favor of those involved in the creation and production of music (singers, songwriters, studio producers) for similar reasons, but he adds that despite a number of radical changes in the music business, the underlying value chain remains more or less intact. According to him, technological developments have not led to the total disintermediation or what he calls the removal of intermediaries.

This section suggested that the four phases of the music industry’s value chain have become increasingly intertwined. The power relations within the industry have changed, as music creators now have access to new means of producing and distributing music globally. These new means provide artists with tools to compete with the established industry’s players via lower barriers to entry and global reach. Some of the central functions of the intermediaries, such as talent discovery and management have taken new dimensions as artists can take advantage of the Internet by presenting themselves on different platforms without the help of the record labels. However, competition has intensified and the music industry has experienced lesser revenue due to slimmer profit margins from digital sales. Thus, the value chain in the music industry has become more complex.

### 1.1.4 Underlying revenue streams in the music industry

There are two major approaches to the music industry’s underlying revenue streams that differ in scope and level of abstraction. According to a wider definition (Ahokas 2010), revenues in the music industry can be derived from (i) the sales of products, (ii) the sales of services, and (iii) copyright royalties. According to the narrower definition, the music industry revenues can be generated from the
sales of (i) recorded music, (ii) live music, and (iii) copyright royalties. While A Strategic Study for the Music Industry in Ontario (2008, 22) distinguishes between revenues from live performances, merchandising, recording studios, collective management organizations (CMOs), music publishers and various services like artist management, The British Recorded Music Industry distinguishes between revenues from recording, songwriting and publishing, live music and artist management. Music Export Denmark (2010) distinguishes between recorded music (physical and digital sales, publishing income) and live music. A more comprehensive approach was proposed by Leurdijk & Nieuwenhuis (2012), as it also shows the value creation logic behind the revenue streams (see Figure 4 below).

Figure 4. The fundamental revenue streams and the value creation logic in the music industry. Composed by the author based on Leurdijk and Nieuwenhuis (2011, 13).

This thesis acknowledges the growing importance of brand partnerships and crowdfunding as a potential source of revenue for the artists (Knopper 2012), and argues that revenues in the music industry can be derived from: (i) recorded music, (ii) live music, (iii) copyright royalties, (iv) brand partnerships, and (v)
crowdfunding (see Figure 5 below). The business models of the music industry’s intermediaries might be centered around one particular revenue stream or multiple ones simultaneously. The different revenue streams are often intertwined or sometimes indistinguishable, as the majority of products and services in the music industry embody multiple copyrights and are essentially based on the commercial exploitation of copyrighted works.

Figure 5. Revenue streams in the music industry. Composed by the author.

**Recorded Music.** Revenues from recorded music can be generated from the sales of physical recordings, digital music downloads or music streaming. In the traditional model, recorded music was monetized mostly by selling physical recordings and through broadcast radio, whereas in the digital era the sales of digital music in the form of paid downloads or music streaming have become central. According to IFPI (2015, 6), 2014 marked the first year when the music industry derived the same proportion of revenues from digital channels (46%) as physical format sales (46%). Some of the typical revenue sources in the recorded music industry are the following:

- **Revenues from physical sales** are generated from selling physical recordings in retail shops, via mail orders, or at live events. Paid to recording artists or performers by record labels, various services that help artists sell physical products, such as CD Baby or Bandcamp, or directly by fans who purchase recordings at live events;
- **Revenues from digital sales** are generated from selling permanent digital downloads. Paid to recording artists or performers by record labels or digital aggregators;
- **Revenues from music streaming** are generated from listens at on-demand music streaming services such as Spotify or Apple Music. Revenues are calculated on the number of listens or views and paid to publishers, record labels, or mechanical licensing agents, who then pay to the author(s);
- **Record label advances** are paid to recording artists by record labels upon signing a recording deal.

**Live Music.** Although live music experience has remained relatively unchanged, digitalization has opened some additional types of revenue for the artists and the music industry intermediaries. For example, live events could be broadcasted to wider audiences using digital technology. Among the multiple services that are
considered under the live music sector are the work of artist managers, booking agencies, promotion and marketing companies, legal services and other services that play a part in organizing live events. Some of the key intermediaries in this field are booking agents and concert promoters, who have to find a balance between the costs of promoting a concert and potential revenue from the ticket sales and other revenue sources. Agents work closely with artists and their management companies. Their job is to book live performances for their clients. Music marketing companies create and carry out marketing campaigns to meet the goals agreed upon with their clients. These goals might include promoting a new album, a tour, or enhance the artist’s brand in general. Some of the typical revenues in the live music sector include:

• *Performance fees.* These fees are generated from playing in a live setting and typically paid directly to the artist or the artists’ agencies and managements by the concert promoter, or by the venue;

• *Performers’ salaries.* The income generated from live performance is typically paid to the orchestra, ensemble or band members as salaries by the management companies, or sometimes directly by concert promoters;

• *Session musicians' fees* are paid by record labels, producers or artists to additional musicians for live studio work or for participating in a live setting or a concert tour.

• *Revenues from record labels.* Sometimes record labels—especially those operating on the 360° business models—pay for recording sessions or tour support.

Some revenues like public performance royalties are paid to copyright owners for the public use of their works, including live events, but also for broadcasting via radio, TV, and other mediums.

**Copyright royalties.** Copyright refers to a form of intellectual property right that protects an author’s manifestation of original work. Copyright royalties can be generated through licensing to third parties where they are given permission to use protected intellectual property without the ownership of these works. Ka-man (2010, 11) argues that copyright law is the foundation of the recording industry’s income, as the majority of revenues come from the exploitation of various rights of original works that have to be fixed in a tangible form to become protected. In the music industry, copyright royalties can be generated in the form of: (i) mechanical royalties (from copyrighted audio compositions that are rendered mechanically), (ii) performance royalties (from public performances of the copyrighted works, such as concerts, radio, television), (iii) synchronization royalties (from using or adapting copyrighted works in movies, TV shows, advertisements), (iv) printing royalties (from printing physical music scores or digital downloads), or (v) digital rights royalties (from online on-demand and streaming services, downloading, webcasting).

Although copyright laws vary in different countries or regions, usually fixing a musical work in a tangible form also marks the starting point where copyright
becomes effective. Wallis (2001, 13) explains that according to common practice, the creators of music allow the rights to be transferred to other legal entities, such as publishers, guaranteeing them a share of income generated for as long as he lives plus anything up to 70 years, depending on territory. As the right has essentially two main dimensions—time and territory—it is granted by national legislations. Without copyright, popular works could be copied and sold without any reward to the creator of the work. Among the exclusive rights that copyright law grants to the owners are the right to copy, issue copies to the public, make copies available to the public, broadcast and perform copyrighted works in public, but also prohibit these rights. Therefore, copyright is crucial to the functioning of the music industry and all other cultural and creative industries.

Ka-man (2010, 11) adds that copyright is first and foremost a legal institution that provides a framework for designating marketable rights in intellectual property. Secondly, it is an economic institution that excludes other competitors in the market and ensures income during periods of low sales. Thirdly, copyright is a cultural institution in which the concept of art, individual rights, collective freedom, and intellectual property is re-encoded. It is possible to distinguish between the two fundamental ways for rights-holders to exercise their copyright and neighboring rights: (i) on an individual basis by negotiating directly with the user of the right, or (ii) through collective licensing bodies. Collective management organizations (CMOs) have been set up primarily to collect remuneration and administer the rights of individual authors, music publishers, and music performers. CMOs typically negotiate terms with users, such as record companies for their use of a song on a record (the mechanical right) or the broadcaster’s performance of the song. The second purpose of CMOs is to negotiate and license secondary rights, for example, licensing recorded music to broadcasters and public places, such as bars and restaurants. The justification for collective licensing may differ for individual authors or companies, but essentially collective licensing is the cheapest way to administer certain rights as it proposes convenience to users who do not need to track down the individual rights holders for licensing purposes.

The following is not a complete list, but it provides an overview of the most typical revenue models in the music industry related to the exploitation of copyright:

- **Mechanical royalties** are generated through the production of recordings, both physical and digital. Paid to rights holders for the right to reproduce a musical work on a sound recording;

- **Streaming mechanical royalties** are generated from the use of copyrighted music on on-demand streaming services, such as Spotify or Apple Music. Typically paid to publishers by CMOs, who then pay to the songwriter or composers;

- **Royalties from public performance of recordings** are generated from playing recordings publicly in various channels, such as radio, TV, or the Internet. Typically collected by CMOs and paid to phonogram copyright owners and performers;
Revenues from live performance are generated from public performances of copyrighted works. Typically paid by concert promoters or venues to CMOs, who then pay the publishers or songwriters directly;

Neighboring rights royalties are generated by the foreign public performance of recordings. Typically collected by CMOs and distributed to record labels or publishers;

Commissions of original works are typically paid to composers by ensembles, orchestras or other entities to create original work for them;

Sync licenses are revenues from licensing musical works for commercial use in movies, commercials, TV, video games, and other uses. Paid to either CMOs, or publishers, songwriters or composers directly by the licensees;

Advance payments from publishers are paid by publishing companies to songwriters or composers as part of a publishing deal.

Some authors like Perritt (2011), Dolata (2011) or Cameron (2011) have noted the diminishing importance of copyright in the digital era. For example, Perritt (2011, 93-94) provides a historical perspective of copyright and argues that it was most effectively enforced through bottlenecks in the distribution chain, printing houses in the case of books, and disc duplicators in the case of recorded music. He adds that the obsolescence of physical media for distributing music has removed these bottlenecks, and the “proliferation of peer-to-peer file sharing networks has eliminated the last vestiges of centralization”. Cameron (2011) adds that copyright protection for recorded music at the consumer level has become essentially unenforceable. As digital recording technologies make it possible to produce perfect copies of recorded music cheaply and quickly, “the economic viability of licensed channels for recorded music is more a function of lower consumer transaction costs for iTunes, but not for many major-label sources than of respect for intellectual property rights” (ibid., 1).

According to IFPI reports between 2009-2017, music piracy continues to be a major problem and a market development obstacle in the industry. IFPI 2010 (3) argues that digital piracy remains a huge barrier to market growth. IFPI’s executive director Frances Moore (IFPI 2011, 3) argues that the music industry is still “haemorrhaging revenue as a result of digital piracy”. She sees the solution in securing a legal environment and addressing piracy by educating young audiences.

In sum, the main functions of copyright are still in place in the digital music environment and copyright royalties continue to be an important source of revenue for the rights-holders. Furthermore, digitalization has also simplified the detection costs for enforcement of copyright as various search engines and applications allow to search and detect the use of recorded music. If unlicensed use of copyrighted music occurs, it is fairly easy to track the information about a recording for sale or a live performance. On the positive side, streaming services along with copyright enforcement strategies have helped migrate consumers to licensed services by offering a convenient alternative to piracy. As recorded music can be consumed
legally in both paid and nonpaid ways in the digital era, it becomes rather a lifestyle choice of the consumers whether to pay or not pay for it.

**Brand Partnerships** is a comprehensive term that involves generating revenues from marketing synergies between two or more parties. This revenue stream is based on the brand value of the artists or music and has become an important source of income for the music industry. The overview of the highest paid artists in 2015 by Forbes (December 2015) suggests that the majority of revenues for the top artists were generated either from live tours or from brand partnership deals. Some of the examples include Beyoncé and Taylor Swift becoming the “brand ambassadors” for Pepsi and Diet Coke, or 50 Cent for Vitamin Water. Some artists like Taylor Swift or Lady Gaga have introduced various product lines themselves such as perfumes, clothing, and even a series of pet products. However, this revenue model is not specific to the music industry as it applies to similar collaborations in many other industries as well. Typical revenues from brand partnerships include:

- *Merchandise sales*, where revenue is generated from selling branded merchandise such as perfumes, t-shirts or other types of clothing and accessories;
- *Revenues from product placements and endorsements* are paid by brands to artists to promote, endorse or use the brand’s products on the recordings, marketing materials, at live events, media coverage or on their social media platforms;
- *Revenues from partner programs* are based on shared advertising revenue that is paid to artists by partners such as YouTube;
- *Revenues from persona licensing* are paid to artists by brands for licensing the artists’ name or image for use in video games, mobile apps, comic books and other mediums;
- *Acting payments* are paid to artists for appearances in movies, TV shows, commercials.

For marketers, partnering with the right artist, song, or music event can generate a lot of passion around the brand and help them connect with consumers on an emotional and personal level. The partnership can take many forms that range from simple advertising to the development of custom products or content. In return, brands can contribute to the development of artists by supporting their professional careers. A brand association can mean financial revenues for musicians and engaged new audiences for brands.

**Crowdfunding** as a revenue stream is not specific to the music industry, but it has become a major alternative form of raising money from fans to support artists and various creative projects. It can take the form of donation-based model (no tangible rewards are offered in return for funding), lending-based model, rewards crowdfunding (pre-selling products) or equity crowdfunding (shares of the company or investment in a project in exchange for the money pledged). Tschmuck (2016a) explains that crowdfunding campaigns are a new tool to pre-finance a record production, concert tour and marketing events.

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User-generated platforms (for example, YouTube), social media networks (for example, Facebook) and messaging services (for example, Twitter) assist artists in building a fan base and getting in touch with them. Artists nowadays can also directly collaborate with companies from other entertainment industries (games, movie, TV and so on) and open up new income sources (Tschmuck 2016a, 14).

Some authors like Beaumont-Thomas (2014) go even further and discuss the potential of fan funding to “reinvent” the whole music industry by becoming the facilitator of culture and democracy at large.

What we have is a new set of middlemen, the crowdfunding services, who skim off a percentage of each successfully funded project. Their genius is to make the big feel small, where you’re both individually valued and a part of a cosy digital island of like-minded people, but in many ways perform the same function of a label: a facilitator for culture. They’re not merely a cog–Kickstarter carefully selects the projects it allows–but this isn’t a total revolution yet, infrastructure-wise. More conceptually, the problem is that a crowd tends to know what it wants. A campaign that brings a massive band to a small town is true democracy [...] (Beaumont-Thomas, 2014).

Crowdfunding has become more widely accepted and utilized in the digital era with growing popularity of platforms like Kickstarter, Indiegogo and PledgeMusic. Although it may not replace the established business models in the near future, it might be integrated into the mainstream models as an effective form of raising money in the music industry.

1.2 The digital music era

The previous section identified the music industry’s underlying value chain and revenue streams as a suitable framework to approach the ongoing transformations in the music industry in a more structured way. This section will focus on the digital music era and the emerging patterns of digitalization in more detail. According to Wikström & DeFillippi (2016, 2-6), the “digital disruption” has appeared in two waves. They argue that opening the first legal store for digital files (iTunes Music Store in 2003) was in one sense a disruptive innovation, but at the same time, also relatively incremental, since the power relations and the dominance of the major record labels were unchanged. The rights-holders still controlled the intellectual properties. But the second wave introduced a totally new model of music subscription that offered unlimited access to a large catalog of music, which shifted a business logic “from generating a predefined and fixed royalty for every album sold to generating a varying and seemingly obscure royalty every time a consumer listens to a particular song is indeed dramatic” (ibid.).
This section provides an overview of the existing research on the transforming business models in the music industry, which has attracted a lot of attention from various authors and different perspectives. Secondly, it discusses digital music consumption patterns and transforming digital music revenues, which creates a context for the Estonian case study.

1.2.1 Digital business models

The topic of business models in the music industry has earned a lot of attention from many authors, but in order to discuss the different approaches, an explanation of the concept is needed. According to Teece (2010), business models have been integral to trading and economic behavior since pre-classical times, but the concept became prevalent with the advent of the Internet in the mid-1990s, and it has been gathering momentum since then. Osterwalder, Pigneur, & Tucci (2005, 11-12) argue that the concept of business model has evolved in four phases: (i) authors merely suggested business model definitions and classifications, (ii) they started proposing the components that belonged to business models, (iii) detailed descriptions of business model elements appeared, (iv) the components were modeled conceptually. The last phase led to the proposition of various meta-models in the form of reference models and ontologies that have been increasingly tested and improved in recent years. Massa & Tucci (2014, 423) note that the interest in the concept of business models has virtually exploded in the past several years, both among academics and professionals. Zott, Amit, & Massa (2011) add that there has been a dramatic increase in the number of articles published in peer-reviewed articles on business models between 1995-2010. Despite the overall surge in the literature on business models, scholars do not agree on what a business model is. The literature review reveals that they have used the same term to explain different phenomena. Zott, Amit, & Massa (ibid.) add that different authors have referred to the business model as a statement, a description, a representation, an architecture, a conceptual tool or model, a structural template, a method, a framework, a pattern and a set. Although different definitions for business models have been proposed, authors like Gebauer & Ginsburg (2003) or Storbacka & Nenonen (2011) agree that it is possible to find similarities between them. They suggest that the majority of definitions include (i) value creation, (ii) earnings logics, (iii) value network, (iv) resources and capabilities that the firm has, and (v) some type of strategic decisions, choices or principles. They conclude that a comprehensive business model framework should explain how value is created and delivered, how the company yields a profit from its operations, illuminate the relationships that the firm has with the various actors in its value network, illustrate the resource and capability base of the firm, and discuss the major strategic decisions made by the company.

Following Osterwalder (2010), Amit & Zott (2001), a business model in this context is understood as the logic of value creation, production, delivery, and capture. This
definition correlates with Casadesus-Masanell & Ricart’s (2010) argument that a business model is built on the concepts of the value chain and describes the process of value creation and delivery.

Within the research about the music industry’s transforming business models, several different approaches can be identified. Firstly, Vaccaro & Cohn (2004) use the marketing mix perspective and differentiate between the three business models of “traditional”, “renegade” and “new”, using a services marketing mix framework. The authors take four Ps in the traditional marketing mix of product, price, place, and promotion, and add four Ps of process, people, physical evidence, and productivity:

- **The traditional business model** includes the mass production, and distribution of physical goods, the record labels that manufacture the product (mainly CDs) and distribute it via bricks-and-mortar stores, direct mail clubs, and online e-tailers, as well as an artist selling their CDs at concerts.

- **The renegade business model** is based on illegal, unauthorized P2P music file trading via the Internet. The authors argue that although the renegade approach offered content and services to customers free of charge, the intention of these organizations was usually to find a way to generate income (e.g. Napster and Kazaa).

- **The new business model** includes legitimate online digital music services. Legitimate online music services are part of the native internet business model category of digital products and digital delivery that often have strategic alliances with access providers. An example of the new business model would be iTunes, which was launched in April 2003 and reached 100 million downloads by July 2004.

The authors compare the strategies of the three business models and suggest that the most promising is the new business model. However, although the distribution of music via P2P services on the Internet was still in the growth phase at the time of writing, both pay-per-download model and P2P services have been decreasing, while the subscription model has gained momentum since then.

The second approach to business models has been from the perspective of institutional structures. One of the key authors in this area is Dolata (2011, 3) who argues that since the late 1990s the music industry has been undergoing a period of significant crisis-ridden changes, launched and driven forward by a new set of technologies. He analyzes the repercussions on the socio-economic structures and music industry institutions and concludes that the low ability to anticipate and adapt to the new technological, organizational and institutional challenges was rooted in the interplay of several factors, including the following:

- General difficulties in anticipating the socio-economic impact of fundamentally new technological opportunities. Established actors supported strategies of delaying or even the defense of successful and established business models in the face of initially unclear changes.
• Complex and time-consuming processes of establishing a new techno-institutional match. This can also be related to organizational inertia of the established businesses, whose operational routines and strategic orientations were tailored to the established core business.

• Technological conservatism. The technology was reduced to what was absolutely necessary in terms of infrastructure for the business. There was no recognition of any notable, socio-economic and institutional impact that the new technologies could potentially have.

• The oligopolistic structure of the sector. Until recently the sector was defined by the behavior of its dominant actors, which was profoundly self-centered and self-reliant.

• The hierarchically structured focal companies. The strategies of the majors were heavily affected by their collective experience with the power-based control. However, the new “entrepreneurs” were mainly the operators of file-sharing networks and teenage music consumers who began to play around with the new technological opportunities without any firm strategic aims.

Dolata (2011) argues that the current transformation is chiefly evident in the relativization of physical recordings in favor of digital music files and diversification of music marketing models. It is also characterized by new modes of distribution of digital music files on the Internet that supplement the retail business and the online sale of physical recordings. He adds (ibid., 26) that business with the music files would continue to be sustained by just a few large companies. However, the competition would increase as the larger retail companies enjoy the success of their own downloading platforms. All of the above accounts for radical change within the music industry which proceeds as a gradual transformation. He concludes that the gradual transformation of the sector occurs as a longer process of restructuring, characterized by the diversification of the methods of marketing music, the creation of new forms of distribution, the redefining of the sector’s institutional framework, the differentiation of the spectrum of actors responsible for the sector, and the accompanying changes in the sectoral structures of power and influence.

Bourreau, Gensollen, & Moreau (2012) have studied the music industry’s business models from the perspectives of innovation and additional revenue earning scenarios. The focus is on the impact of digitalization on the music industry’s business models. The authors argue that there are two fundamental strategies to earn revenue in the digital era: (i) by selling content which requires the protection of music files, or (ii) the sale of complementary goods or services that accompanies (almost) free distribution of content. They then identify two main effects of digitization on the markets: (i) decentralized promotion instead of centralized promotion in the mass media, (ii) disrupted traditional business models. Accordingly, the industry is evolving to a situation where there might be no centralized selection or promotion of creative works before the production phase as these processes become decentralized. The authors propose five scenarios of evolution for the recorded music industry:
• The “Hit and Run” scenario involves an attempt to maintain the pre-digital business models and capture value on traditional tools to promote content. The goal of business models in this scenario is to generate revenue from content before it becomes a fully public good because of piracy.

• The “jingle” scenario involves centralized promotion, while the selection of artists by professionals is abandoned. However, it is understood that the fight against piracy is not efficient and thus value is collected rather from mass media promotion than the sale of protected content.

• The “happy few” scenario involves extracting value from the sale of protected files, but producers and distributors diversify their commercial strategies, including bundling, personal addressing, temporal addressing of new works. In this scenario, supply is more diversified and consumption is increased.

• The “netlabel” scenario is characterized by value extraction from meta-information required for consumption. At the heart of the activity of musical production lies the search for new talents on the internet, where centralized promotion by the media is replaced by promotion by experts, who are recognized by other users.

• The “consumartist” scenario entails blurred frontiers between professionals, occasional producers, and amateurs. This scenario marks a profound transformation in the way music is produced and consumed, as musical works are made available for quoting, modifying and at least partially re-using them.

The authors provide three distinct models that the promotion of musical works can take: (i) the “push” model (based on mass media), (ii) the “structured pull” model (based on professional selection, decentralized promotion), or (iii) the “free pull” model (absence of professional selection, decentralized promotion). The practical implication is that firms should not only invest in experimentation with business models but also invest in order to find the “right” experimentation path.

Perritt (2011) approaches the issue of transforming business models from the perspective of the roles of intermediaries. According to him, there is confusion about who will do the matchmaking that was formerly done by the major record labels and radio stations. He argues that most musicians are going to make music even without a business model, but intermediaries who perform the necessary matchmaking would not work for free. Therefore, the business model is necessary for the intermediaries, otherwise, hundreds of thousands of artists and very good music will be unnoticed. He makes a distinction between the two types of business models: (i) a business model for musicians, and (ii) a business model for intermediaries. These two models are tightly intertwined (ibid., 182). He adds that there is no sustainable business model for indie musicians unless new sources of revenue can be tapped in addition to the traditional three revenue streams of the music industry. For intermediaries, the business model works only if the business model of musicians generates sufficient income to share it with the intermediaries. Therefore, intermediaries need to do more
than just the traditional match-making functions to be economically successful. Perritt calls for new types of intermediaries (“agents”), who closely tied to musicians and need a new type of skill set, including behaviorally targeted micro-advertising, entrepreneurial creativity on how to develop and sell access to celebrities, and capacity to promote live performances.

Wikström (2012) differentiates between the ownership, access-based and context-based business models in the music industry. He proposes a typology of music distribution models to give a new perspective on the ongoing transformation of the music industry:

- **The ownership model** is based on the consumption of recorded music on plastic discs or cassettes. The physical music collection is an identity marker of the consumer.
- **Access model** is going through a period of rapid growth and the music business seems to tilt towards this model that provides consumers with access to music without the ownership of it. Listeners’ shift from ownership to access also causes music to lose the role as an identity marker. Experiences tend to be sold as services and access model shares the same principles.
- **The context model** assumes that after pure access model is exhausted, online music providers need to look for other ways to maintain their profitability. Services and features can be created that provide a “context” to the songs, such as sharing or organizing music experiences in convenient ways.

Wikström (2012, 13) also argues that the context model will eventually lead to the commodification of music access by allowing consumers to “do things” with music instead of just listening to it. This in turn has consequences to the revenue model. Allowing music consumers to “do things” with music strengthens the relationship between artists and their fans. Artists might invite their fans to remix their music, design merchandise, etc. Moreover, Wikström is among the first authors to speak about the “rise and fall” of the online subscription-based model.

Cameron (2011), among others, approached the topic from a copyright perspective. She investigated the impact of digitalization on the business models of various copyright-driven industries. She argues that an author’s manifestation of the original work ultimately impacts all aspects of the economy. As the purpose of copyright is to create a legal mechanism that allows the producers of creative works to collect revenues from those who enjoy the benefits of creative production, the legal protection is intended to solve the “public good” problem associated with copyrighted works. Her study provides a valuable contribution to this thesis as it explains how authors could get rewarded for their work in a digital era where the cost of creating additional copies is minimal or non-existent. She argues that digitalization has led to a precipitous decline in distribution costs that has likely diminished the economic rewards afforded by copyright as the radical changes have forced fundamental shifts in the supply chain. She addresses the problem by: (i) describing the industry’s traditional supply chain, (ii) discussing the impact
of digitalization on the traditional supply chain, (iii) considering new business models for generating profits from copyrighted material, (iv) studying the effects of digitalization on traditional intermediaries, (v) assessing the effects of digitization on the producers of copyrighted works. She concludes that digitalization has profoundly changed the three main functions of record companies: (i) finding talent (easier and less costly to seek new talent), (ii) record music (the price of high-quality recording has diminished), (iii) promotion, physical production, and distribution (production and distribution is dramatically cheaper). She then identifies six approaches that have been used to generate profits from music in the face of these constraints (ibid., 7-13), which include: (i) digital music stores; (ii) advertising and/or subscription-based music services; (iii) sales of complementary products; (iv) sales of artist-specific complementary products; (v) crowd-based funding, and (vi) payment through a compulsory blanket license (revenues from recorded music and copyright).

This section revealed that the music industry’s business models have been studied from many different perspectives, including the marketing mix perspective (Vaccaro and Cohn 2014), transforming institutional structures (Dolata 2011), radical innovation perspective (Bourreau, Gensollen, Moreau 2012), transforming roles of intermediaries (Perritt 2011, 2016), new distribution models (Wikström 2012), and the copyright perspective (Cameron 2013, Günther 2016). The next section will discuss the transforming music consumption patterns and music monetization opportunities, considering that the prevailing music industry’s business models are digital.

1.2.2 Digital music consumption

This section explores the existing research about music consumers’ behavior, how they tend to switch, stay or change their music consumption patterns. Secondly, it seeks to understand, how music can be monetized in the digital era.

1.2.2.1 New consumer behavior

Digitalization has significantly widened the range of possibilities customers get access to music, how they experience it and how they pay for it. Wikström & DeFillippi (2016, 4) argue that the new types of music subscription services combined with media landscape dominated by peer-to-peer communication encourage a new consumer behavior, which among other things, favors certain music genres over others. The authors suggest that subscription music services have been able to return the global recorded music market to growth again and it looks increasingly as if these services are here to stay and that they will even strengthen their role as one of a set of primary music distribution technologies in the foreseeable future (ibid.). However, research on the music consumers’ behavior related to the new subscription-based digital music industry is relatively new, as the model has become mainstream only in recent years.
The digital consumer behavior has been studied from the perspective of contrasting different generations. Huber (2013) studied new patterns of musical behavior in Austria and differentiates between the two groups of “digital natives” and “digital immigrants”. He argues that “Generation Web 2.0” is socio-culturally inhomogeneous and although very similar to the under-30s, defined purely by age, not limited to it. According to him, this generation’s approach to music is “playful, short-term, social, very visual and mobile” (ibid., 31).

Flath (2015) goes further by arguing that the immediate experience of music reception through digital information and communication technologies is becoming a shared concept of “life 2.0”. It means that experiencing music in everyday life is converging towards experiencing music in live settings. The perceived “separation” of musicians and their audiences becomes increasingly porous. Immediate experience is seen as an added value, which can also be created by customers, thus blurring the barriers them.

Some authors have focused on the music listeners’ motivation to favor music access over ownership. For example, Luck (2016) analyzes music streaming from a psychological perspective and highlights multiple factors that motivate users to prefer music access instead of ownership. These factors include the removal of responsibilities of ownership to enhanced discovery, nostalgia-fulfilment to augmented emotional engagement. He demonstrates how adoption-based consumption is on the one hand driven by, but on the other hand has multiple positive effects itself on listeners’ psychological functioning.

Authors like Aguiar (2017), Borja, Dieringer & Daw (2015) have investigated the relationship between digitalization and consumer behavior regarding legal/illegal music consumption. Aguiar (ibid.) studied the functionalities of music streaming services in more detail and found that interactive services offering full mobility in consumption leave users with little incentives to purchase or unlawfully download music. The effects of services that restrict mobility may affect music sales and piracy differently. His analysis also reveals that music streaming services can serve as a channel of music discovery. On the other hand, Borja, Dieringer & Daw (ibid.) found that music streamers are more likely to illegally download music, whereas optimistic beliefs about risk and rewards explain music piracy. On the contrary, Curien & Moreau (2009) showed that piracy—although negatively altering the recorded music market—has a positive impact on other segments of the music market, such as live music or ancillary goods, as it generates a positive externality benefiting those activities.

The available research on consumers’ transforming behavior and consumption patterns, especially regarding reasons for switching, staying or changing their music consumption habits, is fragmented and limited, as it is a relatively new research area.
1.2.2.2 Digital music revenues

Various authors have discussed the new types of revenue streams in relation to the new digital business models, which were discussed in the previous sections. Authors like Thomson (2013) or DiCola (2013) have studied the issue from the artists’ perspective and shown how the digital revenues have affected the income of the artists. Others like Aguiar & Martens (2016) have analyzed the impact of music streaming on digital music purchases. They used the clickstream data for more than 16,500 Internet users across 5 European countries and investigated how licensed online music streaming affects digital music purchasing behavior. Their results showed no evidence of digital music sales displacement by unlicensed downloading but found a positive relationship between the use of licensed streaming websites and licensed websites selling digital music. The authors argue that consumers with a higher interest in music view both unlicensed downloading and licensed streaming channels as complements to licensed digital purchases to a larger extent (ibid., 42-43). Wlömert & Papes (2015) also tested how free and paid music streaming affects music industry revenues using a longitudinal survey data and their findings show that free (paid) streaming reduces expenditures in other channels by 11% (24%). At the same time, paid streaming positively influenced total revenue through subscription fees. At the same time, free streaming only positively affects revenue for previously inactive adopters. The authors conclude that adoption of free streaming service as well as the adoption of a paid streaming service cannibalizes consumers’ music expenditures. However, the net effect of paid streaming services on revenue was clearly positive. On the industry level, the authors concluded that the negative effect of free streaming on industry revenue is offset by the positive effect of paid streaming and thus the overall effect for the industry is positive.

Lee et al. (2016) analyzed the impact of adopting online music streaming services on the sales of physical music records and found that online streaming services positively impact music record sales. Kretschmer & Peukert (2014) went further and found that online music videos triggered sales of music albums, but had no effect on the sales performance of individual songs. On the other hand, Aguiar & Waldfogel (2018) studied the collective impact of streaming growth on unpaid consumption and on the sales of recorded music and demonstrated a displacement effect of streaming on both sales and piracy. Datta et al. (2018) found that the adoption of Spotify cannibalized consumption on iTunes, but increased overall music consumption. On the positive side, the authors add that adopting Spotify leads to increase in the variety of consumed music and to more discovery of music.

Authors like Renard, Faulk, & Goodrich (2013) have pointed to some additional revenue earning possibilities in the music industry that have opened up in the digital era, such as digital performance royalties, the YouTube Partner Program, or crowdfunding. Moreover, Winter & Scherer (2015) emphasize the importance of music-based crowdfunding as a new means of financing music projects. They
also argue that crowdfunding takes the co-operation and communication between artists and fans to a point where they become partners. According to the authors, crowdfunding has become the next step in the transformation of the music economy, as the former models of push-music-economy are in transition and being replaced by a pull or on-demand economy. They conclude that the success of music crowdfunding projects depends on a number of factors that significantly influence the chances of raising money, including the communicative activity, the size of the platform, the nature of the project and the type of rewards offered to funders.

Finally, regarding the digital transformation in general, it needs to be noted that some authors like Hage (2017) and Ismail (2018) have studied the reality of digitalization in other industries and argue that in some cases, the “hype” of digital transformation surpasses reality, as the organizations face a wide range of organizational, technical and operational barriers to change.

This section revealed that the existing research on the transforming revenues in the music industry has focused on specific areas, such as the impact of music streaming on digital music purchases (Aguiar & Martens 2016) or the impact of adopting online music streaming services on the sales of physical music records (Lee et. al. 2016). It also demonstrated the growing importance of crowdfunding as a means to finance music Winter & Scherer (2015). The overview of available research on the impact of digitalization on music consumption patterns revealed that knowledge in this field is limited and fragmented. Music consumption has mostly been studied through the prism of contrasting “traditional” and “new” business models, but only a few studies analyzed the effects of digitalization on consumption patterns in more detail, specifically within different socio-economic groups. This paper is the first attempt to bring the different perspectives together and study the emerging patterns of digitalization in the music industry comprehensively.

In order to conduct a study of this kind, a specific research setting is required. The next chapter provides rationale for selecting Estonia as a proper exemplary case for the comprehensive approach and specifies the central research questions accordingly. The chapter also provides an overview of the research framework, methods and samples.
2. THE ESTONIAN MUSIC INDUSTRY CASE STUDY

The previous chapter revealed that digitalization has played a key role in transforming the music industry since the end of the 20th century. Not surprisingly, this has attracted a lot of attention from various authors (e.g. Berry 2011; Cameron 2011; Dolata 2011; Perritt 2011; Thomson 2013; Bourreau, Gensollen & Moreau 2012; Aguiar 2015). These developments are jointly referred to as the emerging patterns of digitalization. The previous chapter also revealed that research in this field has been fragmented and lacks comprehensive treatment.

In order to study the effects of digitalization on the music industry in a specific context in a comprehensive manner, the following central research question (CRQ) was formulated: How are the emerging patterns of digitalization reflected in the Estonian music industry? In order to investigate both the supply and the demand side, an extra layer was added, and the CRQ was divided into two research questions, which represent the most important perspectives in the music industry:

RQ1 (demand side): What differences exist in music consumption patterns between the different demographic groups in Estonia?

RQ2 (supply side): How are the emerging patterns of digitalization reflected in the Estonian music industry from the perspectives of a) music artists, b) music companies, and c) collective management organizations?

This chapter discusses the research approach that is applied to answer the CRQ. Shavelson and Towne (2002) argue that the choices among different research methods can be determined by the kind of research question that a study tries to address. Yin (2012, 5) explains that when the research addresses either a descriptive question – “What is happening or has happened?” – or an explanatory question – “How or why did something happen?”, case studies are pertinent. According to Yin (2009, 18), a case study is an “empirical inquiry about a contemporary phenomenon (e.g. a “case”), set within its real-world context – especially when the boundaries between phenomenon and context are not clearly evident.” Yin adds that other methods are not likely to provide the rich descriptions or the insightful explanations that might arise from doing a case study. He also explains (ibid.) that alternative research methods are more appropriate when addressing two other types of questions: an initiative’s effectiveness in producing a particular outcome (experiments and quasi-experiments) and how often something has happened (surveys).

Based on the CRQ, the case study approach was considered most appropriate, as it “aims to produce an invaluable and deep understanding that is, an insightful appreciation of the “case(s)” – hopefully resulting in new learning about real-world behavior and its meaning” (Yin 2012, 4). Hyett, Kenny and Dickson-Swift (2014) argue that differences between published case studies can make it difficult
for researchers to define and understand a case study as a methodology. They add that “current qualitative case study approaches are shaped by paradigm, study design, and selection of methods, and, as a result, case studies in the published literature vary” (ibid.). Zainal (2007) has referred to the case study as a research method, while McLeod (2014) clearly states that the case study is not itself a research method, but “researchers select methods of data collection and analysis that will generate material suitable for case studies”. Following Harrison, Birks et al. (2017), this thesis understands the case study as a research approach, whereas different case study designs can be used across a number of disciplines to address different kinds of research questions.

It needs to be considered that different classifications and typologies of case studies exist. Depending on the goals of the researcher, case studies can be single or multiple-case studies, illustrative, descriptive, explanatory, exploratory, cumulative, or critical instance case studies. For example, Edwards (1998, 6) distinguishes between the categories of: i) descriptive, ii) theoretical-heuristic, and iii) theory testing case study work. McDonough and McDonough (1997) make a distinction between interpretive (the researcher aims to interpret the data by developing conceptual categories, supporting or challenging the assumptions made regarding them) and evaluative (the researcher goes further by adding their judgement to the phenomena found in the data) case studies. Stake (1995) divides case studies into: i) intrinsic (researcher examines the case for its own sake), ii) instrumental (researcher selects a small group of subjects in order to examine a certain pattern of behavior), and iii) collective (researcher coordinates data from several different sources).

Yin (2012, 4) argues that case study research “starts from the same compelling feature: the desire to derive a(n) (up-)close or otherwise in-depth understanding of a single or small number of “cases,” set in their real-world contexts”. He adds (ibid.) that at least three situations create relevant opportunities for applying the case study method: i) the kind of research (the “how” and “what” questions), ii) the collection of data in natural settings, as the emphasis is on the study of a phenomenon within its real-world context, iii) and when conducting evaluations. He also proposes (ibid., 7) four types of case study designs which result from a two-by-two matrix: i) single-case holistic, ii) single-case embedded, iii) multiple-case holistic, and iv) multiple-case embedded.

Based on the kind of research and the CRQ in this thesis, Yin’s (2012) approach was considered most appropriate for studying the emerging patterns of digitalization in the Estonian music industry. According to his classification (ibid.), a holistic single-case design (Estonia) with an embedded subcase (Fanvestory) was selected. The following figure (see Figure 6 below) provides an overview of the five studies that were conducted to answer the CRQ, RQ1 and RQ2.
As Figure 6 (above) illustrates and as is common for case studies (Baxter & Jack 2008), different data collection methods are used to gain a comprehensive understanding of the case and provide suitable data for in-depth analysis. Both Yin (ibid.) and Stake (1995) stress the importance of multiple sources of data to increase the reliability of the study. **Studies 1 and 2 relate to the first research question (RQ 1)** about the differences in music consumption patterns between various demographic groups in Estonia, while **Studies 3, 4, 5 were conducted to answer the second research question (RQ 2)**, which explores the emerging patterns of digitalization from the perspectives of music artists, music companies and collective management organizations in Estonia. The next section will provide the rationale for selecting Estonia as a suitable study case. The chapter will then explain the research process, data collection, analysis and implementation processes in more detail.

### 2.1 Rationale for selecting Estonia as a study case

Estonia was selected as a study case for the following reasons. Firstly, Digital Economy and Society Index (DESI) 2017 ranks Estonia 9th in Europe. DESI is a composite index measuring progress in digital through five components: connectivity (fixed broadband, mobile broadband, broadband speed and prices), human capital (basic skills and Internet use, advanced skills and development), use of Internet (citizens’ use of content, communication and online transactions), integration of digital technology (business digitization and e-commerce), digital public services (e-government). According to the index, Estonia is the champion in Europe in the online provision of public services, but also scores
above the European Union average in digital skills and the use of Internet by citizens. Although Estonia has fixed broadband coverage, it has been progressing constantly, and it is strong on mobile. World Digital Competitiveness Rankings 2017 (2018) ranks Estonia 18th in technological frameworks, 19th in business agility and 25th in IT integration. Moreover, Estonia ranks 2nd after Malaysia in digital competitiveness among countries with GDP less than $20,000. Therefore, Estonia can be considered a relatively highly digitalized country and as such, it provides a suitable case study for investigating the emerging patterns of digitalization in a specific context.

Secondly, due to its relatively small size and highly intertwined professional network in the music industry, it was possible to access top-level executives and prominent artists relatively easily. This provides favourable conditions for conducting a comprehensive study, which was one of the aims of this thesis.

2.2 RQ 1: Differences in music consumption between various demographic groups in Estonia

Two studies were conducted to answer RQ 1 about the differences in music consumption among various demographic groups in Estonia. Study 1 investigates music consumption patterns among 1,544 Estonian residents. The focus is on consumer behavior, including the habits, expectations, and limitations related to music consumption.

As the intention was to gather information about large number of respondents, survey questionnaire was considered a reasonable option. Following from Weisberg (2008), the main strengths of the surveys include: (i) possibility to gather original data about opinions, behaviors and attitudes of respondents, (ii) insights to relevant social trends, (iii) relative cost-efficiency, (iv) flexibility (e.g. possibility to combine with other research methods). Some of the potential weaknesses, which need attention while analyzing the data, include: (i) limited depth and originality of answers, (ii) bias and reliability issues (social desirability; potentially false respondents; influenced responses by the structure of questions), (iii) issues related to questions (complexity; ambiguity), (iv) population and sampling issues (accessibility; over- and underrepresentation of target groups; potentially low response rates, especially for the cost-effective modes of delivery).

The questionnaire was designed to be as easy and convenient for the respondents as possible in order to increase the response rate. It presented only 1-2 questions per page and contained a minimum amount of introductory questions to get promptly to the subject matter. In the introductory part, e-mail addresses were asked to verify the authenticity of the respondents, and gender and age group were considered important variables for analysis. The rest of the questionnaire followed a sequence from questions concerning the consumption of physical recorded
music, digital music downloads, digital music streaming, and live music. The key focus in the questionnaire was on the respondents’ current music consumption habits and their willingness to move from physical to digital music consumption, and the price sensitivity in music consumption. The number of questions varied from 19-29, based on how the respondents answered to contingency questions. The full questionnaire can be found in Appendix 1.

One of the difficulties in creating a good survey is getting the wording right for all the questions to be clear and unequivocal, because even slight differences can confuse the respondents or lead to incorrect interpretations. To avoid confusion and ambiguity, short explanations were added to the questions that contained potentially ambiguous terms such as “streaming service” or “P2P services”. As the potential respondents also included active musicians, a clear distinction was made between going to a concert as a paying customer or being involved in the concert as an artist or as part of the organizing team. Data was collected using the online survey platform Google Forms.

The method of sampling in this survey combined cluster sampling (to reach a certain population), judgment sampling (respondents have some knowledge of the topic) and snowballing (one participant suggested or introduced the questionnaire to others). The main risk inherent in snowballing is the overrepresentation of a single networked group. Harrell and Bradley (2009) argue that random or structured sampling provide more generalizable results than convenience sampling while snowballing and opportunity sampling (making use of interviewing or surveying opportunities as they arise) provide only slightly stronger results than convenience sampling. Considering the purpose of the survey, mixed sampling methods were used and two special groups of respondents were added to the sample, as their perspective was considered important to the research. The questionnaire was distributed to the following organizations with a request to further spread it among their networks: (i) university students and staff of Estonian Business School and University of Tartu Viljandi Culture Academy, (ii) Estonian Ministry of Culture, (iii) various blogs (Rada 7, Band Camp, Jazzkaar), social media networks and e-mail lists (Music Estonia, Estonian Authors’ Society), (iv) The Estonian Union of Persons With Mobility Impairment, and Tallinn Union of Persons with Movement Disabilities. The last two involved judgment sampling to gather additional information on the music consumption patterns of people with mobility impairments.

The questionnaire was distributed between September 29-30, 2015. There was no specific deadline determined by which the responses had to be sent, but the initial target was to receive at least one thousand responses. As Google Forms provides statistical overview about the response rate, it revealed that the target was achieved by the end of the first week after distributing the questionnaire. The collection ended on October 17 as the daily-accrued number of responses had been less than ten for seven consecutive days.
The total number of responses was 1,544, of whom 630 were males and 914 were females. Table 1 (on the next page) describes the sample distribution of the questionnaire, based on age groups.

Table 1. Sample distribution based on age groups of the respondents. Composed by the author.

<table>
<thead>
<tr>
<th></th>
<th>14 or less</th>
<th>15-24</th>
<th>25-34</th>
<th>35-44</th>
<th>45-54</th>
<th>55 and older</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>count</td>
<td>4</td>
<td>246</td>
<td>539</td>
<td>370</td>
<td>222</td>
<td>163</td>
<td>1544</td>
</tr>
<tr>
<td>%</td>
<td>0</td>
<td>15.9</td>
<td>34.9</td>
<td>24</td>
<td>14.4</td>
<td>10.6</td>
<td>100</td>
</tr>
</tbody>
</table>

The collected dataset has two main limitations. First, it does not specify the region of the respondents, which might be an important causal factor in the study of music consumption. Second, although it was sent to the two specific groups of respondents whose perspective was considered important in the research—people with movement disabilities and those involved in the music industry—it does not include the profession of respondents which could have been a relevant causal factor in the analysis. However, valuable input was gathered from the open-ended questions where respondents could freely explain in depth what they considered important about the subject from their perspective.

Study 2 also focuses on consumer behavior, but more specifically on revolving consumption patterns related to the crowdfunding phenomena. This study aimed to explore the differences in consumption patterns among various demographic groups in the example of the music industry start-up “Fanvestory”.

As a company, Fanvestory aims to solve two fundamental problems for the artists and fans in the digital era: (i) artists face increasing global competition and receive money with a long delay, whereas (ii) fans are mostly passive consumers but want to engage in new and interesting ways. Fanvestory allows music fans to support the artists by investing in the future royalties of the songs and earn long-term revenue with them, while artists receive cash up front and increase their promotional power with the help of the fans (“fanvestors”). Fanvestory was launched on March 31, 2017 and had completed ten campaigns as of August 2018.

The embedded Fanvestory sub-case focuses on the first two campaigns that featured a well-known Estonian pop-rock artist Tanel Padar and Tommy Cash, a rising Estonian rapper in the international music scene. It studies the differences in consumption patterns between the different age and gender groups who had purchased shares in the campaigns. The data derives from two primary sources: 282 payment transactions from the first two campaigns and a survey questionnaire distributed via Fanvestory’s Facebook page1.

1 www.facebook.com/fanvestory
The questionnaire consisted of 11 structured and unstructured questions, including dichotomous yes/no questions, multiple-choice questions and open-ended questions to gain in-depth knowledge about the participants’ preferences (see Appendix 2). Fanvestory distributed a survey questionnaire after the first two campaigns had ended on the company’s Facebook page, where 105 respondents discussed their expectations towards the company and experiences with the campaigns. The data analyzes followed a procedure recommended by Baxter & Jack (2008), by using the converged approach on research materials:

In case study, data from these multiple sources are then converged in the analysis process rather than handled individually. Each data source is one piece of the “puzzle,” with each piece contributing to the researcher’s understanding of the whole phenomenon. This convergence adds strength to the findings as the various strands of data are braided together to promote a greater understanding of the case (Baxter & Jack 2008, 554).

2.3 RQ 2: The emerging patterns of digitalization in the Estonian music industry from the perspectives of a) music artists, b) music companies, and c) collective management organizations

RQ 2 investigates the supply side of the music industry from the three different perspectives that are essential to understanding the emerging patterns of digitalization in the Estonian music industry. Study 3 focuses on the major music companies’ perspective. Due to relatively small size of the Estonian music market, two of the largest music companies in Estonia were chosen as research subjects: (i) Universal Music Baltics, which represents the recorded music industry, and (ii) Live Nation Baltics OÜ, which represents the live music industry. Both are regional branches of the global industry leaders in their respective field of business. Universal Music Baltics is part of the worldwide record company Universal Music Group and is responsible for promotion, licensing, physical and digital sales in the Baltic States. Live Nation Baltics OÜ operates the local offices of Live Nation Entertainment in Estonia, Latvia, and Lithuania.

Based on the CRQ and RQ 2, a semi-structured interview was chosen to be a data collection method. The same approach was also applied for studies 4 and 5, which investigate the perspectives of artists and CMOs.

A semi-structured interview is a method widely used in qualitative research (Edwards & Holland, 2013), which allows interviewers to divert the course of the interview based on the interviewees’ responses, as opposed to a structured interview which has a rigorous set of predetermined questions. Harrell and Bradley (2009, 25) add that interviews can be placed on a continuum of structure from “unstructured” to highly “structured”, based on how much “control” the
interviewer has over the interaction. The main advantage of a structured interview is the coherence across interviews while the main advantage of an unstructured interview is the possibility to collect in-depth information about phenomena of interest, as the respondents are allowed to talk freely. Semi-structured interviews typically include a framework of themes to be covered and explored during an interview. According to Saunders, Lewis, & Thornhill (2009), the objective of semi-structured interviews is to understand the respondents’ point of view rather than make generalizations about the subject. Respondents are allowed the time and scope to talk about their opinions on a particular subject, while the focus of the interview is chosen by the researcher: some of the open-ended questions are suggested by the researcher while some are raised naturally during the interview. Interviewers should practice “active listening” skills to evaluate whether the question has been fully answered, or additional information is needed to elaborate on particular subjects. Additionally, the collected data of semi-structured interviews not only explores the “what” and “how”, but also the “why” questions.

The research process for Studies 3, 4 and 5 follows Harrell & Bradley’s (2009) recommendations and includes the following steps:

- **Framing the research** (research questions);
- **Sampling** (identifying best sources of information, determining people to be interviewed);
- **Designing questions and probes** (different types of questions have different goals: (i) descriptive questions ask respondents to describe things and may provide insights or suggest areas for further query; (ii) structural questions help researchers understand relationships between things, and to categorize groups of like things or like processes; (iii) contrast questions help the researcher understand what terms mean. Additionally, probing might be used to stimulate the interview, when interviewers want interviewees to clarify or specify something);
- **Developing the protocol** (structuring the interview, clarifying and prioritizing research questions; ensuring consistency of the interview process. In this research, inverted funnels method was used, where the interview begins with closed questions, e.g. background information, and gradually builds to more open-ended questions to help respondents become comfortable with the interview before being asked more sensitive or broad questions);
- **Preparing for the interview** (scheduling times; preparing notes and additional materials for recording, if necessary; preparing for follow-up activities),
- **Conducting the interview** (i) opening the interview: introduction, indicating significance and potential benefits of the study, explaining the interview process, explaining publishing process, discussing potential confidentiality, acknowledging any recording, providing opportunity to ask questions; (ii) asking questions: being familiar with the questions, covering all the necessary material, listening carefully to the response, evaluating whether the question has been fully answered, probing additional information, maintaining a neutral attitude; (iii) closing the interview: expressing appreciation,
confirming next steps, leaving professional contact information, following up by sending and getting feedback to the interview notes);

• Capturing the data (drafting interview notes, including dates, locations, participants and other relevant information; writing final interview notes, including accurate spelling, direct quotes, etc.);

• Reporting the data (summarizing patterns, themes, perspectives, and perceptions, providing rich descriptions and quotations).

The initial interview framework consisted of 15-20 questions (Study 3), depending on the nature of the company (see Appendix 3). In both companies, the interviews were conducted with the executive level managers. Prior to the interview, participants received an email, which explained the background of the research, its objectives and a list of topics to be covered during the interview. This gave them time to prepare and understand what to expect from the interviews.

The final number of questions varied according to the flow of the interviews and whether it was considered necessary to specify or clarify particular topics. Both interviews were carried out in September-October 2015 and revised in April-May 2018. All the information gathered during the interviews of Studies 3, 4 and 5 were classified and processed using text analyzes, based on recommendations by Harrell & Bradley (ibid., 101). This procedure included the following stages:

• Selecting text to be examined;

• Identifying themes (deductively, when associated with each question asked, or inductively, when the analysis proceeds);

• Building codebook;

• Tagging text for themes;

• Searching for subthemes;

• Searching for patterns among themes (understanding what lead to certain themes).

Study 4 focuses on the music artists’ perspective. Similarly to Study 3, the semi-structured interview was chosen as a suitable method for data collection. The sample of artists to be interviewed was designed based on the finalists of the Estonian Music Awards 2018 (EMA). The annual awards ceremony is organized by Estonian Association of the Phonogram Producers (EFÜ), which represents local and international phonogram producers in Estonia. The jury consists of over 100 music industry professionals (e.g. journalists, music industry experts, representatives of various music organizations) and the awards are given out in 17 different categories, such as The Album of the Year, Best Song of the Year, etc. The goal of EMA is to recognize the most outstanding artists, recordings and accomplishments in the music industry from the previous year.

There were altogether 35 artists among the nominees and 17 agreed to be interviewed for this study. The interview (see Appendix 4) consisted of five semi-structured questions regarding the transforming structure of revenues in the digital
era from the artists’ perspective. Two factual questions were sent in advance, followed by a telephone interview to gain a deeper understanding about the topic of interest. The interviews were prepared, carried out and analyzed in April-May 2018. The collected data will be analyzed using the same text-analyzes procedure as described in Study 3.

**Study 5** was designed to understand the collective management organizations’ (CMO) perspective. According to CISAC (2018), collective management of authors’ rights/copyright serves two primary purposes: (i) it enables copyright owners to administer certain of their rights effectively and cheaply in order to obtain a fair return for their work, (ii) it provides a service to rights users by facilitating ready access to and licensing of copyright works, easily and cost-effectively. CMOs, such as collecting societies, license the copyright and related rights on behalf of the rights-holders, including authors, composers, publishers, writers, photographers, musicians, and performers. According to Torremans (2007, 263), CMOs in the European Union usually hold monopolies in their respective national markets. This is the case in Estonia, where the three societies – Estonian Authors’ Society (EAS), Estonian Association of Phonogram Producers (EAPP) and Estonian Performers Association (EPA), cover the administration of all the relevant rights of the compositions, phonograms, and performances.

Estonian Authors’ Society (EAS) was established in 1991 and represents over 4500 composers, lyricists, arrangers, music publishers and audiovisual authors in Estonia as of 2018. It collects and distributes royalties to music authors and publishers for public performances, while the administration of reproduction rights of musical works and licensing of rights in musical works for online use in Estonia is managed by EAS in cooperation with Nordisk Copyright Bureau (NCB) and Network of Music Partners (NMP).

Estonian Association of Phonogram Producers (EAPP) represents local and international phonogram producers in Estonia. It is a non-profit organization that was established in 1998. EAPP collectively represents local and international phonogram producers and serves the legal interests of phonogram producers, for example, it collects remunerations under the Copyright Act and distributes them among producers. The organization has contacts with similar international organizations and it co-operates with International Federation of the Phonographic Industry (IFPI).

Estonian Performers Association (EPA) is a non-profit organization established in 2000. It administers and promotes performers rights, collects remunerations under the Copyright Act, and distributes the remunerations among those entitled to them. EPA is a member of The Societies Council for the Collective Management of Performers Rights (SCAPR, www.scapr.org).
Similarly to the other studies under RQ 2, the semi-structured interview was chosen to be a suitable method for data collection, and questionnaires were prepared for each CMO (see Appendix 5). In all cases, the interviews were conducted with executive level representatives of the organizations (board members, executive directors, leading experts). Due to confidentiality requirements, the statistics provided by EAS were anonymous, therefore a direct link between the streaming services, digital music sales platforms, and their revenues could not be drawn. The interviews were carried out in October-November 2015 and revised in March-May 2018.
3. EMERGING PATTERNS OF DIGITALIZATION IN THE ESTONIAN MUSIC INDUSTRY

The structure of this chapter builds on the previous chapter and discusses the results of the five studies that were conducted to answer the central research question (CRQ) and understand the emerging patterns of digitalization in the Estonian music industry comprehensively. The first two studies were designed to answer the first research question (RQ 1) and cover the consumers’ perspective. Study 1 builds on the article by Kõlar (2017a) and reveals the changes in music consumers’ behavior, based on the survey questionnaire with 1,544 respondents in Estonia. Study 2 builds on a book section by Kõlar (2017b) and analyzes the results of the embedded Fanvestory sub-case. It investigates the different consumption patterns in the example of a music industry start-up in Estonia. Studies 3, 4, 5 were designed to answer the second research question (RQ 2) and investigate the music industry’s supply side from three different perspectives. Study 3 explores the music companies’ perspective in the example of two major local companies that are global leaders in their respective fields of business–Universal Music Group and Live Nation Entertainment. Study 4 focuses on the artists’ perspective and is based on the interviews with 17 (out of 35) artists who were nominated in different categories of the Estonian Music Awards 2018 gala. Study 5 explores the perspective of collective management organizations’ (CMO) in the example of Estonian Authors’ Society, Estonian Association of the Phonogram Producers and Estonian Performers Association. Finally, this chapter discusses the achievement of the research aim and discusses to what extent the research questions were answered. It also explains the practical and theoretical implications of the study, highlighting the importance of the thesis. It is followed by a critical discussion of the limitations of this research. The chapter ends by providing recommendations for further research in this area.

3.1 RQ 1: The consumer perspective

Study 1 explores the transforming patterns of music consumption in Estonia and the reasoning adopted by different age and gender groups for switching or for a reluctance to switch to digital music consumption, especially to a paid subscription, which is essential to the long-term viability of the whole recorded music industry. The sub-chapter builds on the article by Kõlar (2017a). To create a context for studying the emerging patterns of digitalization in Estonia, the following table (see Table 2 on the next page) provides an overview of the global physical and digital recorded music revenues from 2011-2015 and highlights, how digital music surpassed physical sales in 2014 for the first time.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical</td>
<td>8.1</td>
<td>7.5</td>
<td>6.7</td>
<td>6.1</td>
<td>5.8</td>
</tr>
<tr>
<td>Digital</td>
<td>4.9</td>
<td>5.5</td>
<td>5.8</td>
<td>6.1</td>
<td>6.7</td>
</tr>
</tbody>
</table>

The following breakdown of global digital music revenues (see Table 3 below) reveals that music streaming has become the key growth driver for the global recorded music industry, whereas the share of permanent downloads among global digital revenues has been decreasing in recent years.


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital revenues (in billions of USD)</td>
<td>4.9</td>
<td>5.5</td>
<td>5.8</td>
<td>6.1</td>
<td>6.7</td>
</tr>
<tr>
<td>Permanent downloads</td>
<td>N/A</td>
<td>3.9</td>
<td>3.9</td>
<td>3.2</td>
<td>3.0</td>
</tr>
<tr>
<td>-share of digital revenues</td>
<td>N/A</td>
<td>70%</td>
<td>67%</td>
<td>52%</td>
<td>45%</td>
</tr>
<tr>
<td>Streaming (subscription and ad-supported)</td>
<td>0.7</td>
<td>1.1</td>
<td>1.6</td>
<td>2.2</td>
<td>2.9</td>
</tr>
<tr>
<td>... of which subscription</td>
<td>0.4</td>
<td>0.7</td>
<td>1.1</td>
<td>1.6</td>
<td>2.3</td>
</tr>
<tr>
<td>-share of digital revenues</td>
<td>14%</td>
<td>20%</td>
<td>28%</td>
<td>36%</td>
<td>43%</td>
</tr>
<tr>
<td>Other (e.g. mobile)</td>
<td>N/A</td>
<td>0.5</td>
<td>0.9</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>-share of digital revenues</td>
<td>N/A</td>
<td>10%</td>
<td>15%</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>Share of streaming in the global recorded music industry revenues</td>
<td>5%</td>
<td>7%</td>
<td>7%</td>
<td>14%</td>
<td>19%</td>
</tr>
</tbody>
</table>

According to the IFPI (2012-2016), global physical recorded music revenues between 2011 and 2015 decreased by 28.4%. 2014 was the first year when the industry revenue was derived equally from physical and digital channels. 2015 signified a key milestone, as digital became the primary revenue stream for the recorded music industry. The breakdown of digital revenues suggests that music streaming has become the growth driver for the recorded music industry, while revenues from physical sales and permanent downloads are decreasing. In 2011 streaming’s share of digital revenues was 14%, but in 2015 it reached 43% of the total digital revenues. Music streaming’s share of total recorded music industry revenues was only 5% in 2011 but increased to 19% by 2015. Significant growth in streaming and subscription revenues now outweighs the decline in digital download sales for the whole industry. Datta et al. (2018) have also shown that the adoption of Spotify
cannibalized consumption on iTunes, but increased overall music consumption. However, the business model based on music streaming has not yet proven to be sustainable, as none of the major services as of 2015 has managed to earn net profits. For example, the analysis of Spotify conducted by Tschmuck (2016b) revealed that, despite annual revenue growth of 80%, the cost of revenue increased by more than 85%, further widening the net losses for the company to 184.5 million EUR in 2015. He argued that Spotify’s business model relies on the conversion of the Freemium users to become paid subscribers to increase average revenue per user (ARPU). Even though the “freemium” business model of music streaming has not yet proven sustainable, both revenues and the number of paying subscribers have grown substantially over recent years, while music ownership (both physical and digital) has decreased, signaling an important transformation in the distribution, and consumption phases of the recorded music industry’s value chain.

The aim of the study was to examine the impact of digitalization on music consumption habits, expectations, and limitation within different age groups and genders (see Table 4 on the next page).

Table 4. Respondents in different age and gender groups. Composed by the author.

<table>
<thead>
<tr>
<th>Age group</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>...-14</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>0.2</td>
</tr>
<tr>
<td>15-24</td>
<td>79</td>
<td>167</td>
<td>246</td>
<td>15.9</td>
</tr>
<tr>
<td>25-34</td>
<td>238</td>
<td>301</td>
<td>539</td>
<td>34.9</td>
</tr>
<tr>
<td>35-44</td>
<td>172</td>
<td>198</td>
<td>370</td>
<td>24.0</td>
</tr>
<tr>
<td>45-54</td>
<td>78</td>
<td>144</td>
<td>222</td>
<td>14.4</td>
</tr>
<tr>
<td>55-...</td>
<td>68</td>
<td>95</td>
<td>163</td>
<td>10.6</td>
</tr>
<tr>
<td>Total</td>
<td>636</td>
<td>908</td>
<td>1544</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The types and backgrounds of the recipients varied, ranging from public institutions, universities, blogs, and social media communities from different fields of life, including a group of people with physical disabilities. All age groups and genders had an equal opportunity to become involved in the survey. There was under-representation in only one group (ages 0-14), but both gender groups and all the other age groups received a sufficient number of replies to conduct quantitative analysis. The results were compared with the subsequent study conducted in Estonia by KantarEmor in 2017 to investigate whether any significant similarities or differences exist between the two studies from 2015 and 2017. KantarEmor used computer-assisted web interviewing (CAWI) method, where 905 respondents between ages 15-60 in Estonia were asked about their music consumption habits. According to the authors, the results are generalizable to the whole population with an accuracy of ±3,3 percent.
Although both surveys were carried out in Estonia, analysis of IFPI reports (2011-2016) suggests digitalization has had similar effects on the consumption of recorded music in other countries as well. According to the study from 2015, listening to music plays an important role in the everyday lives of respondents. 69.4% of the respondents claimed to listen to music every day and the most popular devices include domestic sound systems, personal computers (including tablets) and car sound systems. KantarEmor (2017, 5) also found that the most popular devices for listening to music include car radio and regular radio, followed by mobile and laptop. Popularity for mobile and laptop was especially high among age groups 15-19 and 20-29. There are some differences in active music listening between the two studies from 2015 and 2017, as KantarEmor revealed that only 37 percent of Estonians listened to music exclusively on almost daily basis (compared to 69.4% in the 2015 study), while the percentage was higher in Latvia (44%) and Lithuania (66%). However, the difference decreased in the category of listening to music on almost daily basis as a background–Estonia took the lead with 84 percent, followed by Lithuanians (83 percent) and Latvians (78 percent).

Both studies suggested that the most popular music listening services were YouTube, Spotify, and Soundcloud. KantarEmor (2017) specifies that in the comparison of the three Baltic countries, Spotify was almost twice as popular in Estonia and Latvia as it was in Lithuania. Spotify was the second most used music streaming service in Estonia after YouTube, while Google Play occupied the second place in Latvia, and Lithuania.

In the 2015 study, only 32.3% of the respondents claimed that legal access to music had increased the time dedicated to listening to music. 67.7% replied that the time dedicated to listening to music had not significantly changed or even declined. Therefore, although music plays an important role in the majority of respondents’ lives, free, legal access to music had increased the time dedicated to listening to music among only 1/3rd of respondents. Therefore, free and legal access to music has had a limited impact on the time dedicated to music listening.

The study found that 66.2% of respondents have downloaded or distributed music via peer-to-peer (P2P) services, which the questionnaire explained to belong to the “grey area” between legal and illegal. KantarEmor (2017, 6) also found that the respondents used various file sharing environments, but were confused about the legality of downloading files. The study suggests that approximately 60 % of the people in each country mistakenly considered legal at least one of the illegal activities presented to them. Confusion was highest the case of downloading digital files (music, films, TV) from file sharing sites for personal use which was considered as normal and acceptable behavior at least by 50% of respondents and as legal activity at least by 40% of respondents.

Table 5 (on the next page) reveals the variances in consumption between different recorded music formats among different age and gender groups.
Table 5. Consumption of recorded music in different formats in Estonia. Composed by the author.

<table>
<thead>
<tr>
<th>Age group</th>
<th>Gender</th>
<th>Number of respondents</th>
<th>Have you bought a physical CD in the past 12 months?</th>
<th>Have you bought any digital music files in the past 12 months?</th>
<th>Have you used any music streaming services in the past 12 months?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>YES (%)</td>
<td>NO (%)</td>
<td>YES (%)</td>
</tr>
<tr>
<td>15-24</td>
<td>M</td>
<td>79</td>
<td>46</td>
<td>54</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>167</td>
<td>48</td>
<td>52</td>
<td>18</td>
</tr>
<tr>
<td>25-34</td>
<td>M</td>
<td>238</td>
<td>61</td>
<td>39</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>301</td>
<td>53</td>
<td>47</td>
<td>23</td>
</tr>
<tr>
<td>35-44</td>
<td>M</td>
<td>172</td>
<td>62</td>
<td>38</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>198</td>
<td>70</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>45-54</td>
<td>M</td>
<td>78</td>
<td>67</td>
<td>33</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>144</td>
<td>72</td>
<td>28</td>
<td>7</td>
</tr>
<tr>
<td>55-...</td>
<td>M</td>
<td>68</td>
<td>63</td>
<td>37</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>95</td>
<td>64</td>
<td>36</td>
<td>6</td>
</tr>
</tbody>
</table>

According to the table, only minor (0-10%) or moderate (11-20%) differences existed in the consumption of recorded music in different formats between genders and within particular age groups. However, major differences existed between the different age groups in terms of purchasing digital music files and using music streaming services. While less than half of the respondents in the age group of 15-24 had purchased a physical CD over the past 12 months, the number increased to up to 72% for the older age groups. A total of 60.1% of the respondents had purchased a physical CD within the last 12 months, while approximately 2/3rds of them spent more than 20 EUR on CDs (see Figure 7 below).

Figure 7. Consumption of physical CDs in Estonia. Composed by the author.
During the same time period that Spotify has been available in Estonia (since 2013) and even though the annual rate for Spotify’s premium account equaled the retail price of 3-4 physical CDs, there was still a large group of respondents, who preferred physical CDs to streaming services for various reasons.

Minor and moderate differences existed among younger age groups of respondents, of whom 18-35% had purchased digital music downloads over the past 12 months. The same number decreased to less than 10% among the oldest age group. Variances between age groups in recorded music consumption delineate most clearly in the use of music streaming services, as 18-32% of the respondents in the oldest age group had not used any music streaming services, including YouTube, over the previous 12 months. By comparison, over 90% of the respondents in the age groups from 15-44 had used music streaming services in the previous year.

Figure 8. The use of the paid subscription services among different age groups in Estonia. Composed by the author.

![Bar chart](chart.png)

Figure 8 (above) reveals the use of the paid subscription services is in inverse correlation to the age of respondents. Only minor differences among different genders exist in using the paid subscription services for respondents between 15-44, but the gap becomes significantly wider in the age groups of respondents over 45 years old as only 3-4% of the female respondents in these groups have used the paid subscription services. The analysis also reveals that 54-59% of the female respondents in these two groups were not willing to pay for recorded music in digital music services, but 36-39% of the same group recognized that although they are not currently paying, they would be willing to do so in the future. In
comparison, KantarEmor (2017, 6) found that the paid version of Spotify is highest in Estonia (28%), compared to 18% in Latvia, and Lithuania, but the results also showed that Lithuanians (16%) and Latvians (6%) were using the free trial period more than Estonians (3%).

KantarEmor (ibid.) also found that willingness to spend money on music streaming services, audio formats, and music files is highest in Estonia (31%), compared to Latvia (8%) and Lithuania (25%). While 23% of the respondents claimed to have used paid music streaming services in the 2015 study, 28% of Spotify users claimed to use the paid version in 2017. Table 6 (below) provides an insight into why variances in willingness to pay for recorded music in digital music streaming services might exist among the different age groups and genders, based on the study from 2015.

Table 6. Respondents’ willingness to switch to digital music consumption entirely. Composed by the author.

<table>
<thead>
<tr>
<th>Age group</th>
<th>Gender</th>
<th>Number of respondents</th>
<th>Would you be willing to give up physical music mediums entirely?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>I am ready to switch entirely to digital music consumption (%)</td>
</tr>
<tr>
<td>15-24</td>
<td>M</td>
<td>79</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>167</td>
<td>34</td>
</tr>
<tr>
<td>25-34</td>
<td>M</td>
<td>238</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>301</td>
<td>31</td>
</tr>
<tr>
<td>35-44</td>
<td>M</td>
<td>172</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>198</td>
<td>14</td>
</tr>
<tr>
<td>45-54</td>
<td>M</td>
<td>78</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>144</td>
<td>6</td>
</tr>
<tr>
<td>55-...</td>
<td>M</td>
<td>68</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>95</td>
<td>6</td>
</tr>
</tbody>
</table>

The above table reveals that younger age groups are more willing to switch entirely to digital music consumption than the older age groups, while a similar proportion of respondents claimed to use physical music mediums for a while in the future. The older age groups’ reluctance to switch to digital music consumption might be for different reasons. For example, Wikström (2012, 9-10) has emphasized the importance of the record collection as an identity marker that corresponds to the logic of the ownership model, but not to the access model. According to him, in an era of social media, the act of listening to recorded music becomes increasingly social and public and the role of music listeners’ record collections as manifestations of their musical identity is replaced by a steady flow of information about their real-time musical experiences. Some physical music mediums, for example, vinyl records persevere as long as they are meaningful to the consumers.
only as physical products. The whole process of selecting and putting on a good vinyl record could be compared to the process of opening and serving a vintage wine, as it creates a story and meaningful context for the whole event.

Table 7 below reveals the most common reasons for not using the paid subscription services.

Table 7. Reasons why respondents have not used paid for music subscription services so far. Composed by the author.

<table>
<thead>
<tr>
<th>Age group</th>
<th>Gender</th>
<th>Number of respondents</th>
<th>Why have you not used paid versions of music subscription services so far?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>I don't listen to music enough to pay for it (%)</td>
</tr>
<tr>
<td>15-24</td>
<td>M</td>
<td>79</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>167</td>
<td>12</td>
</tr>
<tr>
<td>25-34</td>
<td>M</td>
<td>238</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>301</td>
<td>17</td>
</tr>
<tr>
<td>35-44</td>
<td>M</td>
<td>172</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>198</td>
<td>21</td>
</tr>
<tr>
<td>45-54</td>
<td>M</td>
<td>78</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>144</td>
<td>15</td>
</tr>
<tr>
<td>55-...</td>
<td>M</td>
<td>68</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>95</td>
<td>17</td>
</tr>
</tbody>
</table>

Insufficient benefits of the premium versions were considered by 50.6% of the respondents in all age groups to be the most important reason why they had not so far paid for subscription services. KantarEmor (2017) found that 56% of respondents claimed to have insufficient interest in music for switching to the paid subscription services. In the study from 2015, lack of willingness to pay a monthly fee was brought out as an important factor for not switching to a paid subscription. However, there is a clear difference between age groups: paying a monthly fee was not considered an important problem by older respondents, as only 17-21% of the oldest age group saw it as a reason for not using paid versions of music streaming services.

There were also significant differences between genders among particular age groups, as only 26% of the female respondents in the youngest age group considered it to be the reason for not using the paid subscription services, compared to 55% of their male counterparts. However, only 18% of the male respondents considered the subscription fee to be too expensive, compared to 34% of the female respondents in the same age group. It follows that this particular age group–male respondents between 15-24–could be provided with different kind of offerings (e.g. an annual subscription fees) to motivate them to become paying subscribers, as they do not consider the subscription fee to be too expensive, but are reluctant to paying a
Among other respondents, only 8-19% considered the price to be an important factor in using the paid subscription services, regardless of the age group or gender. Compared to other groups, a relatively high percentage of female respondents in the age groups of 25-34 and 35-44 (36% and 45%, respectively) claimed that they have not had time to figure out how a paid subscription works. Therefore, service providers could increase the likelihood of turning these distinct groups into paying subscribers by clearly communicating on this particular issue to these target groups.

Finally, the survey questionnaire examined what were the most valued functionalities of music streaming services that the respondents considered worth paying for (see Table 8 below).

Table 8. Functionalities of music streaming services that respondents consider worth paying for. Composed by the author.

<table>
<thead>
<tr>
<th>Age group</th>
<th>Gender</th>
<th>Number of respondents</th>
<th>What kind of functions would you be willing to pay a monthly subscription fee for?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ad-free music listening (%)</td>
</tr>
<tr>
<td>15-24</td>
<td>M</td>
<td>79</td>
<td>94</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>167</td>
<td>90</td>
</tr>
<tr>
<td>25-34</td>
<td>M</td>
<td>238</td>
<td>84</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>301</td>
<td>81</td>
</tr>
<tr>
<td>35-44</td>
<td>M</td>
<td>172</td>
<td>77</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>198</td>
<td>74</td>
</tr>
<tr>
<td>45-54</td>
<td>M</td>
<td>78</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>144</td>
<td>67</td>
</tr>
<tr>
<td>55-...</td>
<td>M</td>
<td>68</td>
<td>59</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>95</td>
<td>51</td>
</tr>
</tbody>
</table>

The above table reveals that ad-free music listening was the most valued function of streaming services that respondents would be willing to pay for, followed by access to higher quality music files and listening to music offline. Although listening to music in the digital era has become largely a social experience, none of the respondents’ groups valued it more than 20%, while only a small fraction of 3-12% considered this functionality important within the age groups of respondents over 35 years old. This number had decreased even further by 2017, as only 5% claimed to consider social functions of the streaming services worth paying for. Ad-free music listening was considered especially valuable among younger age groups and decreased gradually among older age groups. The same pattern appeared in listening to music offline, access to higher quality music files and the possibility to create and share playlists. Therefore, younger age groups consider various functionalities of streaming services more worth paying for.
To summarize, there is a clear tendency to move from music ownership (both physical and digital) to music access, as music subscription services have become a major driver of growth for the recorded music industry. A survey questionnaire was carried out in Estonia, where 1,544 respondents from different age groups answered the questions about the changes in their recorded music consumption habits, expectations, and limitations. The results were compared with a similar study conducted by KantarEmor in 2017 and no major differences between the two studies were identified. The analysis of the survey results from 2015 reveals that digitalization has had the following effects on the recorded music consumption in Estonia.

Firstly, although listening to music plays an important role of the majority of respondents’ everyday lives–69.4% of all respondents claimed to listen to music every day, free, legal access to recorded music has had only a limited impact on the time dedicated to music listening, as fewer than 1/3rd of respondents claimed to dedicate more time to listening to music as a result of free legal access to recorded music. Both studies revealed that over 60% use file sharing and downloading services, but respondents are unsure about the legality of them. However, the net impact of the P2P services in the “grey area” or even direct piracy might be positive on the other segments of the music market, such as live music or ancillary goods, as Curien & Moreau (2009) have shown.

Secondly, CDs still play an important role in the recorded music consumption in Estonia. 46-64% of all respondents in all age groups had purchased at least one CD within the past 12 months. Among those who had purchased CDs, over 60% had paid more than 21 EUR for CDs in the past year. Even though streaming services that provide free legal access to recorded music have been available since 2013 in Estonia, over 40% of respondents still preferred physical CDs to music streaming services for various reasons.

Thirdly, although listening to music in the digital era has become largely a social experience, less than 20% of respondents considered social functions worth paying for. This percentage had decreased to 5% by 2017.

Fourthly, as Tschmuck (2016b) has shown, the long-term viability of the music streaming services depends on their potential to increase average revenue per user (ARPU) by converting freemium users into premium subscribers. 38% of the respondents who are currently not paying for subscription services claimed to be willing to do so in the future, given the proper communication and offering. The analysis revealed different age and gender groups are currently not paying for listening to music in digital channels for different reasons. For example, male respondents in the youngest age group of 15-24 do not consider the premium services to be too expensive, but they are reluctant to pay a monthly fee. They also value different functionalities of the music streaming services to be worth paying for. Therefore, distinct communication strategies that address particular age and gender groups could help convert freemium users into paying subscribers and thus monetize digital music consumption more effectively.
3.2 RQ 1: Embedded sub-case of Fanvestory

The embedded sub-case of Fanvestory builds on Kõlar (2017b) and provides new insights into the expanding crowdfunding industry. It explores the consumption patterns between different age and gender groups in Estonia in the example of a music industry start-up. Fanvestory allows fans to support the artists by investing in the future royalties of the songs and earn long-term revenue with them while artists receive cash up front and increase their promotional power with the help of the fans (“fanvestors”). Fanvestory had launched ten campaigns as of August 2018. This study analyzes the first two campaigns that featured a well-known Estonian pop-rock artist Tanel Padar and Tommy Cash, a rising Estonian rapper in the international music scene. It aims to investigate the differences in consumption patterns between different age and gender groups who purchased shares of the future royalties of the music.

The first Fanvestory campaign featured the song “Parem veelgi” by the Estonian pop-rock artist Tanel Padar. According to the prospect, the campaign was valued at € 20,000, and 33% of the future royalties were made available for the fans, who could purchase between 0,1% and 1% of the shares per transaction. The first campaign was launched during an evening TV show on Estonian National Television called Ringvaade on March 31st, and all 33% were sold to the fans for € 6,600 in less than an hour.

Figure 9 below reveals that there were 100 buyers, of whom the majority (66%) were male. Male buyers were also the biggest contributors proportionally in terms of the absolute value and the average price per purchase.

Figure 9. Overview of the first campaign: “Parem veelgi” by Tanel Padar. Composed by the author.

```
<table>
<thead>
<tr>
<th></th>
<th>Legal persons</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of buyers</td>
<td>7</td>
<td>66</td>
<td>27</td>
</tr>
<tr>
<td>Money raised</td>
<td>€756</td>
<td>€4596</td>
<td>€1034</td>
</tr>
</tbody>
</table>
```
The second campaign was launched live on May 1st on TV3 during the evening news program called Seitsmesed. The program featured a song called “Nosebleeds” by the Estonian rapper Tommy Cash. The deal included both composition and the recording of the song, and the campaign was valued at € 60,000. According to the prospect, fans could purchase between 0.1% and 1% per transaction, and all 20% of the future royalties were sold for € 12,000 in about two hours. Figure 10 below reveals a similar pattern between the two campaigns: among the 182 buyers, more than 60% were male, who were also the biggest contributors proportionally both in absolute value and in terms of average amount per transaction.

Figure 10. Overview of the second campaign: “Nosebleeds” by Tommy Cash. Composed by the author.

<table>
<thead>
<tr>
<th>Artist</th>
<th>80% (€48,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fans</td>
<td>20% (€12,000)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>110</td>
<td>67</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Legal persons</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>110</td>
<td>67</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of buyers</th>
<th>Money raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>€355</td>
</tr>
<tr>
<td>110</td>
<td>€7389</td>
</tr>
<tr>
<td>67</td>
<td>€3057</td>
</tr>
</tbody>
</table>

In addition to the analysis of payment transactions, a survey questionnaire was distributed to Fanvestory’s Facebook page, where 105 respondents discussed their expectations towards the company and experiences with the campaigns. The questionnaire consisted of 11 structured and unstructured questions, including dichotomous yes/no questions, multiple-choice questions and open-ended questions to gain in-depth knowledge about the participants’ preferences.

Figure 11. Overview of the results of the survey questionnaire. Composed by the author.

<table>
<thead>
<tr>
<th>&quot;No&quot;</th>
<th>&quot;Yes&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>58</td>
<td>46</td>
</tr>
</tbody>
</table>

44 (76%) wanted to buy, but it was already sold out

27 (59%) claimed to be fans of the artist(s)
Figure 11 (see on the previous page) reveals that the demand for the shares surpassed the supply, as the majority of respondents (76%) who did not buy a share in the songs’ future royalties claimed to have wanted to do so if given the opportunity. This over-demand might have resulted from large media attention (both campaigns were launched live on primetime TV shows), as well as from a relatively large number of fans for both artists who received the information about the campaigns from the artists’ social media channels: Tanel Padar has more than 30,000 fans on Facebook, and Tommy Cash has more than 150,000 followers on Instagram. Approximately 60% of the fans who purchased a share also claimed to be a fan of either one or both of the artists. It follows that approximately 40% purchased a share for other reasons than to support or engage with a particular artist, which is relevant in the context of Fanvestory’s communication and marketing strategy.

The different purchase patterns, motivations, and expectations between the different groups who purchased the shares in these songs will be investigated further. Figure 12 (see below) provides a detailed view of the purchase transactions from the first two campaigns and reveals differences among various age and gender groups. Whereas the average price per purchase for the first campaign was €55, it was €59 for the second campaign. This outcome supports the findings by Alhadeff & Buff 2014, who analyzed music-related campaigns on Kickstarter and argued that projects that raised larger amounts of money had, on average, larger contributions from their backers.

Figure 12. Average purchase prices per purchase by different age and gender groups. Composed by the author.
McAndrew & Jeong (2012) studied age, sex and relationship status as predictors of Facebook use and found that females, younger people and those not currently in a committed relationship were the most active Facebook users. The authors concluded that age was negatively related to the frequency of most Facebook activities. Zarella (2010) adds that younger age groups (especially teens and people under 30) tend to have more posts on their Facebook pages. Based on these studies, younger age groups, especially females, are expected to provide more promotional value for the artists by sharing information about them. According to York (2017), almost two-thirds of all Facebook users are younger than 35 years, whereas only approximately 10% are older than 55 years. At the same time, the analysis of purchase transactions from the first two campaigns revealed that people in the older age groups, especially the between the ages of 31 and 40 and 40 and 50, spent the most money per transaction.

Figure 13 (see below) reveals that the age group between 41 and 50 generated the highest monetary value per transaction, whereas the middle age group between 31 and 40 generated the highest monetary value in absolute terms. Considering both average and absolute monetary values of the different age groups, older groups tended to generate more monetary value, with the exception of the oldest age group.

Figure 13. Absolute monetary value per age group of the first two campaigns. Composed by the author.

<table>
<thead>
<tr>
<th>Age group</th>
<th>Campaign 1</th>
<th>Campaign 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>...-20</td>
<td>€70</td>
<td>€205</td>
</tr>
<tr>
<td>21-30</td>
<td>€736</td>
<td>€2676</td>
</tr>
<tr>
<td>31-40</td>
<td>€2130</td>
<td>€3968</td>
</tr>
<tr>
<td>41-50</td>
<td>€1988</td>
<td>€2707</td>
</tr>
<tr>
<td>51-...</td>
<td>€706</td>
<td>€780</td>
</tr>
</tbody>
</table>

Figure 12 (see on the previous page) and 13 (see above) also reveal that although the artists of the two campaigns represented different music genres and presumably attracted different audiences, the purchase patterns between male and female buyers of the two campaigns were relatively similar. This finding seems to imply that the role of particular artists or music genres has limited or no impact on the purchasing patterns of different age and gender groups.

In this respect, the reasons why people claimed to have purchased shares in the songs’ future royalties is discussed next. As illustrated, although the small number of responses (46 of 104 respondents actually purchased the shares; 29 male and 17 female) does not allow for far-reaching conclusions to be drawn, certain patterns will reveal some insights. First, there is a relatively large group of people who saw
the campaigns first and foremost as an interesting investment opportunity. About one-third of this group said they were not a fan of either of the artists but believed in the commercial success of the songs. One respondent said, “I want to diversify my investment portfolio”. Another was more specific: “I expect to earn a minimum ROI of 10%”.

The second group of respondents just wanted to support the artists and contribute to the success of their careers, regardless of the royalty earnings. Some of these people liked the idea of supporting the artists (“My expectation is that artists make their dreams come true by making music and that they are happy”), whereas others wanted to support these particular artists (“TC [Tommy Cash—author’s remark] does ridiculous and awesome things”). The third category of respondents wanted to try out something fun and was willing to risk the money. One respondent said, “/.../ the song can explode /.../ Lot of money and a big success for the song €€€€€€€€€€:D”. Another added, “There are extreme cases of artists who can make it big, let them try and let me buy ‘Extreme’ shares”. Finally, there were some respondents who simply appreciated the idea of the new platform (“I like your idea very much. Awesome!”).

These different expectations can be grouped into three categories, as illustrated in Figure 14 below.

Figure 14. Respondents’ expectations towards Fanvestory. Composed by the author.

To meet these defined expectations of investing, supporting and fun, Fanvestory needs to carefully consider its communication strategy. When Fanvestory was first launched, the company’s press releases used a lot of investment-related vocabulary (e.g., “ROI”, “shares”, “investment”, “IPO”). However, this release was followed by the critics and received bad publicity in some business blogs and the biggest daily business newspaper in Estonia (e.g., Äripäev 2017). The platform was not a typical investment platform, as there was no financial data about the songs, previous earnings or future projections of the royalties. The company wanted to refrain from being labeled another donation-based or rewards-based crowdfunding platform, as there were many of those already available. In this sense, Fanvestory
needs to position itself and communicate its functionalities accordingly, as it aims to address the expectations of its users by combining the elements from both the lending-based and equity-based crowdfunding models.

As stated, Fanvestory is a music industry start-up that allows fans to buy shares in future royalty earnings of the songs and artists to receive cash up front and increase their promotional power. The analysis of the first two campaigns and a survey questionnaire conducted after the campaigns led to the following outlines. First, there were significant differences in the consumption patterns between different age and gender groups. Whereas younger age groups, especially females, were more likely to provide most of the promotional value for the artists via social media, older age groups, especially men between the ages of 31 and 50, spent the most money per transaction and also provided the most monetary value in absolute terms. Second, the findings support Alhadeff & Buff’s (2014) argument that campaigns that raised larger amounts of money had, on average, larger contributions from the backers. Third, the artists of the two campaigns represented different music genres with expectedly different audiences, but the purchase patterns of male and female buyers between the two campaigns were relatively similar. Therefore, the role of particular artists or music genres had limited or no impact on the purchasing patterns of different age and gender groups. Finally, people purchased shares in the songs’ future royalties for different reasons: (i) investing, (ii) supporting the artists and (iii) betting.

As a managerial implication, this study reveals that to meet these expectations, Fanvestory needs to refrain from using only specific investment-related vocabulary, which created bad publicity in the beginning. As a hybrid model, Fanvestory combines elements from both equity-based and lending-based crowdfunding models and needs to be communicated as such.

3.3 RQ 2: The music companies’ perspective

Semi-structured interviews with the executive level representatives of the two major music companies in Estonia provided valuable insights into the functioning of the Estonian music industry. Various patterns, regularities and unexpected relationships were observed to gain in-depth knowledge on the subject. To secure well-structured data collection and support meaningful analysis, the interview questions were grouped into categories, based on the objectives of this thesis: (i) background information of the selected companies, (ii) changes in music consumption patterns, (iii) the effects of digitalization on the revenue streams, and (iv) other relevant information about the changes in the music market. The latter category included information that arose during the analysis process which did not fit into any pre-coded category. The interviews were conducted with the executives of the companies, and are referred to as “LK” and “EP”.

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Background information of the selected companies. The history of Universal Music Baltics (UMB) dates back to 2003 when LK’s company obtained Universal Music’s license in the Baltic market. She explains the brand history as follows.

The license my company had obtained in 2003 ended in 2007 when the Finns had to take over the business in the Baltics. So we continued under the Universal Music Baltics brand in 2008. At first, the emphasis was more on physical distribution, but under the Finnish supervision, our activities widened into all kinds of work with the UMG [Universal Music Group – author’s remark] catalog and brand. Now we have physical sales, digital sales, promotional activities and marketing, and new business solutions, including exclusive corporate solutions (LK).

UMB generates revenue through the exploitation of its physical and digital music catalog. Besides promoting the music of international artists, the company is also involved in the local music industry by promoting and fostering local talent. “Just to name a few, we collaborate with Metsatöll [metal band–author’s remark] and with the winners of “Eesti otsib superstaari” [a talent show in Estonia, equivalent to “American Idol”–author’s remark]. UMB’s business depends on seasonality. According to LK, the “Christmas sales” begins for the major record labels already in September-October, when commercial spaces are reserved for the top selling artists and products. She adds that in the Baltic market, physical sales are inversely proportional with the population: Estonia has the smallest population, but sells the most, while Lithuania is the biggest, but sells the least. According to LK, it might come from the Scandinavian influence to the Estonian music industry, but in terms of digital revenue, the numbers are more proportional.

Live Nation Baltics OÜ (LNB) is the biggest concert promoter in Estonia and in the Baltic States as of 2015. It started operating under the First Baltic International (FBI) trademark in 1994 and is part of the world’s leading live entertainment company Live Nation Entertainment. In 2013, it started operating under the name Live Nation Baltics OÜ and combines the offices in Estonia, Latvia, and Lithuania. As most of the necessary services are outsourced, including marketing and technical production, the company employs only three people. During bigger outdoor festivals, such as concerts at the Tallinn Song Festival Grounds, the additional workforce is hired. Although LNB is among the biggest companies in terms of revenue in its field of business, the number of employees (3) is below average in the music sector (5,6) and also in the national average of all companies (6,4), as of 2011. The company generated revenue of 1,275,903 million EUR in 2015 but earned a net loss of 291,470 EUR. UMB organizes approximately 3 shows at the arenas, 2-5 shows at Alexela Concert Hall [concert venue with a maximum capacity of 1,800 seats–author’s remark] and 3-4 shows at different clubs every year. Additionally, a major outdoor event is organized in every few years. LNB’s business does not depend on seasonality. “We are currently [in the Autumn –
author’s remark] preparing the Disney shows. It all depends on particular projects, but seasonality does not play an important role in our business,” says EP. She sees LNB’s competitive advantage in their thorough understanding of the market, long-term planning, and ability to project finances accurately. “Smaller players often spend too much. There are still many of them in the market, but they disappear as quickly as they emerged.”

Changes in music consumption patterns. According to LK, consumers’ tastes in Estonia are largely influenced by what is going on in the global music scene. “It is usually decided somewhere else who makes it to the top of charts locally. The Estonian audience usually follows those who have already made it big somewhere else. But this is certainly a feature of today’s music industry that there are less and less conceptual “giga”-artists,” she explains. LK argues that music streaming has played significant role in this transition.

Musical tastes evolve with people as their life changes. The opinions and preferences of 15-year-olds are more volatile and their consumption patterns are influenced by music streaming, including “one-hit-wonders”. For them, conceptual albums and artists become less and less relevant. This also means that artists find it more difficult to repeat the success of their first album with their second album (LK).

EP notes that changes on the global level take place increasingly faster which means that there are less long-term conceptual artists. She brings an example of The Weeknd, an artist who rose very quickly from the club level to the arena level just because one of their song in the “Fifty Shades of Grey” movie soundtrack. LK and EP also refer to the “EDM-madness” [electronic dance music genre – author’s remark] which suddenly rose to the top in recorded and live music scenes. EP is surprised about the reluctance of local audiences in Estonia to change their tastes. “It’s unbelievable that artists like Smokie, Boney M or Bonnie Tyler, who have practically ended their careers on the global level, are still favored by us! […] Private parties attract these kinds of artists—we still get regular requests. I would say that Latvians are way more progressive in this sense.”

UMB’s experience suggests that particular target groups are more loyal and spend more money than average consumers. According to LK, these groups include children, who “consume everything and anything related to their favorites”. Second, there are hard rock fans, and third, a particular group that LK refers to as “gays and housewives”. If something becomes popular among this group, it spreads very quickly. Additionally, some consumer groups expect to establish more personal and intimate relationships with their favorite artists. One of the possibilities to do that is raise money for different projects via crowdfunding platforms. UMB has not conducted such campaigns so far, as they are expected to invest money in artists and projects themselves. However, LK argues that adding personal value and exclusivity to the products in the global scene has gained importance in recent years.
For example, Avicii has become a global phenomenon in this sense. Artists can organize various campaigns and it is easy for them to add personal value. However, the Estonian market is too small for these personalized campaigns, centered around artists, simply because it lacks exclusivity. For example, you can find yourself in the supermarket right next to Tanel Padar [a rock star in Estonia – author’s remark] and it is not as exclusive as it would be somewhere else (LK).

Finally, the most important shift can be seen in a progressive transition from physical to digital consumption. Although UMB sales data revealed that physical sales surpassed digital sales in Estonia in 2015, it was expected to change in the near future, based on the trends, and the experience of the company’s Nordic counterparts. LK argues that digital sales and music streaming are going to play a much bigger role and generate way more revenue than physical sales in the near future.

Both interviewees emphasized the importance of digitalization as the main facilitator of change in music consumption. However, the effects have been more significant in the recorded music, as the live music industry still depends on the live music experience at its core, which has essentially not changed. For example, EP argues that although digitalization has created possibilities to stream live events in real time, it has not had a major impact on the live music business, at least not in the Baltic region. Moreover, she does not see any significant changes in ticket sales, which could be linked to the availability of mobile applications offering these services. At the same time, changes can be noted in how live events are promoted.

The changes are especially evident in the social media—you have to act smart there. For example, you should not over-share your materials, so you can get a more adequate picture whether there is actual interest in what you’re offering. At the same time, Facebook campaign is not the reason why a concert sells or does not sell. I remember an occasion when someone started selling and booking tickets to the Kanye West and Rihanna concert, although the artists had not actually signed the deal. If you invest reasonably, the traditional promotional channels work well, but as a rule, the print media does not provide successful results anymore (EP).

The advanced technological infrastructure has allowed music creators to perform some of the typical functions of the music industry’s intermediaries themselves and connect directly to their audiences. It is not uncommon anymore if the song is released digitally the same day it was created. The album-based approach is more and more being replaced by song-based approach. LK explains as follows.

The importance of long-term conceptual artists and the album format is decreasing, especially among younger audiences. Even the major record labels make contracts over single songs, and further steps are
When asked about the future role and functions of the record labels, LK argues that unlike artists themselves, UMB is able to offer digital distribution which is essential in today’s music industry. “You simply have to consider the fact that media and retail market have changed a lot and you need to be available in all digital channels,” she adds. In the coming years, UMB intends to increase the number of local artists to work with. She does not believe that the physical formats like CDs will disappear entirely in the near future, but the company’s focus will shift towards music streaming.

LK argues that UMB wins from the healthy competition between Spotify and Deezer as they both promote legal music consumption and aim to reach new customer segments. UMB recently hired a digital manager to harness and take advantage of the digital sales possibilities even more. She brings an example of Spotify, which has turned music consumption into a “Facebook-like social media experience, where you can follow artists or friends and shape your musical profile”. She adds that playlists have become a powerful tool to introduce and promote new songs and artists.

UMG has a special application called Digster. For example, Iiris [Estonian electronic indie music artist – author’s remark] could generate over 500,000 streams in a short period of time, after we added her song “Tigerhead” in the Swedish Digster Fresh playlist. Without playlists, songs are like needles in the haystack and it is very hard for the consumer to orientate (LK).

LK emphasizes that digitalization has and will continue to make the music industry more transparent, especially the revenue earning process, which is essential for the artists. Comprehensive statistics on the music consumption from the music streaming services and social media channels like Facebook help record companies to make more informed decisions and target their products more precisely to very specific customer segments.

Other relevant information about the changes in the music market. EP argues that anything significant in terms of business models has not happened in the live music industry, because “concert is a concert and it will always be the same”. However, she points out that international concert tourism has increased in recent years. For example, “Tallinners” like to visit concerts in Finland or Sweden, but LNB has also organized buses to shows in Latvia. International traveling is seen less as a burden to visit concerts abroad. There has also been a convergence of ticket prices as artists expect to earn the same amount of revenue for their live performances regardless of the market size. EP adds that although the number of artists in the supply side has increased, it has also caused the ticket prices to increase, while pricing mechanisms depend on specific customer segments.
In terms of ticket prices, it comes down to particular target groups. When the ticket prices do not matter for Robbie Williams’ audience, they certainly do for Disney On Ice shows audience, as pricing is a central issue for families with kids. Children want to purchase many additional products such as the Disney merchandise, but there is a certain limit of how much families can and are willing to spend during a single night (EP).

Earning extra revenue from merchandising depends on particular artists and their target groups. LK points out that as artists usually have right to sell their own merchandise, it can be an important source of revenue for them. She brings an example of Metsatöll [Estonian metal band–author’s remark], who sells merchandise at their live shows and it generates significant proportion of income for them, considering the loyalty of fans in this particular genre.

The second aspect of live events is that the expected level of technical production, such as high-quality sound, lighting, and video, depends on particular audiences. For some genres and events like Weekend Festival [popular electronic dance music festival in Estonia–author’s remark], professional high-quality technical production can have significant impact on the ticket sales, while for others, it is not that important.

Then there are artists like Bryan Adams, who have almost nothing on the stage, but the crowds still go to his concerts. On the other hand, Lenny Kravitz has visited Estonia a couple of times, but the critics is addressed towards wrong things: one does not like the venue, another does not like the stage. At the end of the day, it all comes down to particular audiences (EP).

In the recorded music industry, the lower barriers of entry to the international music market have significantly increased competition between artists and independent record labels. LK argues that there is a “new breeding ground” for artists, and even the niche artists and record labels find it useful to co-operate with the major record labels to gain access to their structures and distribution channels for promotion. She notes that in order to attract the majors’ attention, besides having “the mysterious X-factor”, artists need to prove that they are able to reach a certain level of awareness themselves. “If someone makes a sudden leap in their digital channel or writes a really good song, it certainly attracts attention”, she explains. The second category of interest is “talented singer-songwriters”. Artists need to excel in both composing and performing their music, to increase authenticity. According to her, it was more of the 1990’s phenomenon, when “pretty girls were simply picked to perform somebody else’s songs”.

The existence of so many small labels is not a bad thing as you really need to foster local talent who sells. For example, Warner is
the biggest record label in Finland because they have a capacious catalog of local artists. Quite often, there is a big gap between how local artists perceive the major labels: artists expect them to spend enormous resources, but there is little willingness to give anything in return. If the artists rely only on themselves, they often think that their job is done after releasing a song or an album. This is actually the point where the work of the major labels begins. […] As a major record label, we need to sell at least a couple of thousand albums in order to earn back our investment, but there are quite a few artists of this capacity, so it is inevitable that we cannot sign all the artists. In the case of DIY [“do it yourself” approach – author’s remark], marketing and promotion are often incomplete, but this is exactly what we are good at. We work with journalists, radio stations and other media every day. It requires systematic work with the brand which is often missing from the DIY-approach (LK).

She adds that although the niche artists might earn some revenue during the long period with a “long tail method”, they require much more work and resources to be invested in so that there would be an actual business around them. UMB as a regional branch benefits from the global media coverage of UMG’s international superstars such as Lady Gaga or Justin Bieber, which reduces the amount of effort to promote them locally.

The interviews revealed that digitalization has been the main facilitator of change in the music industry, which has seen some notable changes in the music consumption patterns. The impact of digitalization is more straightforward in the recorded music industry because live music experience has remained essentially unchanged. Various mobile applications have not impacted the concert ticket sales that have remained relatively stable and revenues from streaming live events are rather marginal. Although LNB does not consider social media to be a critical factor in the success or failure of a concert, promoters need to increase awareness about the effective use of these channels. In terms of recorded music, there have been multiple attempts to generate revenue from selling various products where music plays a central part, such as aerobics videos, ringtones or personalized songs, but they have become niche products as a result of the emergence of various digital music services like iTunes, YouTube or Spotify, and a steady shift from music consumption to music access. Although the number of different releases has remained stable, the print runs of physical CDs have been decreasing and there is a growing tendency to release single tracks instead of full albums, as artists themselves can perform some of the functions of the intermediaries. Transparency and data-driven decision-making have become an integral component of new business models in the music industry. The interviews revealed that the following trends can be noted in the recorded music industry, in the live music industry and merchandising, regarding the music consumption patterns.
The recorded music industry (UMB). The interviews revealed valuable data on a range of areas of the recorded music industry, including information about digitalization is affecting the nature of sales, the creative work of musical artists, how the product is actually consumed and access to the market for new and aspiring artists. In terms of sales, the interviews showed that seasonality plays an important role as the most important “Christmas sales” period already begins in September-October. The interviews also showed that consumer taste changes faster than previously and there is growing volatility for artists in the top sales charts both globally and locally.

In terms of how digitalization has impacted the creative process for artists, it became clear that long-term conceptual artists are losing importance, especially among younger audiences. Furthermore, the concept of an album has been losing importance, also especially among younger audiences who tend to shape their musical tastes based on single tracks instead of full albums. The preferred format for consumers shows a steady and progressive transition from physical to digital music consumption. Although revenues from music streaming were still smaller than revenues from CD sales as of 2015, the gap is narrowing and digital sales are expected to surpass physical sales in the near future. Music streaming is the major driver of growth as revenues from digital downloads are decreasing. Consumers are tending towards listening to recorded music as a social experience. Playlists are the new power tools that help to introduce and promote new artists and songs.

Artists, by comparison, are experiencing lower barriers to entering the global market although this has also increased competition between artists significantly, while at the same time providing them with new ways to reach their audiences globally. It is important for the artists to be present in all digital channels to diversify sources and maximize potential revenue, although the do-it-yourself-approach (DIY) has some long-term revenue earning potential, business is still centered around the major record labels. The niche artists and independent labels try to co-operate with the major labels to gain access to their structures and distribution channels for promotion.

The live music industry (LNB). The interviews have revealed that the live music industry is less influenced by digitalization and more impacted by factors such as the increase in tourism and differentiated expectations of specific audience groups. First, the impact of digitalization is more evident in the recorded music industry because it is evident that the live music experience has essentially continued unchanged. In spite of the increase in the availability of various mobile applications, this has not had significant impact on ticket sales which have remained relatively stable. This is also confirmed if we look at the revenues from streaming live events which remain rather marginal.

Globalization has influenced some aspects of the live music sector; for example, international travel is seen less of an obstacle and so visiting concerts abroad and
international concert tourism has increased in recent years. Some convergence of ticket prices has been seen as artists expect to earn the same amount of revenue for their shows regardless of market size. However, sensitivity to ticket prices still varies between different customer segments, often requiring elaborate pricing mechanisms. Different audience groups also have different expectations of the production quality of live events. For some music genres and festivals such as electronic dance music, the level of technical production is of key importance, while for some others like the fans of artists like Bryan Adams, the focus is more on music and tickets are bought regardless of the technical production of the event.

**Merchandising (LNB).** The interviews revealed that there are specific customer groups like children who are more loyal customers and tend to spend more money on their favorite music and related products. A related outcome of the interviews showed that the potential for selling artist-related merchandise depends on particular genres and audiences. In some genres, such as hard rock, it can generate significant proportion of income for the artists.

### 3.4 RQ 2: The artists’ perspective

This sub-chapter explores the emerging patterns of digitalization from the perspective of artists in the example of 17 out of 35 nominees of the Estonian Music Awards 2018 gala. This event gives awards in 19 different categories and one Life Achievement Award to acknowledge the achievements from the previous year. The nominees were selected by over one hundred Estonian music industry experts and journalists and therefore represent the most outstanding artists in different music genres in Estonia as of 2017. This chapter follows the structure from the previous sub-chapters and discusses the topics in the following order: (i) background information about the nominees, (ii) the impact of digitalization on the artists’ revenues, (iii) the effects of digitalization on releasing recorded music, (iv) the effects of digitalization on concerts, (v) other relevant information related to the impact of digitalization.

**Background information about the nominees.** The interview requests were sent to all 35 nominees of the Estonian Music Awards 2018 in May 2018. After one week, a reminder was sent and altogether 17 different artists agreed to participate. The semi-structured interview consisted of two structured and three open-ended questions. Two structured questions asked about revenue proportions and required specific prior knowledge. Therefore, discussion topics were sent in advance to allow interviewees to do some preliminary work. The majority of artists replied in written form and some preferred telephone interviews instead of physical meetings. The following chart provides an overview of the artists who responded to the interview request within the designated period. The interviews were carried out with the artist directly or in the case of a band, with a representative of a band.
Table 9. Overview of the nominees in different categories of the Estonian Music Awards 2018. Interviewees are marked with grey. Composed by the author.

<table>
<thead>
<tr>
<th>Artist</th>
<th>Nomination category</th>
<th>Artist</th>
<th>Nomination category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kira Skov and Maria Faust</td>
<td>Jazz album of the year</td>
<td>Erki Pärnoja</td>
<td>Alternative / Indie album of the year</td>
</tr>
<tr>
<td>Reigo Ahven Trio</td>
<td></td>
<td>Lepatriinu</td>
<td></td>
</tr>
<tr>
<td>Trump Conception</td>
<td></td>
<td>Pia Fraus</td>
<td></td>
</tr>
<tr>
<td>Curly Strings</td>
<td>Ethno / Folk album of the year</td>
<td>Nikns Suns</td>
<td>Metal album of the year</td>
</tr>
<tr>
<td>Mari Kalkun</td>
<td></td>
<td>Palat</td>
<td></td>
</tr>
<tr>
<td>Trad.Attack!</td>
<td></td>
<td>Pedigree</td>
<td></td>
</tr>
<tr>
<td>Dave Storm</td>
<td>Electronic music album of the year</td>
<td>Kosmikud</td>
<td>Rock album of the year</td>
</tr>
<tr>
<td>Djerro</td>
<td></td>
<td>Miljardid</td>
<td></td>
</tr>
<tr>
<td>Indivision</td>
<td></td>
<td>Nevesis</td>
<td></td>
</tr>
<tr>
<td>IFF.</td>
<td>Pop album of the year</td>
<td>Arop</td>
<td>Hip-Hop / Rap album of the year</td>
</tr>
<tr>
<td>Liis Lemsalu</td>
<td></td>
<td>Genka/Paul Oja</td>
<td></td>
</tr>
<tr>
<td>Tanel Padar</td>
<td></td>
<td>Reket</td>
<td></td>
</tr>
<tr>
<td>Lepatriinu</td>
<td>Debut album of the year</td>
<td>Liis Lemsalu</td>
<td>Female artist of the year</td>
</tr>
<tr>
<td>Miljardid</td>
<td></td>
<td>Liisi Koikson</td>
<td></td>
</tr>
<tr>
<td>Revals</td>
<td></td>
<td>Mari Kalkun</td>
<td></td>
</tr>
<tr>
<td>Erki Pärnoja</td>
<td>Male artist of the year</td>
<td>Lexsoul Dancemachine</td>
<td>Band of the year</td>
</tr>
<tr>
<td>IFF.</td>
<td></td>
<td>Miljardid</td>
<td></td>
</tr>
<tr>
<td>Tanel Padar</td>
<td></td>
<td>Trad.Attack!</td>
<td></td>
</tr>
<tr>
<td>Arop</td>
<td>Music video of the year</td>
<td>Tõnu Kõrvits / EPCC</td>
<td>Best classical music album of the year</td>
</tr>
<tr>
<td>Tommy Cash</td>
<td></td>
<td>Mihkel Poll / Mari Poll</td>
<td></td>
</tr>
<tr>
<td>Trad.Attack!</td>
<td></td>
<td>Kalev Kuljus / LCO</td>
<td></td>
</tr>
<tr>
<td>Arop</td>
<td>Best song of the year</td>
<td>Erki Pärnoja</td>
<td>Best album of the year</td>
</tr>
<tr>
<td>Miljardid</td>
<td></td>
<td>IFF.</td>
<td></td>
</tr>
<tr>
<td>Naised Kõõgis</td>
<td></td>
<td>Liis Lemsalu</td>
<td></td>
</tr>
<tr>
<td>NOÈP</td>
<td></td>
<td>Miljardid</td>
<td></td>
</tr>
<tr>
<td>Tanel Padar</td>
<td></td>
<td>Trad.Attack!</td>
<td></td>
</tr>
<tr>
<td>2 Quick Start</td>
<td>Life Achievement Award</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 9 (above) reveals that almost all categories are represented with the exception of “Hip-Hop / Rap album of the year”. It means that at least some information was received from artists who represent all the major music genres and who were relevant in the Estonian music scene in 2017. Having said that, some significant limitations exists in the reliability and comparability of the collected data. Firstly, there are major variations in the form of existence and professional activities between different bands, ensembles and artists. For example, while Estonian
Philharmonic Chamber Choir operates as professional choir with daily rehearsals and over 30 annual concerts, artists like Palat do not perform publicly at all. Andri Hõbemägi from Palat explains.

Palat was creatively active between 1988-1992. Most of the recordings and concerts took place in that period. The currently nominated album “The First...At Last” was released in 2017, but the original material was recorded in two sessions in 1990 and 1992. In 2017, this original material was simply remastered for digital and vinyl releases. /.../

This was sort of a dream come true for us—a potential to finish an unfinished chapter from the past (Andri Hõbemägi).

Secondly, there were major differences in the financing of the artists. Some of them work for or operate as publicly funded institutions (e.g. Kalev Kuljus, Estonian Philharmonic Chamber Choir), while others have received government support for specific activities, such as music export (e.g. Trad.Attack!, Mari Kalkun). The majority of artists depend solely on the revenues they are able to generate from concerts, sales of recorded music, sales of merchandise and copyright royalties. Therefore, the revenue side is affected by the differences in financing schemes.

Finally, the available data on revenues is in most cases fragmented, because some artists (e.g. IFF., Tanel Padar, etc) have made deals with record labels or publishing companies who manage the licensing and sales deals on behalf of them and therefore do not possess the sales data themselves. Other artists like Lepatriinu, Miljardid or Revals started their careers only in the last 1-2 years and do not have comprehensive sales data yet. Therefore, the amount of adequately comparable data between different artists is limited and needs to be treated with reservations.

The impact of digitalization on the artists’ revenues. The interviews revealed that the thoroughness and availability of revenue data depended on various factors. Firstly, the most detailed information was provided by the artists who have received public support (e.g. Estonian Philharmonic Chamber Choir, Trad. Attack!, Mari Kalkun). This can be explained by the general rules of public funding where a detailed overview of the finances is required. The second group of artists who provided relatively exhaustive data on revenues (e.g. NOÉP, Revals) had established music industry companies behind them. Finally, the largest group of artists (with few exceptions of Maria Faust and Trump Conception) did not have sufficient data to provide an adequate overview of their revenues. This can be at least partly explained by psychological factors—some artists simply do not think in business terms and do not operate as professional businesses. Peedu Kass from Miljardid explains.

Some artists are by nature different from “regular” people. They tend to be less interested in money-related issues and much more interested in the creative process itself. Sometimes it is challenging to connect
the two worlds, although there are some globally known examples, such as Taylor Swift, who possess both qualities—they are talented musicians and at the same time exploit their commercial potential in a very calculated manner (Peedu Kass).

Figure 15 (see below) provides an overview of the proportion of revenues of the artists, who provided precise percentages for the year 2017.

Figure 15. The proportion of revenues of the selected artists in 2017. Composed by the author.

Figure 15 (see on the previous page) also reveals that live concerts continued to be the main source of income for all artists, regardless of the music genre, ranging from 45-83% of total revenues in 2017. The analysis of revenues from the artists who provided data on their 2015 revenues suggests that there were no significant changes in this period in terms of revenue proportions. Moreover, almost all artists and ensembles, including those who could not provide precise amounts (e.g. IFF.) claimed to have earned more concert revenues in 2017 than in 2015. Although the available data on artists’ revenues on a global level is limited, the patterns are similar, according to the available data. For example, the analysis of revenue proportions of the Estonian artists supports the findings of Dicola (2013) and especially Christman (2018), who showed in the example of the top-earning musicians in the world that live concerts provided the single largest source of income for them as of 2017 (see Figure 16 on the next page).
In the majority of cases, recorded music sales provided the second largest source of revenues, ranging from 5-20%, followed by copyright royalties (1-40%) and public funding (3-13%). The data provided by Maria Faust is exceptional because copyright royalties essentially depend on publishing contracts, public performances and releasing recorded music. As such, it is very rare that copyright royalties surpass revenues from live concerts or recorded music sales. In the majority of cases, “other revenues” come from brand partnerships and licensing deals. The chart reveals that about half of the artists have earned such revenues but they do not make up significant proportions of total revenue, ranging between 2-7%. In some cases (e.g. Lepatriinu), brand partnerships entail the exchange of licensing deals for partner’s products instead of money.

Some artists like Dave Storm admit that the recorded music revenues have significantly declined in recent years.

When a couple of years ago the recorded music sales (vinyls, mp3, wav + licensing music to albums) provided a relatively important share of my income as an artist, then nowadays it has shrunk to almost zero. However, it is still bigger than revenues from music streaming, which in my case equal to about the cost of a box of matches or a pen (Dave Storm).

Table 10 (on the next page) provides an overview of the recorded music sales data from 2015 and 2017 of the artists who provided at least some information for both years.
Table 10. The proportion of revenues of the selected artists among the recorded music sales in 2015 and 2017. Composed by the author.

<table>
<thead>
<tr>
<th>Artist</th>
<th>Naised Kõegis</th>
<th>Lepatriinu</th>
<th>Mari Kalkun</th>
<th>NOËP</th>
<th>Trump Conception</th>
<th>Maria Faust</th>
<th>Trad. Attack!</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>15 17</td>
<td>15 17</td>
<td>15 17</td>
<td>15 17</td>
<td>15 17</td>
<td>15 17</td>
<td>15 17</td>
</tr>
<tr>
<td>Physical sales</td>
<td>100% 100%</td>
<td>N/A 100%</td>
<td>N/A 90%</td>
<td>0 0</td>
<td>N/A 90%</td>
<td>99% N/A</td>
<td>95% 98%</td>
</tr>
<tr>
<td>Downloads (iTunes)</td>
<td>0 0</td>
<td>N/A 0</td>
<td>N/A 5%</td>
<td>0 0</td>
<td>N/A 5%</td>
<td>0,5% N/A</td>
<td>4% 1,5%</td>
</tr>
<tr>
<td>Streaming (Spotify)</td>
<td>0 0</td>
<td>N/A 0</td>
<td>N/A 5%</td>
<td>100%</td>
<td>100%</td>
<td>5% N/A</td>
<td>1% 0,5%</td>
</tr>
</tbody>
</table>
Table 10 (see on the previous page) suggests that with the exception of NOÊP, who did not release recorded music in any physical formats between 2015-2017, physical sales continued to be the most important source of revenue among recorded music sales. It is an important discovery as it reveals that digitalization has had a very limited impact on the artists’ revenues from recorded music sales, as the majority of them still earned over 90% of the recorded music revenues from physical sales (CDs, vinyls). This data also shows significant discrepancies with the global recorded music sales data. Chapter 3.1 explained that 2014 was the first year when the music industry globally derived equal proportions of revenue from physical and digital sales. Moreover, it was shown that already by the end of 2015, digital revenues surpassed physical revenues by over 15%. The survey from 2015 revealed that 18-35% in Estonia in different age groups had purchased digital music downloads over the past 12 months and according to KantarEmor (2017, 24), 39% of respondents claimed to have used Spotify, of whom 28% claimed to use the paid version. Therefore, all these significant growth numbers in global digital sales revenues and the changes in consumer behavior towards digital consumption have had no or very limited impact on the proportion of the artists’ recorded music sales revenues. Physical sales continued to be the unchallenged leader and the most important source of revenue among recorded music sales for the Estonian artists in 2017.

**The effects of digitalization on releasing recorded music.** The interviews revealed that the impact of digitalization on releasing recorded music has had relatively similar effects on different artists, although the extent varies. Esper Linnamägi from Estonian Philharmonic Chamber Choir says that the process of releasing music has essentially not changed, but this may be specific to the choir because they have always released music in partnership with different record labels who take care of recording and distribution processes. He notes that although it is possible to make music available in various digital channels, the sales of CDs has significantly decreased, while the revenues from streaming are unable to cover these losses. In the other end, there are artists like Trump Conception, Palat or Revals who take care of the whole process themselves. Janno Trump from Trump Conception explains that although they have used digital distributors, the revenues have been marginal so far.

> The best seller is still the physical CD, especially after live events, not through retailers. I have used digital distribution in the last two years but earned maybe 200 euros the most (Janno Trump).

This viewpoint is shared by other artists who point out that the availability of digital channels does not change the fact that physical distribution and sales are still dominant and effective, especially after the live concerts. Maria Faust explains that as an experimental jazz artist, her audience “is still all about live concerts and physical CDs”. She adds, “All my 9 albums are also available digitally, but have not generated any noteworthy revenue–in fact, the digital revenues are ridiculous”.
Danel Pandre from Revals has a similar experience. He appreciates the increased operationality that digitalization has brought about, but their audience still prefers live concerts and physical albums over digital consumption.

Physical recordings have remained very important. Although people are speaking about the decline in the CD sales market, in my experience as I’ve become more known as an artist over the years, my CD sales increased. When I release a CD, I pay special attention to its overall artistic quality, including good materials, so it would provide extra value instead of being just a data storage medium. I also see the comeback of the vinyl, which is appreciated by the new generation (Mari Kalkun).

Sandra Vabarna from Trad.Attack! notes that having music available in both physical and digital formats is important. “Digitalization has allowed us to distribute our music to a much wider audience, who often cannot come to our concerts for various reasons”, she explains. On the other hand, Kairi Leivo from Naised Köögis says that they have not taken advantage of digitalization, because they lack the necessary knowledge and they also do not feel the need to do it.

As of today, we do not have any songs in digital channels for downloading. We have uploaded some videos into YouTube, but we select very carefully, what kind of material we put out and what is the quality of it (Kairi Leivo).

Taavi Tuisk aka Dave Storm points to a shift in consumer psychology that digitalization has brought about and sees a decline in quality and transparency that has come with digitalization.

It is not important anymore to purchase and own music anymore, but rather stream it. This shift has been facilitated by the increasing availability and quality of mobile services and new streaming channels. The only exceptions are collectors and DJs, who use music for their live gigs, but this is also changing. /.../ There are many record labels /.../, but only a few of them can actually provide high-quality services that support the professional careers of the artists. The advance payments and even proper sales reports hardly exist anymore (Taavi Tuisk).

Most artists admit that although they have been skeptical about the benefits of digital music consumption, this trend will certainly continue and there is no reason to resist or fight it, as the practical value for the artists is becoming more apparent. Pearu Paulus from 2 Quick Start sees various practical benefits that have come with digitalization, such as the possibility to make recorded music available online for radio stations to download, instead of having to send physical demo copies to different stations. Peedu Kass from Miljardid adds that the initial reaction from
the artists was rather skeptical, especially concerning digital revenues. “It kind of made music cheap,” he adds. However, he agrees that digitalization has become a very powerful and irreversible trend and there is no reason to fight it.

Even ECM, “the last Mochican” among the high-end record labels, has given up and made their music available on Spotify (Peedu Kass).

He says that Miljardid has not made a digital release yet, but they are considering a deluxe edition digital release, where additional tracks of the physical album are released digitally. He adds that releasing singles has become especially convenient in the digital era. “You have an idea today and in about seven days, it is available in the streaming services,” he explains. Kairi Leivo from Naised Köögis goes even further and adds that digitalization has made the process from music production to consumption so fast that “the song that gets finished in the evening is available already to everyone by the next morning”. She adds that the majority of songs are available on the Internet before they get released on a CD. A similar view is shared by Tanel Padar, who says that long periods of recording and releasing albums have become rare and it is possible to record new material more spontaneously between intense concert schedules.

Releasing music has become more systematic. You have to do it in many channels at the same time. Moreover, to gain more visibility, you have to give live concerts simultaneously. /.../ I’ve recently come to the conclusion that releasing albums cannot be a goal of its own anymore, but releasing singles on regular basis is a way to keep your listeners engaged. Physical CD is my personal gift to my most dedicated fans–out of respect for them, the album consists of only successful singles, not some “fillers” that used to complete the albums with only 2-3 hit songs, which used to be a standard about ten years ago (Tanel Padar).

Tanel Padar also sees great potential in creating direct contacts with the fans, which reduces the sums paid to various music industry intermediaries, such as record labels and concert promoters. “I can simply pay more to my team and band members, which in turn increases their satisfaction and they are gladly willing to contribute more,” he adds.

**The effects of digitalization on concerts.** The interviews revealed three distinct themes related to the effect of digitalization on concerts. Firstly, as revenues from recorded music have been substantially decreasing, concerts continue to provide the most important source of income for all the interviewed artists, regardless of the music genre. Lepatriinu notes that concert revenues have been the only considerable source of income for her, as only the most dedicated friends and supporters buy the physical CDs. Peedu Kass from Miljardid agrees and explains as follows.
Digitalization has definitively highlighted the dominance of live performances as the most important source of revenue for the artists – this is how it is and probably is going to be in the near future as well (Peedu Kass).

Secondly, digitalization has fundamentally changed the marketing and promotion of concerts. On the one hand, it has simplified the process, as it is possible to share the info about concerts on social media almost instantly, which increases the visibility and awareness among social media users. On the other hand, it has substantially increased competition among artists as they fight for the same audience, who are constantly bombarded with an enormous amount of information.

It is very easy for me to invite people to my concerts, but I need to apply the right approach because it seems that a lot of people these days try to block any commercials from their mobiles and TV. People like the personal touch, therefore I must be considerate about how to achieve it through the Internet (Lepatriinu).

All the other interviewed artists share similar viewpoints. Dave Storm notes that although it is easier to produce promotional video clips from home and post them online, you have to be able to “break through an enormous information flow with your message”. He is currently trying a new approach, where new songs are first exclusively performed at his concerts and the video clips are shared on YouTube and Facebook. The songs are officially launched only after they have received enough clicks and streaming.

Kairi Leivo from Naised Köögis sees a positive side in the lower of promoting concerts in the social media. She adds that social media has created more intimate relations with their fans, but also the concert promoters. Janno Trump emphasizes the importance of making your music available in as many digital channels as possible to reach potential audiences all over the world. Sandra Vabarna from Trad.Attack! appreciates the possibility to share additional information about the band besides music and carry out marketing campaigns themselves. She notes that Trad.Attack! has received concert offers due to their active presence in the digital channels. Andri Hõbemägi from Palat says that they used only their Facebook page to promote the sales of the vinyl and it “certainly resulted in better sales”. On the other hand, Tanel Padar explains that he has been a rather modest social media user when it comes to marketing and promotion.

I’d like to have only meaningful posts in the social media. As it requires a lot of effort, I have probably not taken full advantage of the potential that social media has to offer as a marketing channel. I value my time more than anything else, thus I am currently looking for an expert content editor for my pages. One positive thing is certainly the “attendees” section. Of course, it does not give a 100% guarantee that
they will all show up, but it indicates the overall interest in the event (Tanel Padar).

Thirdly, digitalization has increased the awareness of artists prior to the concerts. Danel Pandre, “Very often, one click leads to another and the number of people interested in our music specifically has increased”. Peedu Kass from Miljardid brings an example of his own change in behavior.

When I know that a certain band is going to perform, I will first go to Spotify and listen to them first. It is rather extraordinary these days when somebody goes to a concert without any prior knowledge about the artist. It is possible to do your “homework” properly and know exactly what you can expect (Peedu Kass).

Ivo Linna aka IFF. agrees that the Internet provides an opportunity to get to know the artists better, but he admits his very limited knowledge about contemporary artists. He is the only artist among the interviewees who has totally withdrawn from using digital mediums.

I’m simply not a “computer person” and do not advertise myself online. People who visit my concerts, add pictures on their Facebook and Instagram accounts, but I don’t do it myself. It may sound a little bit egoistic, but I have been on stage about 50 years by now and my name has become a brand by itself. Everybody in Estonia knows who Ivo Linna is. Even small children have seen some videos on YouTube, recognize me on the streets, come to say hi and take pictures with me. People know exactly whom they come to listen to, they don’t have to search online to know what I do (Ivo Linna).

As such, Ivo Linna is an exception among the artists in this sample, but it can be assumed that other artists from his generation share at least partly similar views.

Other relevant information related to the impact of digitalization. This section discusses various issues that the artists brought up during the interviews about the overall effects of digitalization. Some artists mentioned increasing superficiality as one of the trends that have come with digitalization. Lepatriinu argues that in the middle of so much information and noise, everything tends to become over-simplified and there is a lot of shallowness. Although she does not like it, she needs to “constantly learn how to play by the changing rules”. Mari Kalkun agrees that promotion in the media has become very often even more important than the music itself. “Yes, the content does still matter, but the form and promotion are getting more and more important,” she adds. However, in her experience, the actual business contacts still require a human contact, where digitalization does not have a big role to play. Tanel Padar summarizes the effects of digitalization as follows.
If you’re an artist who has come to stay, you need to be in constant transformation, grow with your audience and with technology. When changes in the culture of music consumption used to take decades and after that 3-5 years, then today we have come to a situation where they take place almost on a daily bases. As artists, we need to treat these changes as opportunities, not as inevitabilities or obstacles (Tanel Padar).

Peedu Kass from Miljardid explains how digitalization has affected his own music consumption. During the first years when various digital channels and new opportunities opened, he was reluctant to accept the changes, deliberately continued to buy and value the physical CDs.

In the beginning, I was rather stubborn. But then I said “yes” to music streaming for a very blunt reason. When my phone service provider Tele2 offered me to access the music streaming service called Deezer free of charge for the whole year, I got used to it and simply continued paying for it afterward. Now I have come to discover more music which I did not know before (Peedu Kass).

Peedu Kass also admits that superficiality has increased in hand with digitalization. He brings an example of knowing music thoroughly: when he used to listen to a couple of albums from an artist to understand and analyze their music, then currently his knowledge about new artists is limited to one or two hit tracks. He and various other artists mentioned that music playlists have become to dominate over albums. This means that the artist’s own vision about the whole album and the order of tracks is becoming less important. According to Peedu Kass, even the major artists understand the necessity of adding their best hits on top of the lists. “Nobody puts a hit song as a seventh track on the album anymore,” he explains.

For classical music artists like Kalev Kuljus or Estonian Philharmonic Chamber Choir, digitalization has simplified their life in terms of sending the scores or even contracts digitally. To conclude the sub-chapter, Danel Pandre for Revals expresses the view of the majority of artists that in the digital age, recorded music serves only as a promotional tool for public performances. “There are only a few examples where the sales of recorded music in digital formats has earned back the costs of producing it,” he explains. However, he believes that legal and paid music consumption is in slow, but constantly increasing trend.

The effects of digitalization on the activities of artists and the revenues they obtain can be summarized in terms of finance and revenue, live versus recorded music, physical sales versus digital and streaming revenue, and the influence of digital tools for market access and marketing and promotion. Although the
forms of professional activity and the financing models of different artists varied significantly, the experiences related to the impact of digitalization were relatively similar. There were some significant gaps in the availability of revenue data for a range of different reasons. The most adequate and precise data was provided by artists who operate as or work for publicly funded organizations or have received public support for their export activities. On the other hand, there were artists who had only very limited information about their revenues. Therefore, the analysis of revenues needs to be treated with caution.

Revenues from live concerts continued to be the main source of income for all artists, regardless of the music genre, ranging from 45–83% of total revenues in 2017. There were no significant changes in the proportions of revenue sources compared to 2015. Moreover, the sources of revenue for Estonian artists and top global artists (DiCola 2013; Christman 2018) were similar. The second largest source of revenue for the majority of artists was recorded music sales, ranging from 5–20% of all revenues, followed by copyright royalties (1–40%) and public funding (3–13%). Between 2015-2017, physical sales continued to be the most important source of revenue among recorded music sales. Therefore, digitalization has had very limited impact on artists’ revenues from recorded music sales, as the majority of them still earned over 90% from physical sales (CDs, vinyls). The analysis revealed significant discrepancies between global digital sales data and the actual revenues of the artists. Moreover, changes in consumer behavior towards digital consumption discussed in Chapter 3.1 have had no or very limited impact on the proportion of the artists’ recorded music sales revenues.

Many artists appreciate the speed of releasing music digitally and disseminating information about themselves on social media, as this allows them to interact with global audiences directly, and has led to more interest in their music over a more global area. On the other hand, digitalization has significantly lowered the barriers of entry to the global market and intensified competition among artists.

With a few exceptions (e.g. IFF, who represent the older generation of artists and do not use digital channels whatsoever), most of the concert promotion is done using social media. Some artists have noticed increased superficiality in the way audiences consume music, possibly due to the enormous growth in information available having the effect that people no longer really concentrate on the music more deeply. In general, artists acknowledge the growing importance of digitalization and the opportunities it has afforded them, but admit that the actual benefits, especially when it comes to recorded music revenues, are still not there.
3.5 RQ 2: The collective management organizations’ (CMO) perspective

Interviews with the executive level representatives of the three collective management organizations (CMOs) in Estonia provided valuable insight into the functioning of the local music industry. Estonian Authors’ Society (EAS), Estonian Association of the Phonogram Producers (EAPP) and Estonian Performers Association (EPA) represent the music authors and lyricists, the owners of master phonograms and the performers’ rights, respectively. The interview questions were grouped into categories to secure a structured approach to analysis, based on the objectives of this thesis: (i) background information of the selected organizations, (ii) changes in music production, distribution, and consumption patterns, (iii) the effects of digitalization on the revenue streams, and (iv) other relevant information about the changes in the music market. The interviews were conducted with the executive level representatives of the organizations, who are here referred to as follows: MK (Estonian Authors’ Society, board member); MT (Estonian Authors’ Society, leading expert responsible for signing contracts with music streaming services in Estonia), UA (Estonian Performers Association, Chief Executive Officer), RH (Estonian Association of the Phonogram Producers, Chief Executive Officer).

Background information of the selected organizations. Estonian Authors’ Society (EAS) was established in 1991 and it represents over 4500 Estonian composers, lyricists, arrangers, and music publishers, as of 2017. It collects and distributes royalties to music authors and publishers for public performances. The administration of reproduction rights of musical works and licensing of rights in musical works for online use in Estonia is managed by EAS in cooperation with Nordic Copyright Bureau (NCB) and Network of Music Partners (NMP). As a CMO, the organization has comprehensive statistics about public live performances and recorded music in Estonia, which provides a valuable source of information about the overall trends in music consumption.

Estonian Association of the Phonogram Producers (EAPP) is a non-profit organization that was established in 1998. It represents collectively local and international phonogram producers in Estonia and serves the legal interests of phonogram producers. It collects remunerations under the Copyright Act and distributes the remunerations among producers. EAPP has contacts with similar international organizations and it co-operates with The International Federation of the Phonographic Industry (IFPI). As of 2017, it represents over 30 record companies and private persons (producers) as members.

Estonian Performers Association (EPA) is a non-profit organization that was established in 2000. The organization administers and promotes performers’ rights, collects remunerations under the Copyright Act, and distributes the remunerations among those entitled to them. EAP is a member of The Societies Council for the Collective Management of Performers Rights (SCAPR). As of 2017, it represents 1337 performers.
Changes in music production, distribution, and consumption patterns. MK notes that the most important shift in music consumption has been a progressive transition from physical to digital. As of 2015, the revenues from music streaming in the Estonian territory were still smaller than revenues from CD sales, but this gap had been consistently narrowing. He adds that although CDs have “difficulties breathing”, they are still viable. He brings an example of Curly Strings [an Estonian folk-pop band–author’s remark] that clearly is an exception to the rule and can sell 15,000 physical copies “even in today’s changing environment”.

MK explains that CD sales peaked around 2006-2007, followed by a sharp decline in 2008, which in turn was followed by the economic recession. Since then, revenues from physical recorded music sales have not fully recovered. MK sees the arrival of music streaming services as a “devaluation of music”. He argues that the price per stream is so small that it is a totally different situation in the market.

When one recorded song on a CD generated an average of 50 euros for the artist, you need approximately 150,000 times to achieve the same result in Spotify. […] You certainly can’t earn a living from it, but actually, it has never been the case, even when CD sales were booming (MK).

MT recalls that before the introduction of various platforms that sold digital downloads in Estonia (e.g. Muusika24 or iTunes), there were several attempts to generate revenue through synchronization or customization of music which were eventually replaced by digital music stores, YouTube, or music streaming services.

I remember a time when suddenly there was a big interest in aerobics videos with a musical background, but today you can find everything in YouTube for free, so people are not willing to pay additional fees because they do not see enough extra value in it. […] A rather strange phenomenon happened when people suddenly started buying mobile ringtones. At a certain point, there were eight service providers in this field with revenues of hundreds of thousands of kroons [Estonian kroon was a local currency in Estonia until 2011 – author’s remark]. But this era came to an end as quickly as it began. Therefore, from time to time there are phenomena that affect the revenues for the artists (MT).

Additionally, there were artists and songwriters such as Orelipoiss [singer-songwriter in Estonia–author’s remark], who tried to customize music in a way that fans were offered a possibility to have their name in the song, but MT argues that in the bigger picture these approaches had little significance. The biggest effects of digitalization on the recorded music industry include the new formats of releases and a steady shift from music consumption to music access. This has caused the record labels and other intermediaries to re-evaluate their business models to...
match the consumers’ preferences. According to Estonian Authors’ Society, there were over 400 companies in Estonia that released at least one recording as in 2013. MK notes that only a few of the older and more established companies have remained, such as Hitivabrik or Crunch Industry, but even these few companies release “four to five CDs instead of the previous twenty per year”. He adds that although the number of different releases has remained relatively stable, the print runs have significantly decreased and new music is often released in the form of single songs by the authors themselves just “to get it out there and to be seen and heard by as many people as possible”. The advanced technological infrastructure has allowed music creators to perform some of the typical functions of the music industry’s intermediaries themselves and connect directly to their audiences. It is not uncommon anymore if the song is released digitally the same day it was created.

From EAPP’s perspective, RH explains that the number of independent phonogram producers has increased in recent years, which has brought about a lot of additional licensing and communication for EAPP. The organization manages the neighboring rights of the phonograms that have been released for commercial purposes. Some of these rights are managed by EAPP, while some others (e.g. distributing phonogram to the general public, making available to the general public in a way that phonograms can be used in a place and time chosen by users) by the phonogram producers themselves. This individual licensing and distribution by the producers is the area that digitalization has affected the most.

RH sees the biggest shift in the replacement of ownership-based model with the access-based model.

The rapid growth in internet speed and decreasing prices for data usage create favorable conditions for widespread use of streaming-based digital music consumption. Consumers are willing to spend money on access to music because it offers a large variety of music and is often more convenient than copying obtained files to different devices (RH).

He adds that younger customers tend to use streaming platforms more often and they listen to the radio much less than older age groups.

According to UA from EPA, digitalization has not had a direct effect on the CMO itself, as the activities of the organization do not depend on the concrete technical devices through which the phonograms are mediated to the general audience.

The effects of digitalization on the revenue streams. According to MK and MT, the following digital music services were available in Estonia during the interview: Deezer, Spotify, Apple Music, Google Play, iTunes and Beatport. Their revenue varies, but typically bigger services in terms of users or subscribers (e.g. YouTube)
pay fewer royalties to rights-holders per stream. Although smaller services typically pay more royalties per stream, they lack the volume of users and subscribers. There are exceptions like Beatport that paid 40,000-50,000 EUR royalties to rights-holders, which is a relatively large amount in the Estonian market.

The overview of EAS’s royalties’ distribution reports between 2011-2016 (see Table 11 below) reveals that collected copyright royalties increased steadily between 2011-2015, while average payouts to the authors have remained relatively unchanged throughout the period.

Table 11. Distribution of copyright royalties between 2011-2016. Composed by the author based on Estonian Authors’ Society.

<table>
<thead>
<tr>
<th>Copyright royalties gathered for distribution (€)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>-from Estonia</td>
<td>994,542</td>
<td>1,006,085</td>
<td>1,238,884</td>
<td>1,292,694</td>
<td>1,217,155</td>
<td>1,164,752</td>
</tr>
<tr>
<td>-from abroad</td>
<td>100,113</td>
<td>136,264</td>
<td>140,823</td>
<td>120,096</td>
<td>88,272</td>
<td>204,677</td>
</tr>
<tr>
<td>-NCB</td>
<td>166,315</td>
<td>177,706</td>
<td>99,508</td>
<td>181,150</td>
<td>168,580</td>
<td>116,081</td>
</tr>
<tr>
<td>Total</td>
<td>1,260,970</td>
<td>1,320,055</td>
<td>1,479,215</td>
<td>1,593,940</td>
<td>1,674,145</td>
<td>1,671,752</td>
</tr>
<tr>
<td>Number of authors</td>
<td>2,276</td>
<td>2,416</td>
<td>2,599</td>
<td>2,670</td>
<td>2,888</td>
<td>2,961</td>
</tr>
<tr>
<td>Payout per author</td>
<td>554</td>
<td>546</td>
<td>569</td>
<td>597</td>
<td>579</td>
<td>565</td>
</tr>
</tbody>
</table>

Although there were no substantive changes in the designated period in terms of average payouts to the authors, the sources of revenue have changed. Revenues from digital music services have been increasing in recent years, accounting 12% of all music reproduction and making available to the public license fees in 2014, according to MK. However, MK explains that music streaming has not created significant changes in revenues for the music authors, as of 2015.

Although we cannot give out the exact data and considering the fact that it depends on the frequency of reporting, one of our top authors earned about 800 euros from music streaming during the last quarter [the year 2015 – author’s remark]. Even if you multiply it by four, it comes to annual revenue of only 3200 euros (MK).

Table 12 (see on the next page) provides an overview of the changes in Estonian Performers Association’s membership, revenues and payouts per member between 2014-2017. It reveals the steady increase of members and total revenues, while the average payout per member has fluctuated up to 22,5% in the given period.
Table 12. The number of members, total revenue, and average payouts per member between 2014-2017. Composed by the author based on Estonian Performers Association.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of members</th>
<th>Revenues</th>
<th>Payout per member</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1045</td>
<td>822 000</td>
<td>787 €</td>
</tr>
<tr>
<td>2015</td>
<td>1144</td>
<td>798 000</td>
<td>697 €</td>
</tr>
<tr>
<td>2016</td>
<td>1238</td>
<td>778 000</td>
<td>628 €</td>
</tr>
<tr>
<td>2017</td>
<td>1337</td>
<td>1 084 000</td>
<td>810 €</td>
</tr>
</tbody>
</table>

UA explains that in the last 4-5 years, the number of royalty-earning performers has increased almost 50%, while the group that earns between 320-3200 EUR annually has increased even 90%.

Digitalization and music streaming have also created a situation where artists’ expectations often surpass the reality.

Artists’ expectations are often bigger than the reality. Some songs have been streamed only a couple of hundred times and they already come to ask, where is the money. But generally, they are gradually getting more familiarized with the changed situation and are starting to comprehend how things work and what are the possibilities today (MT).

MK notes that all streaming services available in Estonia have tried to negotiate better deals with EAS, but usually they have come to a compromise as the organization stands for the interests of the authors. Although revenues from these services are still smaller than from the physical sales, doing business with them has been transparent and pleasant. MK brings an example of Spotify, who had miscalculated some revenues and contacted them about it as soon as they found out about it. Although the amount was only 29 EUR, it showed the company’s “attitude and willingness to do business honestly and transparently”. MK adds that although digital music services try to enter the market with different business models, the most viable solution is to combine the service with telecommunication service providers like Spotify and Deezer have done.

From EAPP’s perspective, RH notes that the majority of activities have remained more or less unchanged in the digital era, although there are some notable changes in revenues. For example, EAPP manages the compensations for private copying (e.g for selling empty cassettes), but the collected amounts have decreased so much in recent years that the management fee of the distribution fund exceeds the amount to be distributed. Therefore, the distribution program has been cancelled.
It is a result of a specific government regulation that dates back to 2006, which does not involve contemporary digital devices and content carriers, such as mobile phones or the cloud. Nevertheless, RH adds that both the number of represented phonogram producers and the collected and distributed revenues have increased.

UA from EAPP also agrees that the only revenue that has directly decreased as a result of digitalization is the so-called “empty cassette fee”, which refers to the collection and distribution of compensations related to private copying, which is collected and distributed jointly with other CMOs. Tabel 13 below provides an overview of the changes in revenues and payouts related to the compensation for private copying.

Table 13. Revenues for private copying, the so-called “empty cassette fee” between 2006-2017. Composed by the author based on Estonian Association of the Phonogram Producers.

<table>
<thead>
<tr>
<th>Year</th>
<th>Distributed to rights-holders (EUR)</th>
<th>Financing projects and programs (EUR)</th>
<th>Distribution fund, total (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>216 493 €</td>
<td>-</td>
<td>216 493 €</td>
</tr>
<tr>
<td>2007</td>
<td>242 211 €</td>
<td>17 256 €</td>
<td>259 468 €</td>
</tr>
<tr>
<td>2008</td>
<td>185 752 €</td>
<td>20 639 €</td>
<td>206 391 €</td>
</tr>
<tr>
<td>2009</td>
<td>86 793 €</td>
<td>9 643 €</td>
<td>96 437 €</td>
</tr>
<tr>
<td>2010</td>
<td>41 170 €</td>
<td>4 574 €</td>
<td>45 7445 €</td>
</tr>
<tr>
<td>2011</td>
<td>18 495 €</td>
<td>2 055 €</td>
<td>20 550 €</td>
</tr>
<tr>
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<td>2013</td>
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UA from EAP emphasizes that as a result of digitalization, the number of people releasing recorded music has been significantly increasing. “At the same time, the willingness to pay for consuming music has been decreasing and in the end of the day, selling music becomes even more complicated,” he adds. According to him, digitalization has created a situation where the majority of performers do not earn any considerable revenue from the capacious bulk of available recorded music, while live performances can still provide a relatively stable income for musicians.
Other relevant information about the changes in the music market. RH notes that various different digital music consumption platforms have emerged in the music market that involve new compensation models. The basis of compensation is still the popularity of the phonogram and the efforts to gain prominence among the competitors has become especially important in the digital era, where means and methods of distribution have levelled the playing field.

It is especially important to get the music out in the music streaming platforms and playlists. The competition has moved from the retail stores to the music streaming environments and new influencers have come into play that affects the preferences of music consumers. On the one hand, it is important to direct music consumers to discover your music in the first place, but on the other hand from the commercial perspective, the song has to be such that music consumers would want to listen to it for hundreds of times (RH).

UA adds that recording and distributing music has become increasingly simpler and releasing music independently (without mediators) has significantly increased. While there have been recent discussions about the possibility to “cut out” the middlemen, including collective management organizations entirely in the digital era, RH notes that it would entail much more work for both music producers and music users.

CMOs have been created by rights-holders to increase the efficiency of representing their rights. As a rule of thumb, rights-holders do not wish to collect small amounts and sign contracts with thousands of users by themselves. Users also do not want to deal with thousands of rights-holders separately, it is way simpler and more efficient to obtain these rights through CMOs. In the areas where it makes sense to do business individually, rights-holders already do that (RH).

UA agrees that CMOs are essentially created for simplifying the licensing processes for the rights-holders and users. There is an obligation to pay fair fees for the use of music, whether it is paid directly to the rights-holder or through the CMO. “In this sense, the only beneficiary who could potentially earn a little bit more is the rights-holder. However, managing thousands of “direct” licenses would entail a lot more effort and its economic advantage is certainly limited.”

RH predicts that the business models behind TV and radio will eventually change and the rights-holders need to keep pace accordingly. He says that there will be even more variety for the end consumers. UA notes that the radio stations which still follow the “TOP 40” format, use increasingly less variety in their music selection, thus the proportion of Estonian music is continually limited.
In summary, the impact of digitalization on the activities and revenues of collective management organizations can be summarized in terms of its impact on sales format, the basis for collecting revenue from sales, increases in revenue from copyright royalties and decreases in revenue from the permission to copy. There is a progressive transition from physical to digital sales. As of 2015, the revenues from music streaming in the Estonian territory were still smaller than revenues from CD sales, but this gap has been steadily narrowing. CDs continue to be viable products for the rights-holders.

A clear shift can be seen in the replacement of the ownership-based model by the access-based model of recorded music. The number of independent phonogram producers has been increasing significantly, as recording and distributing music has become progressively simpler without the help of mediators.

Digitalization has not had a direct effect on CMOs themselves, as the activities of the organizations do not depend on the specific devices through which the music is mediated to the audience. Collected copyright royalties have been steadily increasing in recent years, while the average payouts to rights-holders have remained relatively unchanged. In the case of the Estonian Authors’ Society, the sources of revenue have changed. Revenues from digital music services accounted for 12% of all music reproduction and public license fees made available in 2014.

The only revenue that has directly decreased as a result of digitalization for the Estonian Association of Phonogram Producers and Estonian Performers Association is the “empty cassette fee”, which refers to the collection and distribution of compensations related to private copying, which is collected and distributed jointly with other CMOs. The compensation is collected for analog recording devices that are not sold anymore and the list of these devices has not been updated since 2006.

CMOs do not believe that their role in the digital era will become less relevant or obsolete, as there is always going to be an obligation to pay fair fees for the use of music, whether paid directly to the rights-holder or through the CMO. Managing thousands of direct licenses for end consumers would entail a lot more effort from the rights-holders and the economic advantage would be limited.

3.6 Achieving the aim of the research

The aim of this thesis (CRQ) was to understand the emerging patterns of digitalization in the music industry and explore the extent to which these patterns are evident in the Estonian music industry. The research aim was not totally but mostly achieved. The first research question (RQ1) explored the consumer perspective and aimed to identify emerging music consumption patterns among Estonians. Although the survey questionnaire conducted in 2015 and a similar
survey conducted by KantarEmor in 2017 provided valuable insights into current music consumption patterns and trends, there was limited statistical evidence to support these results. Although the respondents of these surveys claimed to have certain music consumption patterns, comprehensive recorded music sales data in Estonia is not collected by anyone, and therefore these claims could not be supported with official recorded music statistics, as this data is heavily fragmented between the different parties.

The second research question (RQ2) explored the emerging patterns of digitalization from the perspective of the supply side of the music industry: music artists, major music companies, and collective management organizations. Although the samples were representative in all three cases and the analysis provided deep insights into the functioning and overall trends in the digital era from these relevant perspectives, the data on revenues turned out to be insufficient to make comprehensive conclusions. While most of the artists did not collect or possess this data at all, the two major music companies and all three collective management organizations could not provide exact data on revenues for confidentiality reasons. As data on transforming revenues is essential to understand the emerging patterns of digitalization, the research aim was not fully achieved.

3.7 Importance of work, implications, limitations, and further research

The thesis was the first attempt to study the emerging patterns of digitalization in the music industry in a comprehensive manner. While the effects of digitalization had been studied from specific and narrow angles, this thesis brought these perspectives together into a comprehensive study and explored the patterns of digitalization from the perspectives of the most important participants in the Estonian music industry: music artists, consumers, major music companies and collective management organizations. This thesis suggests that digitalization has so far had a relatively limited effect in many regards.

The results of this thesis have both practical and theoretical value. On the theoretical level, existing research in this field has focused on very specific aspects, such as the transforming business models (e.g. Vaccaro & Cohn 2014; Bourreau et. al. 2012, Perritt 2012; Wikström 2012; Cameron 2013), transforming consumer behavior (Huber 2013; Flath 2015; Luck 2016; Aguiar 2016, Borja et. al. 2014), or transforming revenue streams (Aguiar & Martens 2016; Lee, Choi, Cho, & Lee 2016; Renard et. al. 2013; Winter et. al 2015). This thesis is the first attempt to bring these theoretical perspectives together and study the emerging patterns of digitalization from different perspectives in a specific context in a comprehensive manner.

On the practical level, the results have some important implications for artists and music industry companies. The improved knowledge on the emerging patterns of digitalization helps artists, producers and various other music industry
intermediaries design, customize and develop their business models, and thus monetize music consumption in the digital era more effectively. The questionnaire carried out in 2015 was the first capacious survey to study music consumption among different demographic groups in Estonia. Fanvestory’s embedded sub-case provided valuable insights into the purchasing patterns and motivation of customers in the context of crowdfunding, which has become increasingly important funding opportunity for the music industry.

The thesis has two major limitations. First, although the transformation of revenues was considered an important aspect to study in order to achieve the research aim, the available data on revenues turned out to be fragmented and limited. Therefore, the revenue side of the emerging patterns of digitalization could only be partly studied.

Second, the questionnaire was distributed using the snowball method, which can be considered a limitation, as the sample might not have been representative of the overall population of Estonia. However, the overview of the respondents’ backgrounds revealed that they represented various age and gender groups and the number of responses in each group was sufficient to conduct quantitative analysis, with the exception of one specific group. Moreover, the results of the survey conducted in 2015 were compared to the results of a similar study by KantarEmor in 2017, which used a computer-assisted web interview method, and no significant differences between the results were found.

The study also revealed at least two important directions for further research. First, the interviews with the artists showed that while there has been a steady shift from physical to digital music consumption and from music ownership (CDs, downloads) to music access (music streaming) models, almost all the artists claimed to have earned almost nothing from digital music sales, while most of their recorded music income came from physical sales (CDs, vinyls). The only viable source of revenue for the artists continued to be live concerts, regardless of the music genre. At the same time, IFPI reports reveal significant growth in digital music revenues, especially from music streaming, but these revenues do not seem to reach the artists. Why is this so? Is it specific to the Estonian music industry or is it common in all small music markets in general?

Finally, interviews with artists and collective management organizations revealed that the use of various digital solutions that help track sales statistics and thus monetize the consumption of recorded music more effectively is limited. For example, the majority of artists did not know how much revenue they had earned and from which sources. At the same time, multiple digital applications provide comprehensive statistics on the music consumers’ demographic backgrounds, consumption patterns and revenues, which would allow artists and the music industry intermediaries to make more elaborate and data-driven decisions. Further research could analyze cases of how the music industry could exactly take advantage of the large amounts of digital data at their disposal.
CONCLUSION

This thesis assumed from previous literature that digitalization had played a major role in shaping the music industry. It explored the various processes, trends and developments in the music industry, especially in the last two decades, and referred to these changes jointly as the emerging patterns of digitalization in the music industry. The existing research in this field was found to be fragmented and lacking a comprehensive treatment. This thesis aimed to understand how the emerging patterns of digitalization were reflected in a specific context – the Estonian music industry. In order to answer this question (CRQ) comprehensively, a holistic single-case study (the Estonian music industry) with an embedded sub-case (Fanvestory start-up) was designed, following Yin’s (2012) typology. The CRQ was divided into two research questions, which investigated four different perspectives in the music industry from both the demand (RQ 1) and supply (RQ 2) side: music consumers, music artists, music companies, and collective management organizations.

The findings of this thesis can be divided into more general findings (CRQ), and more specific findings (RQ 1, RQ 2). The general findings are as follows. First, the emerging patterns of digitalization in the global music industry are reflected in Estonia in a similar manner, although they are taking more time to manifest themselves. Although Estonia can be considered a highly digitalized country (DESI 2017), the pace and extent of digitalization in the Estonian music industry lag behind the global music industry’s digital developments. For example, 2014 marked the first year that digital music sales surpassed the sale of CDs globally, while physical sales still dominated in Estonia in 2015. From the artists’ perspective, the use of various digital tools and applications that help track and increase digital sales is still limited. The role of the major record labels as the central promoters of recorded music has not decreased, as the “do-it-yourself” approach (DIY) has not yet proven a sustainable solution for artists. From the collective management organizations’ (CMO) perspective, the impact of digitalization has been rather marginal, as their activities do not depend on specific devices or channels through which music is mediated to the public.

Secondly, the results support Ismail’s (2018) and Hage’s (2017) findings that the “hype” surrounding the digital transformation in many cases surpasses reality. For example, about 40% of the music consumers in Estonia are still reluctant to switch to digital music consumption for various reasons, whereas almost all the artists interviewed for the thesis, regardless of music genre, claimed to have earned almost nothing from digital music sales in 2017. Although some authors like Sanches (2018) have discussed the commercial potential of live streaming, these solutions have not become relevant nor economically reasonable in the Estonian music industry. From the CMOs’ point of view, digitalization is still in its early stages, as it has not been able to solve some of the most fundamental problems in the music industry. For example, how to manage thousands of direct licenses between the
rights-holders and end consumers transparently and effectively. The artists, music companies, and CMOs acknowledged the growing importance of digitalization and the opportunities it had opened but admitted that the actual benefits, especially when it comes to recorded music revenues, were still not there.

The first research question (RQ 1) investigated the consumer perspective and aimed to understand the differences in music consumption patterns between the different age and gender groups in Estonia. First, free and legal access to recorded music has had only a limited impact on music consumption, as the time dedicated to music listening has remained relatively unchanged, and over 40% of respondents still preferred the physical CDs to music streaming services for various reasons. Second, although listening to music in the streaming services has become largely a social experience, less than 20% of respondents from all age and gender groups considered the social functions worth paying for. This percentage had decreased to 5% by 2017. Third, 38% of the respondents who were currently not paying for subscription services claimed to be willing to do so in the future, given the proper communication and offering. Therefore, distinct communication strategies that address particular age and gender groups could help convert freemium users into paying subscribers and thus monetize music streaming more effectively. According to Tschmuck (2016b), this is the key to the long-term viability of the dominant business model based on music streaming. Fourth, the sub-case of Fanvestory revealed significant differences in consumption patterns between different age and gender groups. Younger age groups, especially females, were more likely to provide most of the promotional value for the artists via social media, whereas older age groups, especially men between the ages of 31 and 50, spent the most money per transaction. Fifth, the findings supported Alhadeff and Buff’s (2014) finding that campaigns that raised larger amounts of money had, on average, larger contributions from the backers. Finally, the purchase patterns of male and female buyers between the two campaigns were relatively similar, although the artists were very different. Therefore, the role of particular artists or music genres had limited or no impact on the purchasing patterns of different age and gender groups.

The second research question (RQ 2) investigated the perspectives of music companies, music artists, and collective management organizations. First, long-term conceptual artists and music albums are losing importance in the digital era, especially among younger audiences, as music streaming favours hit songs. This supports the findings by Elberse (2010) and Krasilovsky and Shemel (2007). Second, there is a steady and progressive transition from music ownership to music access-based consumption. Similar to the global music industry, music streaming services have become a key driver of growth, whereas the overall music industry’s revenues have been growing by about 8% annually since 2015 (IFPI 2018, 11). Third, from the artists’ perspective, the effects of digitalization have been two-fold. On the one hand, digitalization has lowered the barriers of entry to the global music market and created various possibilities to communicate directly with global audiences.
On the other hand, it has significantly increased competition among artists. Fourth, the number of independent phonogram producers is increasing, as recording and distributing music has become simpler and can be done without the help of the intermediaries. However, the majority of business is still centred around the major record labels. Fifth, from the live music industry’s point of view, the effects of digitalization are rather limited as the live music experience has essentially not changed. Various digital applications are used for ticket sales, but revenues from streaming live events have remained rather marginal. Sixth, digitalization has increased awareness of international concerts. International travel is seen less of an obstacle to visiting concerts abroad and international concert tourism has increased in recent years. There is a convergence of ticket prices as artists expect to earn the same amount of revenue for their shows regardless of the market size. Seventh, although the forms of professional activity and the financing models among artists varied significantly, the experiences of the effects of digitalization were relatively similar. Revenues from live concerts continued to be the main source of income for all artists, regardless of music genre, ranging from 45–83% of total revenues in 2017. There were no significant changes in the proportions of revenue sources compared to 2015. The study also revealed that the proportional value of different sources of revenue for Estonian artists was similar to those of global artists (Dicola 2013; Christman 2018). The second largest revenue for the majority of artists came from recorded music sales, ranging from 5–20% of all revenues, followed by copyright royalties (1–40%) and public funding (3–13%). Between 2015 and 2017, physical sales continued to be the most important source of revenue within recorded music sales. Therefore, digitalization has had a very limited impact on recorded music revenues for artists, as the majority of them still earned over 90% from physical sales (CDs, vinyls). Finally, the only revenue that has directly decreased as a result of digitalization for the Estonian CMOs is the “empty cassette fee”, which refers to the collection and distribution of compensations related to private copying. The compensation is collected for analog recording devices and media carriers that are not sold anymore, and the list of these devices has not been updated since 2006. The role of CMOs has not decreased in the digital era, as there is always going to be an obligation to pay fair fees for the use of music, whether paid directly to the rights-holder or through the CMO.

The aim of this thesis was partly achieved. Although the research provided deep insights into the emerging patterns of digitalization in the Estonian music industry from both the demand and the supply side, the expected data about exact revenues proved to be insufficient for making comprehensive conclusions. While the CMOs and major music companies could not provide it for confidentiality reasons, the majority of artists did not collect or possess the data at all. The results of Study 1 could not be supported by hard evidence, although the respondents of the surveys claimed to have certain music consumption patterns, comprehensive recorded music sales data in Estonia was not collected. Therefore, the claims could not be supported with official sales statistics.
The thesis has both theoretical and practical implications. On the theoretical level, existing research in this field has focused on very specific areas. This thesis is the first attempt to bring these theoretical perspectives together and study the emerging patterns of digitalization in a specific context in a comprehensive manner by adding the layer of different perspectives. On a practical level, the results have important implications for music artists and the industry’s intermediaries, such as record labels, music publishers and music managers. The improved knowledge on the emerging patterns of digitalization helps artists, producers and various other music industry intermediaries to design, customize and develop their business models, and thus monetize music consumption more effectively. Moreover, the questionnaire carried out in 2015 was the first capacious survey to study music consumption in Estonia. Fanvestory’s embedded sub-case provided valuable insights into the purchasing patterns and customer motivation in the context of music crowdfunding, which has become an important funding mechanism in the music industry.

The thesis has two major limitations. First, during the research process, it became clear that the available data on the music industry’s revenues was either incomplete, fragmented, or confidential. This meant that the relationship between digitalization and the music industry’s transforming revenues could only be studied partly. Second, the questionnaire from 2015 was distributed using a snowball method, which can be considered a limitation, as the sample might not represent the overall population. However, the overview of the respondents’ backgrounds revealed that the number of responses in each group was sufficient for quantitative comparisons, with only one minor exception (under 14-year-olds). Moreover, a subsequent study conducted by KantarEmor in 2017 used a computer-assisted web interview method, and no significant differences between the results of the two studies were found.

Finally, two directions for further research were proposed. First, the interviews with artists and music companies revealed significant disparities between the hypothesized and actual revenues from physical and digital music consumption. While IFPI reports reveal significant growth in digital music revenues, especially from music streaming, the majority of artists claimed to have earned almost nothing from digital sales. Why is this so? Is this specific to the Estonian music industry or is it common across all smaller music markets in general? Second, interviews with artists, CMOs and major music companies revealed that their use of various digital solutions was relatively limited. For example, multiple digital applications provide comprehensive statistics on the music consumers’ demography, consumption patterns and revenues, which would allow artists and the music industry intermediaries to make elaborate data-driven decisions and facilitate their professional activities more effectively. Further research in this field could analyze cases for how to benefit from having large amounts of digital data at their disposal.
REFERENCES


APPENDICES

Appendix 1: Survey questionnaire on music consumption in Estonia

[The original questionnaire was in Estonian. The following questions are translated by the author]

1. Gender
   □ Male
   □ Female

2. Age
   □ ...-14
   □ 15-24
   □ 25-34
   □ 35-44
   □ 45-54
   □ 55-...

3. How often do you listen to music?
   I don't listen to music □ 1 □ 2 □ 3 □ 4 □ 5 I listen to music every day

4. Have you bought at least one CD in the last 12 months?
   Only the physical CDs count
   □ Yes [Continue to question 4.1]
   □ No [Continue to question 5]

4.1 How much have you spent on CDs in total during the last 12 months?
   □ Up to 20 EUR
   □ 21-50 EUR
   □ 51-100 EUR
   □ Over 100 EUR

5. Have you purchased digital music files in the last 12 months?
   The question refers to digital downloads only (e.g. iTunes, Muusika24)
   □ Yes
   □ No

6. Have you downloaded or shared music through P2P (from "friend to friend") services in the last 12 months?
   The question refers to various P2P services that allow users to download, share or distribute music in other ways
   □ Yes
   □ No
7. Have you used music streaming services in the last 12 months?
For example, YouTube, Spotify, Deezer, Apple Music, Tidal, SoundCloud
☐ Yes [Continue to question 7.1]
☐ No [Continue to question 8]

7.1 Which music streaming services have you used in the last 12 months?
Mark all that apply
☐ YouTube
☐ Spotify
☐ Deezer
☐ SoundCloud
☐ Apple Music
☐ Tidal
☐ Other

7.2 Which music streaming service do you use most often for listening to music?
☐ YouTube
☐ Spotify
☐ Deezer
☐ SoundCloud
☐ Apple Music
☐ Tidal
☐ Other

7.3 Have you used the paid versions of music streaming services in the last 12 months?
For example, Spotify, Deezer, Apple Music
☐ Yes [Continue to question 7.3.2]
☐ No [Continue to question 7.3.1]

7.3.1 Why have you not used the paid versions of music subscription services so far?
Mark all that apply
☐ I don’t listen to music enough to pay for it
☐ The paid versions do not have enough benefits for me
☐ I don’t have time to find out how it works
☐ I don’t like to pay monthly subscription fees for services
☐ It seems too expensive for me
☐ Other reasons

7.3.2 Which music streaming services have you paid for in the last 12 months?
Mark all that apply
☐ YouTube
☐ Spotify
7.3.3 How much have you paid in total for music subscription services in the last 12 months?
Mark all that apply
☐ Up to 20 EUR
☐ 21-50 EUR
☐ 51-100 EUR
☐ Over 100 EUR

8. How much have you paid in total for recorded music in the last 12 months?
☐ I have not paid anything
☐ 1-20 EUR
☐ 21-50 EUR
☐ 51-100 EUR
☐ Over 100 EUR

9. How do you usually listen to music?
Mark all that apply
☐ From the computer (including laptops)
☐ Mobile phone
☐ In the car
☐ From a sound system at home
☐ I don’t listen to music deliberately
☐ Other

10. What are your listening preferences?
Mark all that apply
☐ I prefer to listen to only specific music genres or artists
☐ I prefer to listen to what my friends or family recommend me to listen
☐ I prefer to search for new music, artists and playlists myself
☐ I listen to whatever is currently playing
☐ I don’t listen to music deliberately

11. How has the availability of legal and free music services affected the amount of time you dedicate to listening to music?
☐ I’ve started to dedicate more time to listening to music
☐ I’ve started to listen to music even less
☐ It has not had significant impact
12. What is your willingness to start paying for music streaming services?
☐ I am already paying and willing to continue in the future [Continue to question 13]
☐ I have not paid for listening to music in music streaming services so far, but I would be willing to do so in the future [Continue to question 12.1]
☐ I am not willing to pay for listening to music in music streaming services [Continue to question 13]

12.1 What functionalities do you consider worth paying for in the music streaming services?
*Mark all that apply*
☐ Listening to music without advertisements
☐ Listening to music offline
☐ Creating and sharing playlists
☐ Access to higher quality files
☐ Social functions (adding friends, etc)
☐ Other functionalities

13. What is your willingness to give up physical music consumption entirely?
☐ I am already willing to move to digital music consumption entirely
☐ I will use physical music carriers (CDs, vinyls) at least for a while in the future
☐ I will never give up physical music consumption (CDs, vinyls) entirely

14. How many concerts did you visit in the last 12 months?
☐ None [Continue to question 14.1]
☐ 1-5 [Continue to question 14.2]
☐ 6-10 [Continue to question 14.2]
☐ 11-20 [Continue to question 14.2]
☐ 21-30 [Continue to question 14.2]
☐ 31-50 [Continue to question 14.2]
☐ Over 50 [Continue to question 14.2]

14.1 Why have you not visited any concerts in the last 12 months?
*Mark all that apply*
☐ I don’t have time
☐ The tickets are too expensive
☐ There were no concerts that interest me
☐ I don’t visit concerts at all
☐ Other reasons

14.2 How much did you pay for concert tickets in total in the last 12 months?
☐ I did not pay for concert tickets
☐ 1-50 EUR
☐ 51-150 EUR
☐ 151-300 EUR
☐ Over 300 EUR
15. How sensitive are you to the ticket prices?
The price is  ☐ ☐ ☐ ☐ ☐ ☐ The ticket prices very important, I only go if I get a free ticket

16. How much do you usually spend money on snacks and drinks at concerts?
*Pre-orders are included*
☐ Typically, I don’t buy snacks and drinks at concerts
☐ 1-10 EUR
☐ 11-20 EUR
☐ 21-30 EUR
☐ Over 30 EUR

17. Where do you get information about concerts?
*Mark all that apply*
☐ Print media (newspapers and magazines)
☐ Radio and television
☐ Posters and flyers
☐ Social media (Facebook, etc)
☐ Newsletters
☐ Discount offers and special campaigns
☐ Friends and relatives recommend
☐ Other channels

18. Would you like to add anything regarding your recorded music or live music consumption?
Appendix 2: Survey questionnaire on Fanvestory

Dear music fans,

Our start-up allows you to invest in your favorite songs and earn long-term revenue from the commercial use of these songs. We think this is a great idea, but in order to test the product-market fit, we would love to hear your opinion. Please find 1-2 minutes to answer these 8 questions and give us feedback on this idea. Thank you and until soon!

Your MWS Team

[Fanvestory was formerly known as Music Wall Street – author’s remark]

1. Where do you live?
[List of countries]

2. Gender
☐ Male
☐ Female

3. Age
☐ ...-13
☐ 14-17
☐ 18-25
☐ 26-40
☐ 41-...

4. Have you ever supported an artist or project on a crowdfunding platform, such as Kickstarter or Indiegogo?
☐ Yes [Continue to question 4.1]
☐ No [Continue to question 4.3]

4.1 Why did you support this particular artist or project?
Mark all that apply
☐ I knew the artist or someone from the project personally
☐ I didn’t know anybody personally, I simply liked the artist or project
☐ I liked the gifts or prices offered for contributors
☐ Particular artist or project did not matter, I simply enjoy doing something good and this was a convenient way of doing that
☐ Other (please explain) …

4.2 What is the average amount you usually support the artists or projects with?
☐ 1-20 EUR
☐ 21-50 EUR
☐ 51-100 EUR
☐ Over 100 EUR
[Continue to question 5]
4.3 Why not?
Mark all that apply
☐ I haven’t noticed any artists or projects I would like to support
☐ I don’t know how to do it or the process seems to be too complicated
☐ I have too little money to support artists or projects
☐ I don’t believe in crowdfunding as such
☐ Other (please explain) …

5. Have you invested in something so far (e.g. stocks, bonds, real estate, start-ups, etc)?
☐ Yes
☐ No

6. Would you be willing to invest in (your favorite) songs and earn long-time revenue from the commercial use of these songs, knowing that this could be a risky type of investment and you might not earn it back?
☐ Yes, I like the idea of supporting my favorite artists and potentially earn something from it, but if I don’t get the money back, it’s still OK
☐ Yes, but I only see it as a form of investment, I don’t care about emotional value that comes with it
☐ I would only invest if I like the song and there is a clear opportunity to earn money from it
☐ It all seems too risky and I wouldn’t invest
☐ Other (please explain) …

7. How much would you be willing to invest in a song or project that you like or believe in?
☐ 1-20 EUR
☐ 21-50 EUR
☐ 51-100 EUR
☐ Over 100 EUR

8. Is there anything related to this idea in general that you would like to comment (your expectations, examples, suggestions, etc)?

Thank you for your time and we’ll keep in touch about the results of the survey!
Appendix 3: Interviews with Universal Music and Live Nation

[The original interviews included semi-structured questions and the main topics were sent to the respondents in advance. The interviews were conducted in Estonian. The following interview structure is translated by the author]

1. Please describe the company (brief history, main branches, size, team, etc)
2. What are your most important activities and revenue sources today?
3. How many concerts and what kind of concerts (e.g. stadiums, concert halls, clubs) do you organize each year? [This question was asked only from the representative of Live Nation – author’s remark]
4. How competitive is your market? Please describe the music market and its overall trends in general.
5. In Estonia, a lot of companies are involved in your field of business. What do you consider your strengths and competitive advantages?
6. To what extent does your business model depend on seasonality?
7. Have you witnessed any changes in consumers’ tastes in recent years?
8. Whether and to what extent has digitalization affected your business?
9. Have the expectations of audiences evolved? In what sense?
10. What has changed in music consumption in recent years?
11. How sensitive are customers towards ticket prices? [This question was asked only from the representative of Live Nation – author’s remark]
12. How do you perceive music streaming services? Are they beneficial for the artists? For record companies? Are they a sustainable solution for the music industry at large? [This question was asked only from the representative of Universal Music – author’s remark]
13. How have the music streaming services affected your revenues? [This question was asked only from the representative of Universal Music – author’s remark]
14. How do you see the “do-it-yourself”-approach? Do you perceive it as a threat to your business?
15. What does an artist have to do to attract your attention?
16. How has globalization affected your business?
17. How has micro-segmentation affected your business?
18. The number of artists and the amount of available content has significantly grown in the digital era. Has it affected your business?
19. It is argued that the “superstars” in the music industry are becoming less relevant and there is increasing volatility in the sales charts. Do you agree?
20. It seems that the music fans not want to be simply passive consumers anymore, but want to engage in more ways. Do you see any opportunities related to that?
21. As digitalization has decreased revenues for many artists, they are trying to tap into different kinds of revenue sources, such as merchandise, brand partnerships, applications, games, etc? How do you perceive it?
22. If you consider all the possibilities that digitalization has opened for the artists and other rights-holders, do you see any new business opportunities?

23. What will your company look like in 5 and 10 years? What business will you be in? How does it work? Is there anything that will become obsolete in the next 5-10 years?

24. Is there anything you would like to add regarding the effects of digitalization or the overall trends in the music industry?
Appendix 4: Interviews with the artists

[The original interviews included semi-structured questions and the main topics were sent to the respondents in advance. The interviews were conducted in Estonian. Some artists preferred to reply only in written form. The following questions are translated by the author]

Background information
- “Digitalization” in this context is understood as a set of processes that include, but are not limited to: producing, sharing, distributing, selling, accessing, or purchasing digital files; spreading information in the digital channels, etc.
- The following information will only be used for the purpose of scientific research, unless agreed otherwise separately.
- If you operate as a legal entity (including legal persons, or self-employed entrepreneurs), this data should be included.
- Please provide as precise data as possible, but if you cannot or do not want to disclose the exact amounts, please provide the revenue proportions.
- If you cannot or do not wish to answer certain questions, please provide as much information as possible— it is much appreciated and will benefit the outcomes of the research.

Questions
1. How much revenue did you earn as an artist in 2015 and 2017 from the following sources? If you did not earn anything from a particular source, mark “0”.

<table>
<thead>
<tr>
<th>Source of revenue</th>
<th>2015</th>
<th></th>
<th>2017</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues from concerts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues from recorded music</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royalties from collective management organizations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public funding (e.g. Estonian Ministry of Culture, Cultural Endowment of Estonia, etc)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other sources (including brand partnerships, etc)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
<td>100%</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>
2. How much revenue did you earn from the recorded music sales as an artist in 2015 and 2017? If you did not earn anything from a particular source, mark “0”.

<table>
<thead>
<tr>
<th>Source of revenue</th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical sales (CD-s, vinyls)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Digital downloads (iTunes, etc)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Music Streaming (YouTube, Spotify, Apple Music, etc)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

3. Whether and how has digitalization affected your activities related to recorded music? For example, production, album or single releases, distribution, promotion, collaboration with record labels, etc.

4. Whether and how has digitalization affected your activities related to live performances? For example, promotional channels, marketing activities, touring, (international) collaborations, etc.

5. Is there anything you would like to add about the effects of digitalization on your professional activities or revenues as an artist?
Appendix 5: Interviews with collective management organizations

[The original interviews included semi-structured questions and the main topics were sent to the respondents in advance. The interviews were conducted in Estonian. Some representatives preferred to reply only in written form. The following questions are translated by the author]

Introduction

• My doctoral thesis investigates the effect of digitalization on music consumption, regarding the consumer behavior and revenue streams. Methodologically, I will use five different perspectives, including the collective management organizations’ perspective.
• “Digitalization” in this context is understood as a set of processes that include, but are not limited to: producing, sharing, distributing, selling, accessing, or purchasing digital files; spreading information in the digital channels, etc.
• The following information will only be used for the purpose of scientific research, unless agreed otherwise separately.
• If you cannot or do not wish to answer certain questions, please provide as much information as possible—it is much appreciated and will benefit the outcomes of the research.

Questions
[First 12 questions were asked from the representatives of Estonian Authors’ Society only – author’s remark]
1. Please briefly describe your organization and its main activities.
2. What kind of music streaming services are available in Estonia and since when?
3. How have these services been accepted by the artists and record labels? By consumers?
4. How has the arrival of music streaming services affected music consumption?
5. How have music streaming services affected the revenues for the artists?
6. Can the music streaming services provide sustainable income for the artists?
7. Could you bring some examples of our top-earning artists? How much and from which sources do they earn revenue?
8. Is digital downloading still viable?
9. Is the current business model of the record companies still viable? What should they do to survive long-term?
10. How do you see the live music industry involving? Has digitalization affected the live music industry at all?
11. Has the copyright law evolved as a result of digitalization? How do you see the future in this sense? Does it need to evolve? Are there any significant ongoing processes in this field?
12. If there is eventually going to be a single digital European market – what do the rights-holders have to win or lose?
13. Whether and to what extent has digitalization affected your activities in the last 4-5 years? Are there any additional functionalities you have to perform? Have some functionalities become obsolete?

14. How have the revenues changed as a result of digitalization? Which sources have increased / decreased? What are the reasons? If possible, bring real life examples.

15. How has your membership changed in the last 4-5 years?

16. How have the revenues of your members changed in the last 4-5 years?

17. How have the average payouts to rights-holders changed in the last 4-5 years?

18. How have the business models in the music industry changed as a result of digitalization? Is there anything new or innovative that has caught your attention?

19. It is often told that CMOs would become obsolete in the digital era. Do you agree? How do you see your role in the future?

20. Are there any notable trends in the recorded music industry at large that you have seen in the last years?

21. What are the most important challenges related to digitalization in your field of business?

22. What will digitalization bring in the coming years for the rights-holders? For consumers?

23. Is there anything else you would like to add regarding the effects of digitalization on music consumption?


Teine alaküsimus (K 2) käsitles digitaliseerumise mustreid muusikaettevõtete, artistide ja kollektiivsete esindusorganisatsioonide perspektiivist. Esiteks selgus, et pikaajalised kontseptuaalsed artistid ning albumi formaat on digiajastul tõhusalt kaotamas ennekõike nooremate sihtgruppide hulgas, kuna muusika voogedastuseenedused soosivad “hitpöhist” lähememist. See kinnitab Elberse

Käesoleva töö eesmärk saavutati osaliselt, mitte täielikult. Kuigi uurimus andis põhjaliku ülevaate digitaliseerumise mustritest Eesti muusikatööstuses nii pakkumise kui nõudluse poolelt, siis laiapõhjaliste järelduste tegemine ei ole võimalik, kuna andmed tulude kohta osutusid ebapiisavaks. Kui kollektiivsed esindusorganisatsioonid ja muusikaettevõtted ei saanud spetsiifilisi andmeid esitada kindlaimealalisperühmõtest lähtudes, siis artistid ei omanud piisavalt täpseid andmeid enda tulude kohta. Lisaks sellega ei olnud K 1 raames läbi viidud uurimuse tulemusi võimalik avaldada tabelis. Kuna laiapõhjalikku statistikat salvestatud muusika müügi kohta Eestis ei kogu ükski organisatsioon, samuti on see info erinevate osapoolte rahulikult vahelemine. Samuti on see info erinevate osapoolte vahel fragmenteeritud. Seega ei olnud vastajate väiteid muusikatarbimise harjumuste kohta võimalik teiselt poolt avaldada tabelis.


Uurimustöö tulemuste põhjal saab pakkuda kaks olulist uurimissuunda edaspidiseks. Esiteks, intervjueedest artistide ja muusikaettevõtete esindajatega tulid välja olulised erinevused eeldatavate ja tegelike salvestatud muusika tulude vahel. Kui IFPI raportid näitasid viimastel kümnestel aastatel digitaalsete tulude, eriti muusika voogedastuteenustest teenitavate tulude märkimisväärset kasvu, siis enamik Eesti artiste ei teeninud muusika digitaalset märgist jätkuvalt märkimisväärseid summasid. Miks see nii on? Kas see on omane üksnes Eestile või laiemalt kõigile?
väiksematele muusikaturgudele? Teiseks selgus intervjuudest, et paljud artistid ja
ka kollektiivsed esindusorganisatsioonid ei kasuta erinevaid digitaalseid rakendusi,
mis võimaldaksid saada põhjaliku statistilise ülevaate nende jaoks olulistest
aspektidest, näiteks muusikatarbijate demograafiline taust, tarbimismustrid või
teenitud tulud. Selline teave aitaks nii artistidel kui muusikatööstuse vahendajatel
langetada andmepõhiseid otsuseid ning muuta enda professionaalne tegevus
efektiivsemaks. Täiendavad uuringud võiks analüüsida konkreetsete kaasuste
näitel, kuidas erinevate osapoolte kasutuses olev ulatuslik digitaalne info senisest
efektiivsemalt ära kasutada.
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Emerging Patterns of Digitalization in the Estonian Music Industry

Technological developments and digitalization have affected nearly every industry in the last two decades, but especially the media and the content industries. 2014 marked the first year when digital music sales surpassed physical music sales globally, whereas music streaming has become a dominant growth driver in the recorded music industry. New technologies have lowered the barriers of entry to the global music market, but at the same time intensified international competition among artists and the industry's intermediaries. Digitalization has opened various opportunities for artists and their fans to create direct connections and monetize music consumption more effectively, whereas some of the intermediary roles have become obsolete. These developments can be jointly referred to as the emerging patterns of digitalization. This thesis is the first attempt to study the emerging patterns of digitalization in the music industry in a specific context in a comprehensive manner. As a highly digitalized country, Estonia provides a suitable study case. This thesis aims to understand how the emerging patterns of digitalization are reflected in the Estonian music industry from the four relevant perspectives that represent both the supply and the demand side of the industry: music artists, music companies, collective management organizations, and music consumers.