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**TRANSFORMATION OF THE MUSIC INDUSTRY: MANAGING  
MARKETING CHANNELS IN THE DIGITAL AGE**

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Management

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Management

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**ABSTRACT:**

First there were CD's, then came the iPod, iTunes, piracy and now there are music streaming services. But what do these have in common? They have all been disruptive forces affecting the music industry through digitalization, having different impacts on a number of different players, during different times. During the advent of each of these forces, they all came with the premise of destroying something that had been previously established in the industry and eliminating previously significant players in the process. Most notably these claims were once again made as streaming services started to gain popularity. Now it was time for the record companies to step aside as distribution through digital platforms directly to the consumer coupled with previous disruptive forces meant that the stage had been cleared for anyone willing and able to produce a hit song. But as time has passed, these same record companies have now become music companies and some are stronger than ever, as is the entire industry that has experienced new growth for the first time in decades. But how is this possible? This research gap formed the foundation for this thesis as it raised questions about the overall adaptive measures undertaken by the companies, about what exactly had they had to face and most importantly, what marketing channel management activities had they implemented as a result of these disruptions.

As the effects of these forces are industry wide, effecting different types of companies, a multiple case study consisting of three case firms was conducted to answer these questions. The data was primarily gathered using semi-structured interviews and in order to produce a more comparative outcome, a cross-case analysis was conducted, allowing for more efficiency determining the similarities and differences between the companies. The findings suggest that a key measure in adapting to digital industry disruptions comes from focusing on core activities, which often in the music industry entails content creation and artist management. As for marketing channel management activities, streaming has increased music consumption, allowing for more frequent digital distribution, less dependence on physical distribution and extended product cycles, resulting in increased total revenue.

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**KEYWORDS:** Music streaming, digitalization, marketing channel management, distribution, digital disruption, Record/music Company,

## 1. INTRODUCTION

While the digitization of various industries keeps moving forward, the dynamics of these industries can often change dramatically. As entry barriers are lowered and entirely web-based companies enter the markets and offer value to customers in a new and improved way, the previously established rules are disrupted. These types of changes within an industry can eventually lead to a situation where something that was previously considered to be radical, becomes the new industry norm. (Hirt & Willmot 2014.) Companies operating in almost any industry are widely distributing their products and offerings through digital channels to their customers, who are increasingly and almost exclusively in contact with businesses and their offerings through different online solutions. This contact happens at a time that suits the customer the best and via the channel of their choice. Companies operating in a digital environment need to be careful to make sure their digital business models are built on a strong foundation due to pressures set by digital natives who have grown up in an online environment and as a result expect the platforms they use and their entire experience to be seamless. (Weill & Woerner 2013.)

One industry that has been severely impacted by digitization and has had its marketing channels extensively digitized is the recorded music industry, which has gone through severe restructuring during the past few decades. Formerly a primarily product-based industry where consumers would buy physical products such as CD's and cassette tapes, its digitization began with the tenure of online piracy and other peer-to-peer sharing networks. Subsequently, the industry faced significant challenges as consumer preferences shifted, culminating into a situation where consumers began expecting music for free. As was to be expected, it was no longer clear what the most prominent sources of revenue were and how businesses were supposed to generate profits.

These paradigm shifts have sparked the development of new business models, which utilize new channels, transforming previous value chains tremendously. In a move that digitizes the music industry's core product companies have begun offering music online for consumers to purchase and download. (Waldner, Zsifkovits & Heidenberger 2012.) These developments come as a welcome surprise, after several decades of struggling to survive and decreasing revenues, the recording industry has finally started

to show signs of improvement and progress. Digital streaming services have become the most prominent driver of growth in the entire industry, surpassing the sales of physical music products and creating significant competition both among various streaming services and industry veteran record companies, which have had to adapt to these changes. The total number of subscription accounts amounted to 97 million in the year 2016 and digital music's share of the entire industry's revenue stream was over 50 percent the same year. (IFPI 2017.) These changes present new competitive demands and pressures for large music companies to create new value in an industry that they have traditionally held a dominant position in for decades. (Essling, Koenen & Peukert 2017.)

In addition to changes that effect and are limited to just large music content companies, various other parties and their positions in the value chain and value network are impacted as well by digital disruptions. (Bockstedt, Kauffman & Riggins 2014.) With new channels such as social media sites as well as certain music streaming platforms, artists are able to distribute their content independently directly to consumers, without the aid and resources of big corporations. (Eiriz & Leite 2017.) A somewhat similar situation can be observed in the case of intermediaries operating in the industry as their roles and business models are transforming as well, culminating into a situation where the major music companies are in fact dependent upon the decisions and actions of much smaller and seemingly insignificant number of companies. (Warner Music Group Corp. 2017.)

Besides the digital changes and structural transformations already underway in the industry, there are emerging and potentially transformative technologies being further developed. One such example is blockchain technology, which has the potential to resolve many issues in the industry and provide new opportunities, but its widespread applicability and utilization is yet to be seen. (O'Dair & Beaven 2017.)

## 1.1 Research purpose and goals

The music industry has been subject to major disruptive changes over the last few decades that have had significant impacts on music companies and their marketing channel management. There is however a research gap when it comes to specific measures undertaken by the companies in order to succeed in spite of these changes. A closer look is needed to provide more specific answers as to how music companies have had to adapt to these changes. This premise provides the research problem, which is:

*What measures have enabled the marketing channel management of music companies to succeed through industry disruptions?*

In order to answer the research question, the goals of this thesis are to find answers to the following questions:

- *What types of threats and possibilities has digitalization created in the music industry?*

With digital developments and the industry's changing nature, the competition within the industry has seemingly shifted into a more democratized form. New pressures are set for record companies as artists are able to distribute music more independently and consumers have more options to choose from.

- *What have these threats and possibilities meant for music companies in terms of structural changes and individual adaptability?*

The traditional intermediaries such as manufactures and retailers have become significantly less vital in the industry as more and more distribution is digitized. As such structural changes have taken place, the process of value creation is altered, along with the power dynamics.

- *What types of practices have music companies utilized as a result of these disruptions?*

A new set of industry rules has forced companies to adapt to a new digital environment, which has forced some companies to die out, but enabled some incumbents to thrive in. Based on the findings in this thesis, a set of successful practices utilized by the case companies is presented.

Based on the conducted literature review, collected data, and their thorough analysis, a set of possible future scenarios for the industry are exemplified as a part of the discussion chapter of this thesis.

### 1.3 Approach and Methodology

The research methods used in this thesis are qualitative in nature. Most of the data utilized was collected through semi-structured interviews from four music companies operating in the Finnish music industry. Based on the collected data a cross-case analysis was conducted to compare and contrast these findings and answer the research question.

The need to do a multiple case study arose from the reality that studying the adaptive measures and capabilities of different companies under disruptive changes and making general assumptions regarding an entire industry based on them, requires more than the point of view and example of a single case. Studying multiple cases and comparing their successes, adaptive strategies and views on the industry gives greater odds in developing an understanding of managing marketing channels under an industry wide transformation.

A cross-case analysis was utilized as a data analysis method to develop a deeper understanding. A cross-case analysis increases the transferability of findings to other contexts compared for example to a single within-case analysis, and to provides a more thorough explanation of the subject at hand. The studied phenomenon can be better understood by way of comparing similarities and dissimilarities between various cases. Cross-case analysis also has the potential to yield findings that are substantially more generalizable, as there is data gathered from several cases. (Huberman, Miles &

Saldana 2013.) So by utilizing this method the different strategic choices and changes of companies were compared more effortlessly, allowing for clearer assumptions and generalizations to be made regarding future implications of the industry.

As the subject matter and research question is rather broad, as a part of triangulation, additional complementary sources of information were used such as previous research, website information of the studied case firms and previously conducted interview data.

#### 1.4 Structure

The structure of this thesis is comprised of seven individual sections: the introduction, two chapters on relevant theoretical framework and literature review, a methodology chapter, an empirical chapter and finally conclusions.

The introduction chapter provides a brief background of the themes explored in the thesis, focusing on important structural developments in the music industry during the digital era. By doing so, it clarifies the purpose, research problem, goals and methodology of this thesis.

The second chapter is primarily a literature review chapter, that gives insight into the music industry's state before and during the time the industry's distribution processes were changed due to the effects of digitization and subsequent technological advancements. The literature review begins on relevant theories regarding industry disruptions and more specifically digitally disruptive forces, as they are relevant to the transformation happening in the music sector. Then the structure and competitive nature of the industry is explored further, after which the most significant digital developments in the industry during the last few decades are discussed.

The third theoretical framework chapter is focused on the theoretical framework of marketing channels and their management. More specifically it sheds light on the digital marketing channels currently favored in the music industry and how the changes in marketing channel strategies have impacted the various players and their

relationships. This is achieved by providing a closer look into how these changes in marketing channels affect the value creation involved in the industry's value chain.

The fourth chapter of this is centered on the methodology applied in this thesis. The chapter explains the need for a multiple case study and the use of cross-case analysis as an analysis method. It also explains the semi-structured interview process used in this thesis and presents the examined case firms and interviewed subjects, along with the reason they were chosen.

The fifth chapter is focused on the findings of the conducted research. The findings are presented first case by case, according to the themes discussed in the interviews. After all interviews of the cases have been presented, they are presented together and compared, as a part of the cross-case analysis in the sixth chapter. The seventh and final chapter presents the conclusions formed and possible further research implications.

## 1.5 Definitions

**A Marketing Channel** can be defined as the mechanism, be it an organization or an alternate intermediary, through which a product or service needs to go through in order to reach an end-user. (Dhotre, 2009.)

**Digitalization** according to The Oxford English Dictionary (OED) means 'The adoption or increase in use of digital or computer technology by an organization, industry, country, etc.' (The Oxford English Dictionary, 2018.)

**Digital Business Model** can be seen as consisting of three components: content, experience and platform. The content describes what exactly is it that is being consumed. Experience focuses on how the customer experience is tailored and presented, such as website features. The final component, platform, includes both internal and external features. These include providing digital content as well as

delivering a product physically to a customer. Together these components form the value proposition to the consumer. (Weill & Woerner 2013.)

**Streaming** refers to the transferring of data at a high rate. In the contexts of multi-media formats such as audio or video streaming that produce continuous flows of data that is captured by sensors, enough data needs to be captured for it to be able to be presented in real-time. (Paya & Marinescu, 2012.)

**Value Chain** is a term first coined by Michael C. Porter in 1979 that explains how a company is able to create value to its customers through a sequence of value adding activities, which can be seen to form a chain-like structure. (Porter, 1979.)

## 2. MUSIC INDUSTRY DISRUPTIONS

The music industry is among the many industries, which has been severely impacted by the creation of the Internet. It is still a massive, multi-billion dollar industry, but the structure of its economy has changed significantly. Record sales have plummeted over the course of three decades, from the seventies, when their sales hit a peak with more than 3 billion units sold. A pivotal turning point in the industry's development began with the Internet, which started to shape the industry's structure to its current form. (Wikström 2014.)

In the following section the different definitions and theories of disruptions are discussed as well as applied to the context of music industry. A closer look is provided inside the different digital disruptions inside the music industry that have happened in the past and are currently happening, including the threats and possibilities that they behold.

### 2.1 Industry Disruptions

An example of revolutionary forces that disrupt various industries can be found from Schwab's (2017) article, in which he describes the notion of a fourth industrial revolution, which much like the first, second and third revolutions is currently in the process of transforming virtually all industries, regardless of specific operating fields. The fourth industrial revolution is a natural next step for the continuation of the third revolution that is focused and on the digitalization of industries. In the fourth installment, notable revolutionary steps will be achieved through millions of people being connected through powerful smartphones, The Internet of Things, artificial intelligence, 3-D printing, nanotechnology, biotechnology and quantum computing. Examples of disruptive forces improving peoples lives can be seen in the wide array of activities that are available for the average consumer through their mobile phones such as ordering a cab, purchasing items, booking flights or hotels etc. The entire magnitude of these changes is yet to be seen, but possible future scenarios include decreased logistical costs and improved efficiency. Possible negative outcomes may arise from

the disruption of labor forces, as automation is likely to replace low skill workers, as well as create social inequality. (Schwab 2015.)

Certain disruptive forces may come from unforeseen, unexpected sources, which seemingly have nothing to do with a particular field, but yet they manage to create disruptions that change the entire industry. Examples of such forces are dubbed by Downes & Nunes (2013) as ‘Big-Bang Disruptions’ that don’t follow the traditional logics of industry disrupters that move from bottom up by offering less expensive alternatives to new customers on the low-end spectrum, but rather acquire an entire markets customer base in a short amount of time, without an adjustment period and not from the bottom of the market or on markets that have not matured. Such examples can be found in the GPS navigation devices manufacturer TomTom, which lost nearly its entire customer base to the navigation systems found in every smartphone for free, with ever evolving features. (Downes & Nunes 2013.)

As far as industry wide disruptive forces go, the most significant for the music industry in recent years has come from the impact of digitalization, which is a *radical innovation* that impacts the technological landscape and the entire architecture of the industry. (Bourreau, Gensollen & Moreau 2012.) Other relevant theories that are valid to describe the changes that have occurred in the music industry are terms such as *disruptive innovation* and *disruptive technology*. (Nordgård 2016.) One way to define the term ‘disruptive innovation’ is to clarify it through the *Disruptive Innovation Model* where established businesses focus their efforts on offering higher quality products/services for their higher-end customer base and as a result neglect the needs and wants of other customer segments, which creates an opening in the market that is filled by a new and much smaller company that starts offering alternatives for the neglected segments and subsequently start to challenge other segments and the position of the market leader. The authors point to an important distinction between an actual disruptive innovation and an innovation, which has similar qualities and characteristics as a disruptive one, but ultimately is not one, as the careless application of the term has the potential to water it down and take away from its impactfulness. (Christensen, Raynor, McDonald, 2015.)

Moreau (2013) describes disruptive technology through a combination of attributes concerning the product that has resulted from it. These characteristics include the notion that the product is less successful than the current one. It is also priced lower, as well as cheaper to produce and simpler in design than the current dominant product and the majority of consumers are unwilling to use it. As a result of this, products that are a result of disruptive technology are commonly introduced to niche markets initially, but as consumer preferences eventually move towards a more suitable direction, the products may be introduced to a wider audience. (Moreau 2013.)

While separating the differences between disruptive innovation and technology, Moreau (2013) leans towards the term *disruptive innovation* as more suitable and accurate of the two as it is often not the technology itself that companies fail to utilize and thus the source of the disruption, but rather the inability to sell it to customers. Another closely related term, relevant to the music industry is *digital disruption*, which refers to ‘a type of environmental turbulence induced by digital innovation that leads to the erosion of boundaries and approaches that previously served as foundations for organizing the production and capture of value’. Despite existing literature on the subject and an agreed upon outline of the term, a clear-cut definition has not been established for the term digital disruption.

## 2.2 Music Industry Structure

According to Patrick Wickström (2014), the music industry as a whole, can be further divided into three separate industries with their own operators and business logic: The *recording industry*, the *licensing industry* and the *live music* industry. Each of them provides their own function in the grand scheme of the entire industry, but with the innovations that have been developed thanks to the Internet, their individual roles have changed dramatically. With digital streaming services and subsequent diminishing record sales and low royalties, the recording industry is no longer the primus motor in the industry’s value chain. Instead, the paradigm has shifted into a network where the most profit comes from music licensing and the largest of three is now live music. The reason for this is the fact that the digital age has transformed the business models in a way where a single company is in control of both the composition part and the rights of

the recording itself making them highly profitable. The factors that have influenced live music's growth in recent years have to do with its controllability. Artists can't rely solely on royalties as a way of making a living, but can easily increase their value by doing more live shows with high ticket prices, thus leading to a massive live music industry. (Wikström 2014.)

Taking a closer look at these three branches music industry is comprised of; each branch can be further divided into smaller increments. The licensing industry focuses on the publishing and rights management side of music. Put simplistically, companies that specialize in publishing hire songwriters who write songs, that are property of the publishing company that makes revenue by licensing the use of this music. The licensing industry also includes the rights associated with artist's performances and distribution of their songs. (Leurdijk 2011.)

The second part of the industry, the live music industry, naturally includes the artist's performances. Going beyond this, a central part of it are also talent agents, managers and promoters, whose actions are interlinked with each other. Managers are in charge of ensuring artist's careers are moving to the right direction. Talent agents book live performances with promoters, who are in turn in charge of booking the venues. (Leurdijk 2011.)

The third and final section of the music industry, the recording industry is most likely the most known to the general public. The most traditionally prominent actors involved in this industry are perhaps the record companies. (Leurdijk 2011.) The recording industry has typically been seen as an oligopoly market, where the majority of the market is controlled by few major companies and other, smaller independent labels serve their own, yet much smaller purpose. These larger companies or 'the big three' are Universal Music, Warner Music and Sony Music and they owe their control of the market largely to economies of scale in promotion and distribution. These power structure and the advantages it provides larger labels, enables them to exploit smaller independent labels, by way of imposing certain tariffs and certain conditions on them. (Moreau 2013.) They sign artists to their labels who they deem to have enough talent to be commercially successful. The artists in turn record material written either by the artists themselves or in turn songs written by composers whom the record company

employs. The recording process also involves the participation of producers who ensure that the end result and final product are held to a high standard, along with sound engineers who are responsible for more technical side of the recording itself. Once the recording process has been completed, the recordings are distributed to consumers. This involves manufacturers, who make physical copies such as CDs and LPs, wholesale distributors and finally both online and offline retailers as well as distributors. (Leurdijk 2011.)

Delving further in to the recording industry separately and the competitive forces within it, they can be categorized based on Michael Porter's (1979) Five Competitive Forces. These are the threat of new entrants, bargaining power of buyers; threat of substitute products or services, bargaining power of suppliers and at the center of the model is the rivalry among existing competitors. Together these forces impact the overall economic attractiveness of an industry. Depending on the industry the forces can be of varying degrees such as mild or intense and their combined effects can ultimately make an industry less or more appealing. (Porter 1979.) When applying the first competitive force, threat of new entrants into the context of the recording industry, the focus needs to be on the possibilities that the Internet has, as it holds tremendous power in reducing the impact the economies of scale, that kept large record companies in dominant positions in the market during the time when CD's were the primary product. When it comes to cost advantages independent of scale, large record companies enjoy the benefits brought on by a learning curve that has enabled them to build a network of resources and knowledge. Despite this, the threat of entry can still be seen as high as there are virtually limitless possibilities for new entrants due to the Internet, diminishing the effects of the learning curve. Similarly, the threat of substitutes can be seen as high as digital downloading and streaming services are growing in popularity and providing direct substitutes for traditional CD's and other digital products. The force of buyer power can be seen as strong as there are multiple channels that suppliers need distribute their music, both online and offline, at a reduced price, resulting in a situation where a globally wide spread multitude of consumers are able to choose, which provider or service they use, without a significant cost in switching between competitors. As for bargaining power of suppliers, Small (2012) argues that in the era where the CD was the most popular channel for music

consumption, coupled with the oligopoly nature of the industry, made for high bargaining power of suppliers. (Small 2012.)

### 2.3 Digitalization of the Music Industry

The Internet has provided numerous companies the platform to create entirely new business model innovations in the music industry. With the surge of piracy and so called Peer-to-Peer (P2P) networks in the beginning of the 21<sup>st</sup> century, record labels were practically forced to go along with new innovations as a large number of people opted to illegally download music online, instead of going to the record store and buying a physical copy. The first company to do this was Apple, which had not previously been associated with the music industry. Apple started to offer consumers music online and managed to find a legal alternative to the growing epidemic created by online piracy. (Wikström 2014.)

The next step in music industry's transformation came when new players, such as Spotify, entered the market and once again changed industry dynamics by offering their customer a whole host of different artists and their entire music catalogues for a fairly nominal, monthly fee. Spotify has also however, created a new problem for the industry. With Apple consumers paid about a dollar for each song they downloaded, but with Spotify the revenues come from monthly fees and record labels and artists are paid an insignificant amount per each stream of a song. (Wikström 2014.)

#### 2.3.1 Peer-to-Peer Networks and Piracy

Cohn & Vaccaro (2011) describe softwares utilizing Peer-to-Peer networks as "renegade business models", which combine digital business model attributes from freeware software, that are essentially free software and from information barterers, that center around the exchange of knowledge. (Cohn & Vaccaro 2011.)

The move towards a significantly digitized recording industry was greatly accelerated by the widespread consumption of music through peer-to-peer (P2P) networks, which

became highly popular in the beginning of the 21<sup>st</sup> century. These networks began essentially offering the product to the consumer free of charge by utilizing the sharing of music files between network participants. The economic impact of P2P networks on the music industry was massive considering between the years 1999 and 2002 music sales decreased around 2 billion dollars, which has been largely attributed to the popularity of these types of networks. The recording industry responded largely to these effects by way of lawsuits, targeted towards the networks, largely ignoring the fact that they were essentially established by consumers, and as such, they signaled of changing customer needs. These actions resulted in stricter legislation concerning illegally downloaded music and subsequently began pushing formerly entirely P2P networks to shape their business models towards legitimacy and more sustainable business models. (Cohn & Vaccaro 2011.)

The initial solution to the epidemic of online music piracy and unauthorized P2P-networks was seen in legal music downloading services and paid subscription based services such as iTunes and Spotify, but these hopes have been somewhat undercut by an increase in pirated activity. According to the Securities and Exchange Commission (SEC), of the Swedish streaming service Spotify's 71 million paid 'premium' subscribers, an estimated 1,3% or 2 million are pirated accounts. (Silva 2018.) These findings are in line with previous research, which have looked at the complementarity and substitutive qualities between streaming services and P2P-networks. Borja & Dieringer (2016) concluded that despite behavior that would suggest that streaming services serve as a substitute for online piracy, based on their research the link between the two proved more complementary in nature as a significant amount of subjects who answered their questionnaire, stated that streaming services served as more of an initial channel to discover new music, which is then downloaded illegally through P2P-networks. (Borja & Dieringer 2016.) Similarly Mortimer, Nosko & Sorensen (2012) found a correlation between the increase in pirated music downloads and concert revenue rates. As illegal music downloads increase, record sales go down, but artist awareness increases, resulting in more people becoming aware of an artist and purchasing tickets to their concerts.

These findings are consistent with previous research that labels 'music pirates' into two groups: the savers and the samplers. The first group's justification for their

unlawful downloading of music stems from their belief in the fact, that the current price of music is too high, whereas the second group pirates music as a way to preview a song, which they might actually later purchase through legitimate channels. (Dörr, Wagner, Benlian & Hess 2013.) Bartkus & Akulavicius (2015) cite the findings of Kampmann (2010) in their assessment of the strongest driving forces motivating behavior towards pirated activity and determine them to be a positive price effect and perceived value. Their factor is significant enough to deter any ethical ramifications that the consumer might face and thus gives insight as to why pirated activity remains a recurring and persistent problem in the industry. (Bartkus & Akulavicius 2015.)

### 2.3.2 Digital Download Services

As piracy and peer-to-peer networks became a reality in the music industry, instead of acknowledging the underlying potential of business models on the Internet that were based on digital downloads and distribution, the majority of the recording industry responded by issuing a myriad of lawsuits. The first company to see this potential was Apple, who in 2001 launched the highly successful iTunes and iPod, subsequently revolutionizing the industry in the process. By distributing music digitally, Apple enabled the unbundling of the full album as the core product to individual singles, which in turn enable certain promotional efforts such as covering costs for a future album and marketing an album before its release, which holds the potential for multiple sales from the same products as purchasing the single may attract the consumer to acquire the entire album. As a result, record companies finally began to recognize the growing need for online music downloading platforms and instead of fighting the change began to go along with it. (Maxwell 2011.)

Since the launch of iTunes, several different download services have been established such as Amazon's Mp3 (founded in 2007), Spotify, which employs a download service as an addition to its offline features, eMusic and 7Digital. Of these services iTunes, Amazon's Mp3 and 7Digital operate under a business model where songs and albums are sold individually, whereas eMusic and Spotify generate their revenue by offering subscriptions to their services and music catalogues. (Harris 2017.)

### 2.3.3 Digital Music Streaming Services

Along with the digital download services and as a result of them, streaming services have emerged as the dominant new growth opportunity for the recorded music industry. The global music industry has experienced a growth in annual revenue after 2014, which marked the first time in 15 years, that didn't result in it decreasing. A significant factor in this increase has been the popularity of streaming services, and more closely, the increase in number of paid subscription accounts from various streaming platforms. Compared to 2016, the recording industry grew by 8,1 percent, resulting in total revenue of 17,3 billion US dollars. Of this revenue increase, streaming was responsible for 176 million, or alternatively 38,4 percent of total revenue in the industry. The amount of streaming's paid subscription services grew 41,1 percent in 2017. (IFPI 2018.) Based on the current developments and success of digital music streaming, The Digital Media Association (2017) predicts that by the year 2025, the total number of paid subscription accounts will rise up to 90,1 million, which would roughly double the current number.

Streaming services and digital download services have modified the previous business models of the industry by viewing music as a service, rather than a standard product and as a part of this, brought to the surface the logic that consumers should buy access to this service in place of a traditional album or a CD. (Small 2012.) Many music streaming services use freemium business models where they offer customers an option to acquire the product for free, but they are subjected to advertisements, creating a less appealing and convenient experience than an alternative option, the premium version, where typically a monthly fee is charged and in exchange the consumer is free to enjoy the service without disturbing ads. According to Koch, Francis & Alexander (2017) within the freemium business models there are currently two strategies employed by these services: the Freefirst and Premiumfirst. The Freefirst model works by initially offering the customer the freemium version of the service for typically one month, after which the service they've signed up for is upgraded to premium and along with it, a monthly fee is charged. The premiumfirst strategy works by the same logic, although in the opposite order. Both models are aimed towards increasing paid subscriptions of streaming service accounts. (Koch, Francis & Alexander 2017.) Much like Börja et al. (2016) findings suggested in terms

of peer-to-peer networks serving as a channel of pre-purchase discovery, Wlömert & Papies (2014) describe free music streaming services as a ‘convenient sampling device’, seeing as music is an experience good that is unlikely to be paid for without an idea of it beforehand.

In addition to describing music streaming services as purely ‘free or paid’, other characterizations classify streaming platforms into three different categories: 1) Subscription services, 2) Streaming radio services and 3) Ad-supported on-demand streaming services. (Sacquet 2017.)

As the number of services utilizing streaming as a platform to conduct their business keeps growing more popular, a need arises to look into what impacts consumer adoption of these services. Weijters, Goedertier and Verstreken (2014) point to features and attributes such as the quality of audio, form of delivery such as stream or download, social media connectivity, how the business model includes advertising and how this effects the price, ethicality and finally the legality of the service as the influencers of consumer choices in digital music consumption. (Weijters, Goedertier & Verstreken 2014.) Similarly, Glantz (2016) points to early research by Vlachos, Vrecholpoulos and Doukidis (2003) that concluded the main consumer preference drivers in willingness to adopt to be content and convenience. (Glantz 2016.) The adoption of music streaming services, especially paid subscription based services, has been linked to a decrease in revenue of other distribution channels as music is purchased less by consumers who pay for them. Despite these findings the overall revenue of the industry does not appear to decrease, as the impact that paid streaming services have on the revenue is overcompensated compared to the impact that the adoption of free streaming services have on it. (Wlömert & Papies 2014.)

The following table will provide insight into the largest different streaming services, their features and scale of user databases that are currently operating in the market.

**Figure 1.** Comparison of popular music streaming services and selected features (Deleon, 2018, Statista, 2018, Smith 2018, Spotify 2018)

<b>SERVICE</b>	Music Catalogue	Price/month	Free Access Option	Monthly Users
<b>Spotify</b>	35 million	Premium: \$10 Family: \$15	Yes	170 million
<b>Tidal</b>	46 million + 190 000 videos	Standard audio: \$10 High-resolution audio: \$20	No	4,2 million
<b>Pandora</b>	40 million	Streaming Radio: \$5 Radio and On-demand: \$10	Yes	36,8 million
<b>Amazon Music Unlimited</b>	2 million	Prime members: \$8 Non-members: \$10	No	12,7 million
<b>Apple Music</b>	45 million	Standard: \$10 Family: \$15	No	49,5 million
<b>YouTube Music</b>	N/A	Premium: \$10	Yes	N/A

#### 2.3.4 Digital Rights Management and Blockchain

One of the issues that emerged as a result of the popularity of new platforms such as music and video streaming is digital rights management and the payment of royalties to the rightful owner of the copyrighted material. This is where digital rights management systems are applicable. DRMS (Digital Rights Management Systems) are essentially systems designed to make unauthorized use, such as piracy, of a digital product as difficult as possible. Vernik, Purohit & Desai state that ‘DRM controls how

end users can access, copy, or convert information goods, such as software, music, movies or books.’ (Vernik, Purohit & Desai 2011.)

According to O’Dare & Beaven (2017), problems in rights management stem from three different issues. The first factor is the lack of a unified database containing information of composers and rights owners pertaining certain songs. Every song consists of the sound recording, which is associated with the performer, as well as the lyrics and composition, which belong to the composer. The databases containing this information are scattered and multiple in number, complicating the payment process significantly. This is further complicated by the fact that the amount of data needed to be tracked to successfully take care of payments increases with streaming, requiring the tracking of each stream individually to properly handle the payments. The second issue arises from the long time it takes to pay these payments, ranging from a quarterly timeframe, to six months or even up to a year. This is coupled with the fact that once the payments do arrive; they often reach the wrong party. The final reason addressed for these issues regards the fact that the details of artist’s streaming contracts are kept hidden with non-disclosure contracts that do not disclose the specific copyrights necessarily to all parties involved. (O’Dair & Beaven 2017.)

Blockchain technology has been presented as a possible solution to concerns and mismanagement arising from copyright issues. Khouri (2017) characterizes blockchain as a distributed database, meaning instead of a single centralized database it is spread globally on a multitude of computers, each containing several duplicates. These databases contain vast amounts of information, which is added cryptographically in blocks, based on their individualized coding. Each block contains information about previous ones and thus they are interconnected, adding to their ability store information in a secure manner thanks to their immutability. (Khouri 2017.) Another common definition for blockchain is ‘‘distributed ledger of transactions’’, but as Halaburda (2018) points out, terminology and the concepts of blockchain are often used in an inconsistent manner as there is no clear definition for it. (Halaburda 2018.)

With blockchain it is possible to create a database of digital rights by permanently encoding all necessary information, regarding copyrights such as information about a songs composer, lyricist and producer, in a digital recording that can be updated as

necessary if circumstances change. Khouri (2017) describes several platforms that already utilize this idea such as Ujo, Mycelia and MUSE. (Khouri 2017.) By registering songs on such platforms the possibility to use certain songs in commercial purposes becomes abundantly more flexible as they can be accessed conveniently and requests to use the song can be sent directly with all the relevant information necessary to ensure the process is completed legally. (Shuey 2017.) Other feasible instances regarding digital rights management that blockchain may resolve, includes the creation of an automated royalty payment system and a massive increase in transparency as all data would essentially be a part of the public domain and accessible to everyone. (Khouri 2017.) Another possible solution for the technology in the context of the industry could be its utilization in smart tickets at concerts. (O'Dair & Beaven 2017.)

Claims and views that blockchain technology could potentially transform the music industry in terms of rights management and the elimination of certain intermediaries creating a vastly networked industry, have been challenged by O'Dair et al. (2017) in terms of adoption. Together they debunk these ideas by claiming that although new artists might be more eager to share their music directly through platforms based on blockchain, the creation of an industry wide network would require collaboration between all parties involved, especially the involvement of major labels. The adoption rate is also likely reduced by the current need to utilize a specific cryptocurrency such as BitCoin to process the payments. Other possible issues and barriers related to it can be seen in the way blockchain is regulated and the governance that it is subjected to in terms of finance. For example the platform Mycelia is a non-profit organization, but it is possible to create a for-profit platform that uses a permissioned blockchain as can be seen in banking. There is also the fact that the current parties offering these services are not all fully operational and use different blockchain platforms so the dominant platform is yet to be determined. The final obstacle stated by O'Dair et al. concerns the nature and reliability of the data that is put in, as there is the possibility of human error and the insertion of incorrect information into the systems. (O'Dair & Beaven 2017.)

### 2.3.5 Chapter Summary

In this chapter the focus has been on the theoretical literature of industry disruptions and their different forms, as well as the existing literature on related disruptive

concepts as they play a role on the transformations happening in the music industry. This chapter also explained the structure of the industry with aid of Porter's (1979) Five Competitive Forces and clarified several of the most important digitally transformative forces such as P2P networks, digital download services and digital streaming services, digital rights management and blockchain technology experience, which have impacted the industry. Understanding these developments is vital in forming the theoretical framework and thus helping in understanding the different strategic choices made by the case firms later on in the thesis, as well as finally answering the research question.

As answering the research question requires understanding marketing channel management in the music industry, how it has evolved due to disruptions especially related to value creation, the next chapter will deal with literature regarding marketing channel management, its value creation, as well as the music industry's value chain development from traditional to virtual.

### 3. MARKETING CHANNEL MANAGEMENT IN THE DIGITAL AGE

#### 3.1 Types and Functions of Traditional Marketing Channels

According to Dhotre (2009) marketing channels can be described as the means through which products and services move to consumers, likening them to pipelines, which are comprised of independent organizations or intermediaries that vary in characteristics. Together the parties involved form a networked structure that is collectively responsible for ensuring the goods/services reach the end-customer. A definition for marketing channels is: *'any firms or individuals who participate in the flow of goods and services as they move from producer to an ultimate user (consumer or industrial)'* (Dhotre 2009: 6.)

Depending on the number of channels the producer chooses to utilize, the levels of channels can be further categorized into zero-level, one level, two level and three level channels. The channels vary in the number of intermediaries they use such as retailers, dealers, wholesalers and C&F agents. If the manufacturer decides to act as distributor themselves and opt for the zero-level, there are a variety of direct marketing techniques to choose from such as: catalogue marketing, company showroom, door-to-door selling, online marketing, tele shopping, tele marketing, direct mail houses and automatic vending machines. Choosing to distribute through intermediaries inevitably brings additional challenges, but in addition also bring numerous benefits and perform many vital functions creating a two-way flow of both information and transactions between customers and manufacturers. As marketing is done indirectly through third parties, the number of transactions is reduced, lowering costs and enabling the producer to focus on core activities. Using intermediaries also aids smaller companies with promotional activates as their budgets may be otherwise be too constricting. Other vital functions involve negotiations on behalf of the manufacturer, holding inventory and risk sharing, giving market feedback, providing transportation and pre- and post-sale services to customers. (Dhotre 2009: 6)

When managing marketing channels, companies need to make several strategic decisions to ensure the best possible outcome. According to Dhotre (2009) they need to set their desired objectives for each channel, decide the amount and types of intermediaries that are involved, select channels that are used based on for example their product, market situation, competitors, customers and company characteristics, train and motivate channel members, assess performance and modify their channel arrangements. In arranging the form of their marketing channels, there are several formations to choose from such as a Conventional Marketing System (CSM), Horizontal Marketing System (HMS), Vertical Marketing System (VMS) and Multichannel Marketing System (MMS) (Dhotre 2009: 69.) In the CMS the arrangement and coordination between the marketing channels is not fixed and participants operate based on their own goals rather than a unified one set by the network. This structure is favored for example by smaller manufacturers, with limited financial capabilities, even though it may prove to be more favorable to intermediaries. In the Horizontal Marketing System there are multiple intermediaries involved in a centrally managed structure, where channels range from zero to one. In it, is possible for two unaffiliated companies to form a partnership and combine resources to gain economies of scale. In the Vertical Marketing System the members involved work towards a unified goal and involves a high number of varying kinds of intermediaries, with any of the involved parties acting in as channel leaders. As there are a greater number of members, a greater degree of distribution can also be achieved. The vertical marketing system can be further divided into Corporate VMS, administered VMS and Contractual VMS. In Corporate VMS one corporation is in charge of the management and control of successive stages of production and distribution. In the Administered VMS, there is one leading party who exerts control over other channel members, although there is no legal, contractual agreement on it. In the Contractual VMS the channel members combine production and distribution efforts by making contractual agreements regarding them. In the Multichannel Marketing System the same product can be sold through varying or multiple distribution channels. The chosen systems can vary between different products and can be determined based on different segments. (Dhotre 2009: 74.)

### 3.1.1 Digital Marketing Channels

In an electronic marketplace where distribution is digitized, there are a number of differences and changes that need to be taken into account. According to Benjamin & Ward (1995) the most prominent opportunities and risks for the parties involved in a particular industry's value chain arise from issues such as: lower industry wide coordination costs that allows for more convenient connections between the suppliers and consumers. These online connections in turn provide consumers with easy access and thus more options to choose from as well as lower transaction costs associated with the process. Benjamin et al. (1995) also point out that online marketing channels provide a potential for redistribution. In the context of competing in a market centered on e-commerce, Teece (2010) stresses the importance of obtaining value by delivery of information.

As the products distributed are no longer physical, but rather intangible and comprised of information, transaction costs are greatly reduced. The same products, or information, can be reproduced a number of times without added costs and they can also be more easily modified and altered without having to disrupt the whole manufacturing process. Comparing purely digital and physical distribution channels together, Bockstedt, Kauffman & Riggins (2014) point towards five major dissimilarities that set them apart and are present in music distribution. Firstly, since the product itself is in digital form, it is separated from retailers who carry physical copies. Secondly, as with all digital products, the possibility to un- and re-bundle the product is present in music distribution. The distribution of digital goods also allows for dynamic pricing models and more efficient control over the customer experience. As is to be expected, a significant benefit of online distribution is a decreased need for brick-and-mortar stores and more flexibility due to a similarly lesser significance of physical logistics. Finally, Bockstedt et al. (2014), mention 'increased roles of value added information and the support of information-processing tasks'. (Bockstedt, Kauffman & Riggins 2014.)

### 3.1.2 Digital Distribution Strategies for the Music Industry

Looking in to the literature concerning applicable strategies on the distribution of digital music for companies, there is an evident lack of current academic research on the matter. However, Premkumar (2003) has created six strategic approaches regarding channel choices and management alternatives for companies and details the effects they have on players involved in the supply chain such as record companies, artists and retailers. These strategies will be discussed below with additions of more current developments as needed.

#### **Strategy 1.** *Record company-Intermediary-Customer*

The first strategy alternative presented by Premkumar (2003) is centered on the concept of an online retailer such as Amazon.com providing the platform for multiple record companies to distribute their music with additional value being added by providing consumers with readily available reviews and easy download ability. More recent extensions of this strategy include the establishment of digital download services such as iTunes.

#### **Strategy 2.** *Artists-Consumer*

This strategy dismisses the role of the intermediary in its entirety as artists distribute the content they create themselves directly to consumers, thus providing a highly efficient supply chain strategy. These developments bring a multitude of cost savings with fewer steps in between the parties involved, but also increase the amount activities that the artist is responsible for as record companies are not involved and thus do not take care of promotional activities, marketing or sales contracts.

#### **Strategy 3.** *Artist-Intermediary-Customer*

In the third strategy alternative the role of intermediaries is emphasized as the facilitators of a successful business model. Artists distribute their music to an intermediary that then distributes it to consumers. In addition to this there exists the

potential for creating online communities among fans, as well as the possibility for record companies to discover new talent to sign on.

**Strategy 4. *Audio-on-Demand (AOD)***

Similar to services that operational and widely used today such as Spotify and Pandora, Premkumar (2003) describes audio-on-demand distribution as a strategy where consumers are able to build their own playlists on radio-type platforms that utilize subscription based business models as well as free alternatives or marginally cheaper alternatives supplemented by advertising to create revenue. Prekumar suggests the possibility for record labels to take over duties for these activities.

**Strategy 5. *Record Company-Customer***

In what seems to be an obvious alternative for record companies, but rarely successfully implemented, Premkumar (2003) describes a strategy in which record companies distribute their music directly to customers. By way of disintermediation and digitizing the product, significant cost savings are made. This strategy however comes with significant risks and pressure put towards immediate sales and thus may not pose a viable option merely by itself and should be used in conjunction with other alternatives involving traditional retailers.

### 3.2 Changing Nature of Value Creation in the Music Industry Marketing Channels

When defining value creation Rudny (2016) describes it as ‘the core purpose and central process of economic exchange’. In marketing, value creation has traditionally been viewed as a process that begins and is initiated by a firm that manufactures it. In this model the consumers are widely regarded as a passive recipient of the value. This process view of value creation is known as the goods-dominant logic. (Vargo & Lusch 2004.) This exchange focused view where the creation and of value separates companies and consumers has been challenged by views centered on consumer experiences, where consumers are active participants in the creation of value and

interacting with the companies, referred to as value co-creation. (Prahalad & Ramaswamy 2004.) Ramaswamy & Ozcan (2018) describe value co-creation as the ‘enactment of interactional creation across interactive system-environments’. Co-creation in this context is made possible by interactive platforms. Likewise in Service-Dominant logic Vargo & Lusch (2004) describe the creation of value from a service exchange perspective rather than a product based. The idea of this logic is that people and companies apply their competencies such as skills and knowledge to create services, which are exchanged. From this point of view, all exchange is rooted in the exchange of services and value is created in-use, rather than in exchange as was previously seen. (Vargo & Lusch 2004.) As more business is exceedingly being conducted online, theories of the process of value creation have been created by Amot & Zot (2001) who present their model where value in e-commerce is created through four different dimensions: 1) efficiency, 2) complementarities, 3) novelty and 4) lock in.

In addition to views concentrated on more one-sided exchange, the service-dominant logic is related the concept of value network, which Vargo, Lusch & Tanniru (2010) define as: ‘a spontaneously sensing and responding spatial and temporal structure of largely loosely coupled value proposing social and economic actors interacting through institutions and technology’. Through this network structure the co-production of service offerings becomes possible, as well as their exchange and finally the co-creation of value.

Choi & Burnes (2013) describe the traditional approach that major record labels employ to create value as an ‘industrialized’ form of music production, where traditional view of value creation is prominent as consumers have a very insignificant impact ‘in the development, selection and distribution of products and services’. Just as any business in another industry, portfolio analyses are utilized to determine the genres of music or artists are most profitable and are set as a priority in spite of what might be preferred by consumers. In this respect value is created in separation with its capture as it is created by musicians and artists in the recording studios and captured through the management of distribution channels and copyrights. (Choi & Burnes 2013.)

### 3.3 The Traditional Value Chain

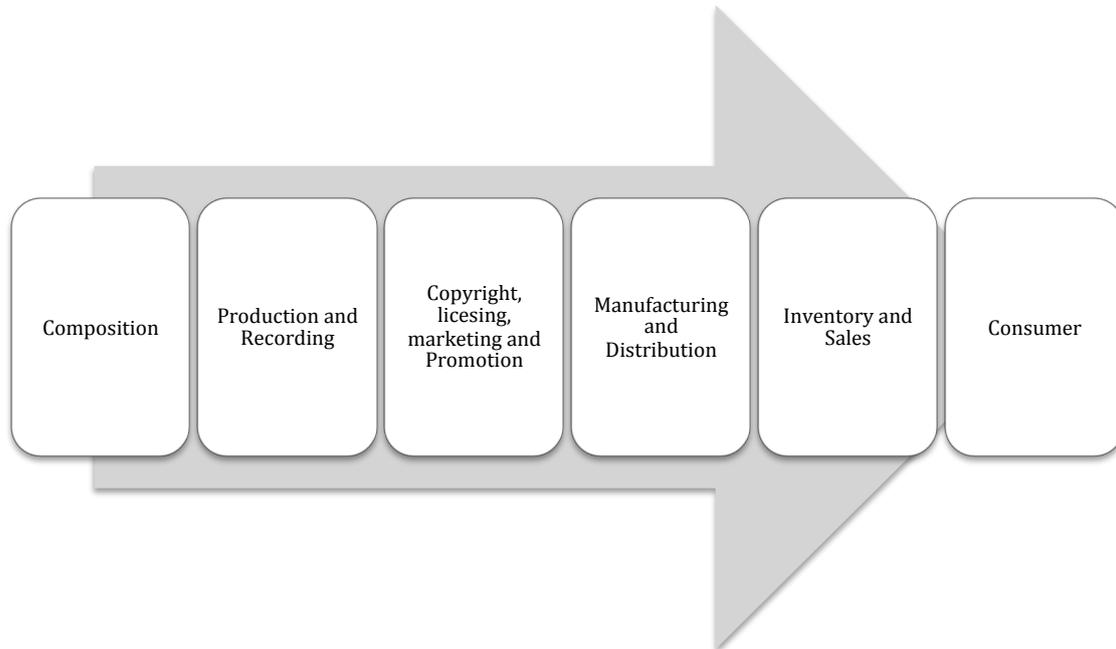
The value chain, first introduced by Michael Porter in 1985, views companies from a process perspective, where the entire organization forms a larger scale system that in turn consists of smaller scale systems. These systems turn inputs to outputs and are divided into two interconnected processes, primary and secondary activities. (Porter 1985.) Essentially this translates to a company's supply and demand sides, which are brought together by activities that add value to the chain that they form. (Rayport & Viokla 1995.)

The primary activities are divided into inbound logistics, operations, outbound logistics, marketing and sales and service. Inbound logistics are comprised of the activities involving input receiving, their storage and dissemination. Operations in turn involve the processing of inputs to outputs. Outbound logistics involves output distribution and storage. Marketing and sales have to do with promotion and the facilitation of purchase. The last primary activity is service, which is a set of activities to ensure the product or service meets necessary qualifications and needs after purchase. Secondary activities in turn are further divided into procurement, human resource management, technological development and infrastructure. Procurement consists of acquiring inputs and resources, human resource management, the recruitment, training and laying off personnel, technological development involves the necessary software, procedural knowledge and equipment to ensure input to output transformation. Finally, infrastructure consist of a variety of different organizational departments such as legal, public affairs and finance, which hold important functions together. Both primary and secondary activities turn inputs to outputs and require resources such as money, labor and material. The organizing of these activities affects the cost and profit structures of an organization have an impact on competitive advantage. (Porter 1985.)

Alternative terminology derived from the value chain also exists, specifically formulated to the context of cultural industries. In the so-called 'creative chain', the process begins with the conception of a creative idea and ends with the result of a culture good or service being used. As with Porter's (1985) value chain, there are

interlinked activities in between these phases that add inputs involved such as production and dissemination. (Canadian Framework for Culture Statistics 2011.)

**Figure 2.** Traditional music distribution value chain (Bockstedt et al. 2014.)



Applying Porter's (1985) traditional value chain model into the context of the music industry, the inbound logistics can be seen consisting of music producers and rights holders. The operations involve composing and writing the actual song and recording itself as well as further steps such as the production and publishing of the product. The outbound logistics comprise of the publishing of CD's, LP's, as well as online video content and digital audio tracks. Marketing and sales activities are comprised of different media formats, activities pertaining concerts such as booking and dealing with retailers. The last primary activity, service, consists of royalty payments to the appropriate parties involved in the creation of the recording and handling received returns and feedback. The support activities include human resources activities such as talent scouting measures, consulting, and the activities of different managers. Infrastructural elements in the value chain are recording studios, the office spaces and building of record companies and online infrastructure. Technological development

activities are measures such as gathering intelligence, market research and the development of new software systems. (Shayo & Guthrie 2005.)

### 3.4 The Virtual Value Chain

Porter's original value chain is applicable to the manufacturing of tangible products, but disregards information as a supplementary process in value adding activities, rather than seeing it as a viable link in the chain as a sole value provider. As more and more business is conducted online as an entirely stand-alone business model or in addition to traditional manufacturing, value can be created through information in a virtual market space, transforming the value chain into a virtual one. Rayport & Viokla (1995) describe value creation in the virtual value chain to consist of five phases: the gathering, organizing, selecting, synthesizing and distribution of information. These processes follow the same internal logics as a physical value chain, but rather than the input and outputs being physical and made up of tangible materials, in the virtual value chain what is being processed is information. (Rayport & Viokla 1995.)

Based on Rayport et al. (1995) five value-adding measures in the virtual value chain, Bockstedt et al. (2006) describe their functions in the music industry: the gathering as well as organizing can be determined to consist of composing music and recording them, artist signings and the promotion of artists. The production of digital recordings represents the selection and synthesis. The final value-added step in the model, distribution, takes place as music is downloaded through online purchases or streamed through services. (Bockstedt, Kauffman & Riggins 2014.)

The next subchapters will provide more insight into the different players involved in the value chain and its activities as well as their individual functions. Their dynamics and changes in these dynamics and roles will be further studied in the empirical section of this thesis.

#### 3.4.1 Role of Record Labels

Record labels have traditionally been the most prominent players in the music industry value chain, as they possess a wide range of vital finite resources that other players

need, but possibly lack the means acquire. Out of all of the players involved in the industry's value chain, they have typically been in control of most drivers of value, such as copyright and licensing, production, distribution and inventory and marketing and sales activities. Getting signed by a record label typically means that instead of having to be self sufficient in a plethora of activities, artists can focus on their own core competencies while the record label takes care of activities such as music production, marketing, promotion, sales, the manufacturing of CD's, distribution, artistic development, legal activities and publicity management. Due to their high involvement in many parts of many processes in the traditional value chain, record companies hold a tremendous amount of power. From the sale of CD's, their revenues have typically gone even as high as 35 percent, which also represents the subpar position that retailers are in as the sale of CD's has continued to decline even further. (Bockstedt, Kauffman & Riggins 2014.)

Similarly, Moreau (2013) describes the role of the major record labels in the scope of the entire recording industry's value chain as a result of control over promotional and distributional efforts. In the traditional value chain where music is in CD and LP form and distributed to consumers through traditional intermediaries, the distribution network and significant fixed costs required to thrive in the market need to be massive and the structure required to facilitate it is the result of economies of scale. (Moreau 2013.) Due the digital transformation and increasing importance of digital service providers and streaming services, the value that record companies provide in comparison to their traditional role is supposedly more focused around marketing management, promotional activities and production consulting activities as their role as 'gatekeepers' can be seen as diminishing in some respects. (Bockstedt, Kauffman & Riggins 2014.)

### 3.4.2 Changing role of Artists – Independent Distribution Channels

As there are more and more platforms that enable independent digital distribution directly to the consumer there exists a tremendous potential for artists to establish career paths without the resources of record labels, as the costs of technology required to distribute recordings have reduced significantly. In some instances, such as the rap

genre, the entire creation process has become digitized, as no physical instruments are necessarily required in the process. (Eiriz & Leite 2017.)

Other viable channels through which artists can self publish their material and bypass the traditional routes culminate in opportunities provided by the growing importance of social media. In the research provided by Kaplan and Haenlein (2010) social media can be defined as ‘‘A group of Internet based applications that build on the ideological and technological foundations of Web 2.0, which allows the creation and exchange of user generated content’’. Salo, Lankinen & Mäntymäki (2013) describe the use of different social media sites such as YouTube as a platform for the distribution of audiovisual content, like music videos and links to artist’s websites and artist’s own websites. (Salo, Lankinen & Mäntymäki 2013.) Platforms such as MySpace have made the first and pioneering efforts into these developments as it was established as a way of connecting artist to their fans in a way ushering in an era of a new type of value co-creation and more direct communication. (Mac 2013.) This is evidenced by research conducted by Eiriz & Leite (2017), who in their study reported the use of Internet platforms and streaming services such as Youtube, Spotify, Apple Music, and Bandcamp by independent musicians in creating customer bases as well as a means of promotion and sales. (Eiriz & Leite 2017.) Another popular online distribution channel for independent publishing of music is the platform SoundCloud. The platform allows virtually anyone to upload their own recordings to it and stream them through social media networks. Music streaming is also creating new value and affecting the digital distribution of independent, unsigned artists’ music with their new feature, ‘Tidal Discovery’. The feature enables the uploading of original digital recordings through various platforms such as Tunecore, Record Union, Distrokid and Indigoboom, with whom Tidal is in partnership with, paving yet another marketing channel for artists to potentially become recognized by consumers or labels. (Tidal 2018.)

As the Internet enables a closer relationship between the consumers and artists, the conventional cycle of music creation and distribution has transformed the value chain significantly as consumers often access the newest music by an artist, deepening the already significant disintermediation that is in the process of happening in the field. These developments have according to Eiriz & Leite (2017) impacted the power dynamics between artists and record labels into a situation, where they are in a more

advantageous position in terms of negotiation power, their autonomous position as well as more evenly distributed revenues. The impacts and potential success of so-called DIY (do-it-yourself) business models are undercut by the amount of various platforms available to distribute music available to both consumers and artists, making it more difficult for artists to stand out competitively. These challenges are made even more significant by the fact that as artists are taking responsibility for their own careers, their job descriptions are extended from merely producing and creating music to include, promotional efforts, sales, distribution and various other activities (Eiriz & Leite 2017.)

### 3.4.3 The Role of Intermediaries

Intermediaries provide vital functions between the buyer and seller in the market by taking care of activities such as coordination of transactions, inventory management, upholding informational duties and setting market-clearing prices, but as music is increasingly being distributed digitally online and CD sales keep declining, the value added from manufacturing and distribution keeps diminishing as well. This alters the importance of the role of traditional intermediaries such as physical retailers, but provides opportunities for adding new value by focusing on digital distribution. (Bockstedt, Kauffman & Riggins 2014.)

The role and importance of digital intermediaries as well as the current position of record companies in the industry value chain is evidenced in a report by the Securities and Exchange Commission concerning Warner Music Group Corp. where it is described that digital intermediaries such as streaming services and digital music services seemingly have the upper hand when it comes to distributing and setting prices of digital music. The report indicates that record companies have little power in influencing the prices set by a relatively small number of digital intermediaries. One of the three largest record companies in the world, Warner Music Group Corp. currently has partnership contracts negotiated with Amazon, Apple, Deezer, KKBox, Napster, Spotify, Telefonica, Tencent, YouTube and Google. (Securities and Exchange Commission, 2017.)

### 3.5 Theoretical Framework

The theoretical framework is there to provide the reasoning why there is a need to study certain phenomenon and to aid in the empirical research in terms of data selection, description and analysis. In this thesis the research question is: *What measures have enabled the marketing channel management of music companies to succeed through industry disruptions?*

In order to answer the research question through empirical findings, its structure must be set on a theoretical background, which in this thesis is constructed from the theoretical data and literature review presented in the last two chapters. The main framework is against the backdrop of marketing channel management and previous literature concerning the music industry with industry disruptions, more closely related terminology such as Moreau's (2013) digital disruption (Skog et al. 2018.) explored.

The themes explored in the empirical section of this thesis are derived from the theoretical framework and look further to the strategies of music companies adapting to disruptions in general and in terms of marketing channel management, dynamic and role changes in the industry between different actors, the relationship between digital and physical marketing channels, competition in the industry and how the industry will likely transform in the coming years. All of which have been outlined in previous chapters.

## 4. METHODOLOGY

The data that is necessary to provide an answer to the research question in this thesis requires a research method that is capable of gathering information from multiple cases as opposed to a single one and comparing the cases and selected attributes with each other. So in lieu of a single case study analysis, a multiple case study must be conducted. The cases that are selected for analysis each provide their own input regarding the research topics and problems of this thesis. Because these focus points vary in different types of firms within the industry, three types of record/music companies were chosen, with one additional company serving as a supplementary source of information. The first is a firm that overlooks the entire industry and can thus provide a more generalized viewpoint regarding a broader spectrum of music industry disruptions. The second organization is a music content company that is part of a large international conglomerate. The third, a proponent of a medium sized and growing firm and the last case firm is a smaller independent record label, essentially the polar opposite of the second case firm.

### 4.1 Data Collection & Analysis

The data in this thesis was collected using semi-structured interviews. The semi-structured interview is a qualitative method that employs an interview strategy where the general topics and certain themes are determined prior to the interview by the interviewer, but compared to a structured interview, there remains flexibility in its progression. The specific forms of the questions don't necessarily matter, nor does the order in which they are presented. What this means in practice is that in a semi-structured interview both the interviewee and interviewer have space and flexibility, but the responsibility of the direction, as well as the initiation of it remain on the interviewer. (Edwards & Holland 2013.) This flexibility offered by the method was vital especially during the initial interviews as it enabled room to uncover focus points for further interviews and thus what specific aspects were key to closing the research gap in the thesis. In line with guidelines set by Edwards et al. (2013), during the course of the interviews, the most widely and thoroughly discussed topics were initiated by the answers of the interviewees based on their comprehension of the discussed subjects

as well as meanings given to them. Adjustments were made to the themes, direction and order of questions as needed during each interview.

A particular usefulness of the semi-structured interviewed method was the possibility for the comparison of different interviews together, as the themes remained primarily the same during all interviews. This characteristic was necessary during later stages of this thesis as the cross-case analysis was carried out. (Edwards & Holland 2013.)

The interviews were conducted in Finnish and recorded using a smartphone app. A pre-determined set of directional questions was laid out before each interview, with varying themes receiving more attention than others as the interviewed progressed seeing as they proved to be more relevant. The next set of pre-determined questions was modified after each interview based on these emergent relevant themes.

After each individual interview, the data was transcribed and translated into English. The transcriptions were written in the order of the pre-determined themes discussed during the course of the interviews. This data was subsequently analyzed using qualitative content analysis as a research method, which is a method used to analyze text data. According to Hsieh & Shannon (2005), the text data that is used as the target of content analysis may be in print or electronic form and can be the result of conducting interviews or open-ended surveys. It offers a method to interpret textual data by inspecting contextual information, which in this thesis enabled the analysis of transcriptions of the interviews. More closely, the content analysis was utilized in identifying emerging themes and patterns. (Hsieh & Shannon 2005.) As a part of the content analysis, the transcribed interviews were color-coded in order to more easily compare and contrast the findings between each interview as the data was being analyzed during the later employed cross-case analysis.

## 4.2 Research Methods

Case study design can be described as a detail-oriented depiction of a target that can be an organization, a person, a city or a chain of events. The foundation of it is formed by extensive data collection and a comprehensive depiction of the studied phenomenon. Case studies often deal with phenomena that are multisided and make their impact

during a long period of time and as such, they well are suited for research that seeks to find answers to questions like how or why. These factors provide the reason as to why case study analysis is compatible for the purposes of this thesis. (Bamberg, Jokinen & Laine 2007: 10).

As the subject matter in case studies is often complex in nature, like in this study, it is dealt with by means of triangulation, which involves using different materials and methods that have a complementarity factor to them. There are four different types of triangulation: data, investigator, theory and method. More specifically in this thesis, the focus is on data triangulation. In data triangulation, different sources of information are utilized in order to achieve it. These sources typically include interview, newspaper and statistical data, all of which were utilized in this thesis. (Denzin 1978.)

In the process of conducting a case study design consisting of multiple different cases as opposed to just one, the selection and nature of cases becomes an important step, as it effects making generalizations greatly. Yin (2003) suggest the selected cases be either extremely similar or on the opposite ends of the spectrum. For the purposes of this particular study, cases representing both sides suggested by Yin (2003) were taken into consideration in the selection process.

As this study requires comparing and contrasting multiple case firms together, conducting a cross-case analysis serves as a useful tool for the purposes of this thesis. A cross-case analysis is a research method that serves as an extension of a within-case study by examining the factors that are analyzed in case studies in a broader context consisting of multiple varied case studies. By examining several related cases, researchers are able to compare similarities and differences between the events, activities or processes. (Khan & VanWynsberge 2008.) Regin (1997) describes the different benefits of cross-case analysis stating that by comparing cases with each other explanations can be provided to problems such as:

- Why does one case differ from the other ones?
- What are the factors that have led to a cases situation?

- A need to clarify or articulate certain concepts or hypothesis from an original case
- Refining and developing concepts

A prominent benefit of the cross-case analysis is the generalizability that it is able to provide. This can be seen as a significant benefit compared to a mere within-case analysis, seeing as by comparing several cases together, it can be more clearly stated that a phenomenon or process is not limited to a single case, but is in fact present in several cases. Similar to uncovering results that are generalizable, an ideal situation for a cross-case analysis is where the results can be transferred to different contexts with similar backgrounds. The generalizability of findings in this study may prove to be a difficult task as the music industry is a very unique creative industry with its own nuances and so the findings may be limited to the confines of firms operating in the same field. Another important reason for the utilization of cross-case studies as a research method comes from its ability to deepen the understanding and explanation. Compared to a single within case, theories can be more easily tested and strengthened through multiple cases, as they are more efficient in describing the accurate conditions in which the studied factor or phenomenon will occur. (Miles et al. 2013.)

Inside the cross-case analysis there are two different methods of approach, *the variable oriented and the case oriented approach*. In the case oriented approach, which is utilized in this study, the focus is placed initially on individual cases and the factors, configurations and causes that occur inside of them and after this process the case is comparatively analyzed in comparison to a larger number of cases. This approach follows the guidelines of the replication strategy, where a solitary case is examined more thoroughly and based on the patterns found, the other case is then mirrored with it to see whether or not they are repeated. Miles et al. (2013) point out that although there are several cases involved and analyzed, the number of them is kept relatively small regardless. The cases are then compared based on possible different outcomes and similarities and these findings are used to form the aforementioned generalizations.

In comparison to the case oriented approach, the number of cases tends to be much higher and the variable-oriented analysis is well suited for finding *'probabilistic*

*relationships among variables in a large population*'. Its limitations however concern causation and the nature of its findings, which can be described as excessively general. Adversely, the case-oriented approach can provide accurate patterns from a smaller number of cases, making it a better fit for this thesis, but it too has its constraints, as the patterns provided have a tendency to be more suited to a specific instance, rather than easily generalizable. (Miles et al. 2013)

Despite the benefits that a thoroughly executed cross-case analysis can provide, there are many limitations to the method that need to be addressed as well. Ragin (2005) states as the cross-case analysis often leads researchers to draw generalizations concerning the studied phenomenon, these findings and generalizations have a tendency to be misguided. The uncovered results can implicate a correlation that might seem promising, but in reality is in fact false. Ragin (2005) notes this type of correlation to be the most common limitation regarding the cross-case analysis as a research method.

#### 4.3 Case Firms Examined

There are four cases examined in this multiple case study, IFPI Finland ry, Universal Music Finland, Kaiku Entertainment and Stupido Productions. The case firms that were selected to be a part of the multiple case study, were initially determined based on Yin's (2003) notion that the cases in a multiple case study be either polar opposites or extremely similar. The polar opposites in this study are reflected in Universal Music Finland and Stupido Productions as the first is the current market leader and a so-called "major" music company, whereas Stupido Productions is an independent music company and more or less struggling to stay afloat. Kaiku Entertainment serves as a somewhat mix of the two aforementioned cases as they are a growing and a relatively new company, on the cusp of beginning to challenge Universal Music's market position. Initially the first case firm was supposed to be a music company called Warner Music Finland, which is a direct competitor of Universal, but this was changed due to inability of accessing the firm within an adequate timeframe in terms of completing this thesis.

#### 4.3.1 Musiikkituottajat - IFPI Finland ry

Musiikkituottajat - IFPI Finland ry is an umbrella organization for music producers based in Finland that aims to ensure the prerequisite for operation in the music industry. This is achieved by making sure that the current legislative measures support opportunities for Finnish music producers to operate and compete freely whether it be in a digital environment or a traditional market. Other steps taken by the organization include further developing the production and distributional measures associated with recordings and participating in the administrative process of legal rights related to music production. The organization's members consist of 23 Finnish music companies, which together are responsible for approximately 95 percent of the music produced in Finland. (IFPI, 2018)

Musiikkituottajat – IFPI Finland ry is a part of the multi national representative organization of music producers, called the IFPI and is thus responsible for carrying out its agenda in Finland. The IFPI's mission statement is comprised of three sections: 1) The promotion of the value of recorded music, 2) Protecting the rights of record producers and finally 3) Expanding the commercial uses of recorded music. By the value of music, it is specified to concern its economic value in regard to job creation, investments and growth as well as the cultural value present in society. The protection of producer's rights aims to ensure that the parties that create, make investments and produce the music are adequately secured in their right to do so. Lastly, the final mission statement is focused on the IFPI's efforts to broaden the number channels that its member's music is licensed to in order to increase the generation of its commercial value. (IFPI 2018.)

For the purposes of this thesis, including Musiikintuottajat – IFPI Finland ry into the multiple case study provides useful information regarding the general developments and developmental challenges that the industry has faced, is facing and is likely to face in the future. Among the case firms explored in this thesis, Musiikintuottajat – IFPI Finland ry was the first organization in which interviews were conducted. By choosing to do this and focusing the initial case study on an organization acting on behalf of the

other three case study firms, the uncovered information helped in specifying interview questions and topics more closely regarding the latter interviews.

#### 4.3.2 Universal Music Finland

Universal Music Finland is the leading music content company in Finland with a market share of approximately 30 percent. Universal Music Finland's auxiliary business names are labels such as Johanna Kustannus, Love Records and Spinefarm. It is a subsidiary of Universal Music Group, which is one of the three largest music companies in the world and the current global market leader in the entire music industry. (Universal Music Finland 2019.) Vivendi owns UMG itself, which in turn is 'an integrated content, media and communications group' (Vivendi 2019.). Universal Music Group is comprised of a plethora of different record labels around the world, most notable of which are Interscope Geffen A&M Records, Decca, Island Def Jam Music Group, Mercury Records, Polydor Records and Universal Motown Republic Group. (Universal Music Finland 2019.)

#### 4.3.3 Kaiku Entertainment

Kaiku Entertainment is a Finnish music company, established in 2007 in Helsinki Finland. The company is comprised of both an independent record label as well as a publishing company. The 14 Artists currently signed to the label represent the success of the company as most of them are relatively well known in the mainstream music scene in Finland. The compatibility of Kaiku Entertainment in the cross-case analysis conducted in this thesis comes from the fact that unlike Universal Music Finland, it is an independent label, giving the research the perspective of a smaller label. An additional benefit in terms of the analysis between independent and major record labels comes from the fact that the founder/CEO/A&R manager of Kaiku Entertainment, Pekka Ruuska, is the former head of A&R of Warner Music Finland. (Kaiku Entertainment 2018.)

#### 4.3.4 Stupido Productions Oy

The last case firm included in this thesis is a Finnish music company called Stupido Productions Oy. Established in 1989, Stupido Productions consists of three separate units with auxiliary business names: 1) Stupido Records, 2) Stupido Booking and 3) Stupido Records Store. The main focus of this research is placed on Stupido Records as they deal mostly with issues related to this thesis. Aspects that make it a compelling case to be compared together with Universal Music and Kaiku Entertainment come from it being very different than from the two. Stupido Productions is an independent music company that has operated for three decades, having to adjust their business model, while adapting to industry changes and still manage to survive, despite struggling to survive even today. (Stupido 2019; Kauppalehti 2019.)

In the following table the names, positions; organizations of the interviewed subjects are presented.

**Table 1.** List of interviewed subjects and additional details

NAME	ORGANIZATION	POSITION	DATE	DURATION
1. Kotilainen, Antti	IFPI Finland ry	Executive Director	28.11.2018	60 Minutes
2. Valtanen, Kimmo	Universal Music Finland Oy	General Manager	17.1.2018	27 Minutes
3. Ruuska, Pekka	Kaiku Entertainment Oy	Founder/CEO	20.02.2019	58 Minutes
4. Berglund, Joose	Stupido Productions Oy	Founder/CEO	14.03.2019	45 Minutes

#### 4.4 Assessing the Quality and Trustworthiness of the Research

When assessing conducted research, its quality may be determined by the way it reflects certain agreed upon standards and values. Both in qualitative as well as

quantitative studies reliability and validity are used in this process, but are traditionally more commonly used in conjunction with quantitative research. (Saaranen-Kauppinen & Puusniekka 2006.) To ensure the reliability and validity of any study, they need to be evaluated and determined to be on a steady basis. Researchers need be able to determine that the conducted research is done competently and that the methods used in relation are appropriate. Ali & Yusof (2011) argue in their paper about the different means by which the quality of qualitative studies can be assessed. One such perspective that is presented by positivist's states that qualitative studies can only be determined by looking into criteria that consist of 1) reliability, which refers to how well the research findings can be found the same in another study, 2) internal validity, referring to the strength of cause and affect, 3) external validity, the extent to which the results are generalizable and 4) objectivity, meaning that the results are free from researcher's own personal views preferences. (Ali & Yusof 2011.) However according to Riggs and Treharne (2015) one of the most often cited set of characteristics in qualitative research has been developed by Lincoln & Guba (1985) who determine trustworthiness based the research's credibility, transferability, dependability and confirmability. By their definition, credibility means how true the findings are; transferability, that the findings can be transferred to other similar settings; dependability, that there are no inconsistencies in the findings and conformability, that there is a clear freedom from bias.

Even though there are no agreed upon guidelines or sets of standards regarding the assessment of the quality of qualitative research, Dixon-Woods, Shaw, Agarwal & Smith (2004) have presented a checklist for this very purpose, which focus on suitability of the research question, collection, coherence and analysis of data, sampling, evidence for made claims, conclusions as well as made interpretations and what the findings aim to contribute to already existing research. (Dixon-Woods et al. 2004.) All of these notions have been taken into account in this study to ensure best possible quality.

Parallel to quantitative studies, the quality of qualitative research may also be assessed by focusing on three fundamentals: 1) validity, 2) reliability and 3) generalizability. (Leung 2015.) Noble et al. (2015) define validity as how well the conducted research findings truly shed light on the studied data or phenomenon. Achieving validity in

qualitative research translates to achieving research that is competent. According to Saaranen-Kauppinen et al. competent research can be described as believable and convincing. These goals can become seemingly difficult as the nature of qualitative research indicates that studied phenomenon, whatever it may be, is often subjective in nature and for the researcher to fully be able to describe the studied phenomenon as it is apparent in their reality requires tremendous effort. (Saaranen-Kauppinen & Puusniekka 2006.) One technique employed in this thesis, in hopes of ensuring and improving the validity of its research findings is the aforementioned data triangulation. So in addition to relying on data provided by the primary data source, the interviews, this source is complemented by previous research, interviews and website information to make the stated claims more competent.

As for reliability, Noble & Smith's (2015) definition of the term is: 'The consistency of the analytical procedures, including accounting for personal and research method biases that may have influenced the findings'. Similarly, Leung (2015) also underlines the importance of consistency by citing Silverman's (2009) approaches for reliability, which are refutational analysis, data comparison, comprehensive data use, inclusive of the deviant case and use of tables. As far as personal and research method biases are concerned, despite a personal interest in the topics studied in this thesis, there are personal beliefs that could have had an impact on the findings. Silverman's (2009) notions on reliability have been taken in to account as the data used is from multiple sources and during the cross-case analysis it is compared to similar data.

Noble & Smith (2015) demonstrate the inherent problems with assessing the reliability of qualitative research as it is often criticized for lack of transparency regarding applied analytical procedures as well as research methods being adopted without thorough explanations as opposed to quantitative research. (Noble & Smith 2015.) These measures have been noted by aiming to provide adequate transparency of the analytical procedures and reasons for choosing specific methods.

The generalizability of qualitative research may be attributed to adhering to methods such as '-- use of systematic sampling, triangulation and constant comparison, proper audit and documentation, and multi-dimensional theory''. Out of Leung's (2015) presented attributes, in this thesis techniques used to increase the generalizability of the

findings involve the previously mentioned data triangulation as well as proper audit and documentation throughout the entire study process. Generalizability as a ‘goal’ of research can be challenging as Leung (2015) points out, seeing as a lot of qualitative research focus on very intricate issues in specific context and populations, generalization may not be the most commonly expected characteristic of qualitative research. It however plays a more significant role in this thesis, as with cross-case analysis the generalizability of findings is a desired outcome at least to some degree. The findings uncovered in the cross-case analysis are compared together in addition to already existing research, with the hope of increasing the generalizability of the data.

## 5. EMPIRICAL FINDINGS AND INTERPRETATIONS

In the following chapter the findings uncovered as a result of the conducted interviews are presented initially case by case and in the subsequent chapter they are discussed comparatively as a part of the cross-case analysis. The data is organized according to the order that the discussed themes emerged during the semi-structured interviews.

### 5.1 Musiikintuottajat - IFPI Finland Ry

#### 5.1.1 Evaluating the Market Situation

##### Current Industry Atmosphere

From the perspective of IFPI Finland that oversees issues related to a large host of music industry players, the current situation in the market is primarily positive. The long downturn of the industry is behind and thanks to streaming there is growth in the industry.

*“Well, in terms of specific developments, from a global perspective, we have only had growth for about three years after a long downfall. So the current atmosphere is positive, the growth is relatively steady, and comes from streaming services. The industry has gone through a lengthy restructuring with a revenue decrease of almost 50 percent.” – Antti Kotilainen, IFPI Finland*

##### Current Challenges

From an industry wide perspective the biggest challenge from digital marketing channels, currently and in recent years for IFPI has been the so-called value gap, which refers to the unequal competitive situation created by YouTube’s utilization of legislative safe harbors that enable the refusal of adequate copyright payments, despite widespread distribution of copyrighted music. However, the head of the IFPI states that, in the event that the case would be resolved in the favor of the music industry

rights holders and players, YouTube has threatened to shut down the services from European consumers.

*“...-- The biggest question is the European Union’s legislation, a directive that hopefully will be resolved by the end of the year. It is called the value gap.”-- The question of, what is the responsibility for platforms such as YouTube to pay royalties. It has been a prominent question in the industry for more or less four years and is globally probably the biggest issue to deal with in order to get the digital operational environment, into a sort of “healthy” situation. Now there are two different players with two different sets of rules. Spotify pays licensing fees, but YouTube has all the content available for streaming and the paid fees are much more minuscule.” – Antti Kotilainen, IFPI Finland*

Additional challenges that the industry is facing related to increasing the number of consumers that use music streaming services and are willing to actually subscribe to them.

*“There lies our greatest challenge. That we can get people to move towards the adoption of services that cost the aforementioned 10 euros a month. It requires a lot of work on our end, but it works and at the moment it is what brings money into the industry and ensures that investments can be made and new music can be created. Without it there is no growth.” – Antti Kotilainen, IFPI Finland*

### Piracy

When it comes to Peer-To-Peer networks and pirated activity in the digital era, it is abundantly clear that the issues have evolved towards a more manageable and less disruptive range, when it comes to the longevity of the entire industry. The IFPI still fights and monitors these activities, which emerge primarily in the form of YouTube downloads being burned onto CD’s. The head of the IFPI refers to the situation as follows:

*“The current state of piracy and pirated activity is most prominently evident in downloading content from YouTube. Playlists are created from the content available on YouTube, which are then converted into physical copies. But comparing the number of users engaging in this activity today, to the same number ten years ago, it is much lower.” – Antti Kotilainen, IFPI Finland*

#### Music downloading services

The state of music download services such as iTunes has diminished significantly over the last years as streaming has increased in popularity.

*“They are still available to the consumers, but the fact is that the sales of on-demand download services have been declining. Physical sales have been declining and download sales have been declining.” – Antti Kotilainen, IFPI Finland*

#### Music streaming’s effects on the domestic market

When discussing the effects of streaming on the Finnish music market, Kotilainen points to its decrease due to increased supply of music.

*“ The way that streaming has affected the Finnish music market is that, the percentage of domestic music being consumed has decreased. At its peak, during the physical music era, it was around 67 percent of music consumed in Finland. Now the number is 36 percent. This is because the music catalogue available is so massive.” - Antti Kotilainen, IFPI Finland ry*

Despite these changes, he is quick to point out that the domestic music is the backbone of the entire Finnish music industry.

*“Still if we look at the weekly top charts, out of 20 songs, 15 or 16 are domestic music. It is what keeps our record companies and the industry alive and it is the reason why we have major record labels here. The only way is that*

*we invest in our domestic infrastructure, since the songs are still what bring about live concerts.” - Antti Kotilainen, IFPI Finland ry*

### Streaming’s effect on distributional strategies

According to Kotilainen, streaming has altered the time frame in which revenue is generated, as the majority of it used to center around the end of the year, whereas now it flows more evenly throughout the year.

*“ -- The sales in November and December brought a large amount of yearly profits and the rest of the year was sort of geared towards this moment. But now when we look at it, every month in streaming is as important as the rest. The same race is being held every month in terms of how the pie is being sliced.” - Antti Kotilainen, IFPI Finland ry*

Kotilainen notes that one of streaming’s most profound effects on distributional strategies comes from the frequency that albums and singles are released as the model in which they generate revenue is also different from the physical era.

*“ -- It used to be that an album would be released, which was followed by a tour that lasted a year or even a year and a half, which was followed by another album and so on. Whereas now the process is more comprised of singles being released after singles and then at some point the album is released.” - Antti Kotilainen, IFPI Finland ry*

### 5.1.3 Industry Dynamics between Various Players

#### Changes in dynamics within the industry

The IFPI’s views on how digital streaming has affected the power dynamics between streaming services and music companies focus on the assumed complexity of negotiation of contracts and the fact that due to the popularity of these services and

their significance to music companies' revenue, they dictate what genre of music is profitable and therefor produced.

*“Well, presumably the contract negotiations are always rather difficult. I don't see any agreements happening easily. Every month the money is being divided at Spotify among the most streamed songs and this means competition. -- ...The releases produced every month should be such in kind that they go to the top and receive a part of the monthly payments that are being divided”.* – Antti Kotilainen, IFPI Finland

Looking more closely at what determines the produced music, streaming services release reports concerning their user data, which enable music producers to utilize this information in the production process.

*“ Spotify releases data all the time about the rights holders. This data, that contains information about Spotify's users, such as that they are fairly young for the time being, what they are listening to, what is being consumed, dictates, presumably, also what is being produced.* – Antti Kotilainen, IFPI Finland

#### Music/record companies' position as industry gatekeepers

As the number of streaming platforms and services has increased, the seeming necessity for records labels for artists has decreased, according to Kotilainen.

*“-- It has changed it entirely, especially if we compare today to the physical era. During that time, if you did not get a distributor for your album, it didn't get anywhere. But now, through the various different aggregate services, anyone can get their own music to every service. What this means for the record company, is that an artist might not necessarily even need a record company.”* – Antti Kotilainen, IFPI Finland

In line with these developments, record labels/music companies have had to re-evaluate their roles as their distributional expertise no longer brings the same value as in the past.

*‘-- This has also presented challenges for the record companies, as they have had to adapt to the current market situation in the sense that if they are not able to provide some type of additional benefits in the establishment of an artist’s career, their services are rendered useless.’ – Antti Kotilainen, IFPI Finland*

*The necessity of record labels/music companies backing artists*

When it comes to artists establishing careers without music companies supporting them, instead operating through one of various digital channels that enable the distribution of music independently, Kotilainen states that it is in fact feasible and a rational choice for some.

*‘-- Some people do it and some people handle it very well. Some people like to do it. It is fine. I think that as an artist, you can deal with everything up until a certain point.’ – Antti Kotilainen, IFPI Finland*

If the independent artist proves ultimately to be successful, without outside assistance, this process may become unnecessarily demanding.

*‘ But if this work leads to you making it big, you’re going need help at some point. There is a lot of collaboration in this industry these days, in every direction.’ – Antti Kotilainen, IFPI Finland*

*New practices by record labels adapting to a digital environment*

In discussing adaptive measures taken by record companies amidst the digital transformation, one notable step was combining live music in conjunction with recorded music. A prime example for Nordic labels of this new operational logic was set by Warner Music Finland.

*‘When the decrease in CD sales began, it led to many record companies becoming music companies and move into the live music business. Warner*

*Music is probably the best example of a Finnish record company doing this. But not every record company has followed this suite. Within Warner's own branches globally, Finland's branch served as a textbook example.*" – Antti Kotilainen, IFPI Finland ry

#### 5.1.4 The Future of The Music Industry

##### The Future of Physical Music Sales

Speaking about the current state and possible future scenarios related to physical music products, the head of the IFPI foresees the development of a situation where CDs may be released genre and/or artist specifically.

*" -- Some artists may not want to or feel necessary to put out a physical CD or they may want to release their album on vinyl. It is possible that physical copies may be released only as a part of a special product. It is also dependent on the musical genre in question."* - Antti Kotilainen, IFPI Finland

Despite the decreasing trends, Kotilainen does not foresee a demise of the market anytime soon, but rather furthering of its already begun transformation towards a niche market.

*"The fact is that the more large-scale physical stores have been steadily decreasing. For example with the bankruptcy of the Anttila retail chain made a big dent in our market's sales of physical CD's and hastened its downfall. --But this is where stores specializing in CD's have stood their ground. Retail stores like LevykauppaX have found their own customer base and ways to service them. -- I don't see a market without physical copies for a long, long time."*  
Antti Kotilainen, IFPI Finland

In the future, physical CD's may resemble the status that is currently enjoyed by vinyl records, which have morphed into a product carrying almost decorative, fixture type qualities.

*‘-- There will always be those who want the physical product if it has been made well and professionally. There are studies indicating that a large portion of consumers who buy vinyl records, never even listen to them. Vinyl records and vinyl record players have become a part of the décor of peoples of homes, a part of their lifestyles, a part of the urban city culture and all this. ...--The sentimental value is remarkably high’.* Antti Kotilainen, IFPI Finland

### The potential of blockchain

Antti Kotilainen’s views on the future relevance and impact of blockchain technology on the music industry follow a cautious but positive tone. He states that the current data has flaws regarding royalty payments and needs to be improved, but at the same time carefully points to the fact that in order to reap benefits from blockchain technology, there needs to be unified efforts implementing the technology that involve players from across the industry.

*‘-- The whole thing about improving information and blockchain is that they are ventures that have on-going pilots, they are being tested, they are being improved – the improvement of data is a universal venture. It is clear that back when data was not digitized, the information has been weak.’* - Antti Kotilainen, IFPI Finland ry

### State of the music industry in five years

On a global scale Kotilainen sees the expansion of streaming services to new markets such as India, China and Russia as a viable means to create new competition and serve the IFPI’s agenda in the future by bringing more balance between players. His views on new technological advancements affecting the industry in the coming years include voice recognition technology and its possible applications.

*‘-- But from our standpoint when it comes to Spotify or Apple Music, we hope that there will be more competition in the industry. -- Spotify just announced that they are expanding their market to India. And in terms of the recording industry, the prominent rising markets are in markets such as India, China and*

*Russia where the consumers have moved towards streaming.’’ – Antti Kotilainen, IFPI Finland*

From a domestic point of view, he swears by increased exporting of Finnish music, as well as and expansion of the Finnish live music sector.

*-- Music exporting presents it own opportunities. We have a lot of songs being exported and it is great that the producers have caught on to this and are constantly learning. And in this respect, have been positive developments, since it is no longer unheard of that a Finnish artist is able to book an entire ice hall on their own. It wasn't that long ago when solely international artists were able to book them’’ . - Antti Kotilainen, IFPI Finland ry*

## **5.2 Universal Music Finland**

### 5.2.1 Evaluating the Market Situation

#### Current industry atmosphere and challenges

The general manager of Universal Music Finland describes the current atmosphere in the industry as very positive, referring to the current growth period after an economic downfall. As possible future challenges Valtanen points to the possibility of competitors challenging the dominant position of Spotify in Nordic countries and subsequently more steady growth.

*‘‘ There are no major challenges, sort of speak, on the immediate horizon. It needs to be said that the industry is emerging from a low point to a rising market. -- These industry turning points have almost always been dependent on technological improvements and changes in consumer behavior. -- Perhaps the next turning point will be the evening out of the current organic growth and the reorganization of the market share.’’ – Kimmo Valtonen, Universal Music Finland*

### Competencies compared to other music companies

Valtanen describes their leading market position to be the result focusing on their core competencies, which are built on artist management, understanding consumers and market reactivity.

*“Our success comes from focusing on our core competencies. We want to be the best partners in discovering new artists, in marketing them, in improving them. And there is of course the fact that we know the consumer well and are able to react to changes in the market and be reactive. These are our most important prerequisites for success.” – Kimmo Valtanen, Universal Music Finland*

### 5.2.2 Industry Dynamics Between Various Players

#### Changes in dynamics within the industry

Comparing the digital and physical era’s characteristics together Kimmo Valtanen points to Universal Music’s situation currently where revenue is formulated throughout year, instead of the previous focus on the last few months of every year.

*“Now the sales are spread out much more evenly and the significance of the frontline and music catalogues is different. The hits and catalogues that are in constant rotation have a great impact. These changes have modified the way we think about and conduct our business.” – Kimmo Valtanen, Universal Music Finland*

Other defining characteristics in today’s operations come from the decreased dependence of revenue from units sold to distributors and changes in music catalogue rotation, due to streaming.

*“If we compare the current situation to the physical era, the incoming revenue stream was dependent on how much the CD’s or physical product was being sold over the counter or was being sold forward to retailers. In those days, the*

*entire calendar year's revenue could come during the Holiday season.” –  
Kimmo Valtanen, Universal Music Finland*

### Negotiating with streaming services

Valtanen describes the negotiations process as well as the overall dynamics with most streaming services as an effortless and mutually beneficial relationship.

*“ We negotiate on matters such as the distributor's commission, about price and how much of the revenue generated by music streaming is paid forward to producing companies, which then pay the artists as per agreement. We have a very good situation and a very natural situation with for example Spotify, Apple Music and other actors...” – Kimmo Valtanen, Universal Music Finland*

The exception to healthy negotiations with streaming services comes from Google/YouTube and their unwillingness to negotiate properly.

*“ -- ... If an actor such as Google and YouTube does not want to negotiate in order to create a similar type of operational environment, then that of course poses a challenge.” – Kimmo Valtanen, Universal Music Finland*

### The potential for streaming to replace digital download services

Despite the massive popularity of streaming services and their continuous expansion, Valtanen maintains that they are unlikely to replace digital download services such as iTunes entirely.

*“-- Of course they will become more marginalized. The role of download sales from all digital sales is already very marginal virtually everywhere. This is comparable to the situation between digital and physical music. -- And it will not likely disappear entirely, but little by little will become smaller.” - Kimmo Valtanen, Universal Music Finland*

Artists operating independently without a record label or music company

Speaking about the possibility of a growing number of artists following a Do-It-Yourself approach and independently building up their careers and distributing music through digital channels available to them, Valtanen does not see this as a significant threat to Universal Music Finland's position. He notes that this situation may be a possibility for an already established artist or one who is just starting out.

*'' -- If we look at two different ends of the spectrum, on one side an already highly established artist might feel as though they are able to manage without a large marketing effort to back them up and on the short run their relative earning might improve. On the other side there might also be an entirely new artist who may be able to do this.''* – Kimmo Valtanen, Universal Music Finland

Valtanen cautions these claims by remarking, the necessity of industry professionals in separating artists from the masses, actively taking care of their brand and facilitating different revenue sources.

*''But you need to remember that there are 20 000 new songs released on a daily basis so there needs to be something that separates you from the competition, brings the brand additional value and can build careers. -- And of course the other revenue streams that effect the size of the brand, such as concert popularity or radio air-time might plummet if no one is taking care of your brand''* – Kimmo Valtanen, Universal Music Finland

### 5.2.3 The Future of the Music Industry

The state of the Industry in five years

The general manager of Universal Music Finland has a confident outlook when it comes to the near future of the music business, particularly believing that on the

consumer side, music's consumption will continue becoming more seamless and convenient.

*“ -- But I see that in the future's operational environment the consumption of music and paying for music is increasingly more effortless and it is still a notable part of people's lives. So in this respect, I am confident about the state of the industry when we're looking ahead a few years time.” ” - Kimmo Valtanen, Universal Music*

#### Universal Music Finland's position in five years

Speaking as the current market leader, Valtanen maintains that this position is strong enough to be maintained also in the future. More to the point this situation will be realized by Universal's music catalogue rotation as well as their ability to discover new talent and produce hits.

*“In terms of the success of domestic and international artists, Universal will undoubtedly be the leading music company both globally and in Finland. --Our catalogue guarantees the success. The hits that we make today are a part of tomorrow's catalogue and are thus still kept in rotation and remain a part of the consumption. The volume and grandeur of the catalogue goes a long way and at the same time there is Universal's ability to produce new hits. ” - Kimmo Valtanen, Universal Music*

Universal's future strategy culminates into their mission statement – breaking new artists and producing hits.

*“Focusing on our one and only mission, which is to break new artists and to produce new hits. Purely by these means we will have a strong position in this market also in the future.” – Kimmo Valtanen, Universal Music Finland*

Although the future looks positive for Universal Music Finland, Valtanen is quick to point out the need for continuous improvement and adaptability to ensure a truly positive prerequisite for competition.

*“There is more opportunity for growth ahead, and naturally this means that we will also have to be capable of changing our firm as well as the ways we operate accordingly and to continuously adapt in order to be smarter and better equipped to serve.”* - Kimmo Valtanen, Universal Music

*The possibility of new business models being established along side streaming creating new type of competition*

When it comes to new types of possible competitive business models, differing from streaming services, being established that might effectively challenge their position Universal Music Finland does not have a rebutting alternative to offer. Valtanen addresses that streaming currently holds such promise that the notion of an ‘‘industry revolutionizing’’ innovation seems out of reach.

*“Time will tell, but as of now streaming services are the single greatest source of revenue and the method that the consumers are using. These services are easy to use; they are very functional and pretty much offer access to the whole world’s music catalogue for a monthly fee. Also the quality of these services, as well as the user interfaces is constantly improving. It is difficult to imagine there being an innovation in the near future that would totally change the market.”* – Kimmo Valtanen, Universal Music Finland

*The future of physical music sales*

Valtonen sees that consumer behavior will likely shift into a situation where CD’s are no longer purchased for their conventional characteristics, but more due to their aesthetic and status value, much like vinyl records today.

*“-- The physical CD’s function or value will likely change and it may become more of a ‘fan product’, just as people want buy a vinyl record only for*

*commitment or aesthetic reasons. -- It will become sort of a 'spinoff' product. ''*

*- Kimmo Valtanen, Universal Music Finland*

### *Future Innovations & possible disruptions*

Streaming services and especially Spotify still hold their prominent position in the future judging by Valtanen's views on the future of voice recognition technology and its applications in the music industry as he raises an interest in how Spotify may utilize the technology and how it may effect consumers.

*'' However, within 3-5 years it will be interesting to see how voice-activated speakers will affect consumer behavior. It will be interesting to see what will be Spotify's role in combining software and hardware with products such as Amazon's Alexa and Apple's Siri. Will they release their own speaker and will the consumers adopt it? These developments might have the most significant effect in how the future chips will be divided on the aggregator side. '' - Kimmo Valtanen, Universal Music*

Addressing Universal's and the industry's future, Valtanen does not foresee any identifiable sparks for industry disruptions on the horizon, but rather he sees ample opportunities. What he does predict for Universal Music Finland's future is the need to create added value for artists in terms of more efficient and frequent payment systems, in hopes of advancing them competitively.

*''-- Well, of course we need pay attention to how well we are able to create added value for the artists and one way to do that is with data. Real-time data enables us to make payments faster than before based on the established income flow. '' - Kimmo Valtanen, Universal Music Finland*

In practice, faster payment activities may bring competitive benefits for Universal Music Finland in the future.

*An ideal situation, that could very well be a reality in the near future, would be one where we are able to make, say, monthly payments. '' -- I feel as though*

*these matter have their own impact on the overall competition. – Kimmo Valtanen, Universal Music Finland*

Discussing whether or not blockchain technology could solve or aid in the process of handling royalty payments more effectively, Valtanen sees potential in its ability to optimize these payments.

*“ These are areas in which it [blockchain] could have its place, which are of course not part of our business, but different organizations do collect them [royalties] and it is possible to optimize these matters with technological development, as there is continuous pressure for it.” – Kimmo Valtanen, Universal Music Finland*

Valtanen also notes the possibility that efficacy in processing these payments could hypothetically mean a new type of competitive edge for music companies to promote themselves in.

*“ It might of course create a new way for companies to compete as they may promote themselves as a record company that would for example pay [royalties] in advance or handle payments on the same day, based on how much your material is being globally listened to.” – Kimmo Valtanen, Universal Music Finland*

## **5.3 Kaiku Entertainment**

### 5.3.1 Evaluating the Market Situation

#### Adapting to Industry Disruptions

Discussing the practices implemented by Kaiku Entertainment as well as personal viewpoints on over decades of facing different industry disruptions, founder Pekka

Ruuska relies on focusing on core competencies eg. Producing hit songs as a foundational, all encompassing strategy.

*‘‘I’ve had a principal that these changes that have emerged have seemed so massive that I personally could not have made an impact on them. -- What I have done is I’ve selected a super-simple survival strategy. -- The bottom line is that we have focused on creating good songs, focused only on core competencies and paid attention that costs don’t exceed the profits.’’ – Pekka Ruuska, Kaiku Entertainment*

### Current Challenges

The challenges that Kaiku Entertainment faces today, are primarily that of a company trying to accumulate new growth rather than struggling to survive. Ruuska prefaces these challenges by describing the creation of the so-called ‘‘long term money’’.

*‘‘A company that has operated for some time has accumulated a so-called copyright portfolio, the intellectual property or IP portfolio. Music streaming is a part of the long-term money as once a song is uploaded it rotates essentially forever. And even though the revenue each stream produces is small, if there are enough streams, there is a lot of revenue, compared to the amount of songs.’’ – Pekka Ruuska, Kaiku Entertainment*

The actual challenges that Kaiku Entertainment is currently facing culminate into being able to hire the right type of people, who are able to both find and identify the artists and talents of the future that ultimately bring the company revenue.

*‘‘ ... Even if you’re already aware that your year will not go well, you can count on it (streams) bringing a specific, budgeted amount of money, which enables you to hire people and when you hire people you also get people to do things and bring your company some power. The growth comes from these people finding units, eg. Song and artists, that bring revenue and the challenge is knowing where to find them.’’ – Pekka Ruuska, Kaiku Entertainment*

### 5.3.2 Industry Dynamics Between Various Players

#### Changes in dynamics within the industry

Having worked in major music company prior to establishing his own, Ruuska is in a unique position to compare the changes in dynamics for both smaller and larger labels before and after digitization. According to him, what mattered most then, as well as now are artists and creative content.

*‘‘It was not that difficult during the CD era, it all came down to the same core: songs and artists. If they are taken care of, it is pretty much the same what your label is.’’ – Pekka Ruuska, Kaiku Entertainment*

In addition to emphasizing the importance music and artists, Ruuska brings up the necessity of building a smaller label up to a certain point, after which the competitive dynamics between major and independent music companies become less distinctive.

*‘‘There is not that big of a difference once you get your business up to a certain standard and get the mechanics of it to such as degree that you are being taken seriously. It all boils down to the songs and artistic content.’’ – Pekka Ruuska, Kaiku Entertainment*

#### Comparing the digital and physical era

Other aspects discussed on the topic of what streaming services have altered were the fact that releasing albums and singles is no longer geared towards the end of the year, but rather released more evenly.

*‘‘The significance of Christmas time has changed, but it spreads out to other times.’’ – Pekka Ruuska, Kaiku Entertainment*

#### Negotiating with streaming services

Contemplating whether or not Kaiku has had issues with receiving the adequate amounts of royalties that they are entitled to from streaming services, Ruuska initially dismisses any problems, but also admits that there is not an effective system in place, that would allow them to actually verify the validity of these amounts.

*“ That is...Straight answer is no. However, that is sort of a gray area, because if the payments are inadequate, proving it from our end is extremely difficult. They pay what they pay. It is impossible... It is almost impossible to try to track whether or not the amounts that they pay are correct.” – Pekka Ruuska, Kaiku Entertainment*

On the possibility that blockchain technology could offer solutions to issues presented by difficulty following accurate royalty payment procedures, Ruuska points out that as they currently are under the distribution network of Warner Music Finland, it is not something they can undertake immediately, however within a few years it is something that interests the company to some degree as they are slowly detaching themselves from their current situation.

*“ At that point it will make less sense to be a part of their distribution and they can still actively monitor our revenue streams. This is something that we will look into within about two years. I don’t know if we will start building our own blockchains, but we are looking into new technologies that are being developed so that our digital distribution would come directly from a service provider.” – Pekka Ruuska, Kaiku Entertainment*

#### Music companies’ position as industry gatekeepers

Ruuska addresses the notion that at least on a theoretical level the position of record companies has changed due to streaming services and platforms that enable the uploading of music without a company backing them up.

*“ If I write some sorry excuse for a song, I can publish it on Spotify and its outward appearance looks just as same as Drake’s new single. So theoretically,*

*the position of record companies has changed.” – Pekka Ruuska, Kaiku Entertainment*

Despite the initial compliance, Ruuska defends the position of record/music companies as industry gatekeepers by stating that despite there being a multitude of different platforms through which people can publish their work; this has not altered the reality that record labels both discover and publish the majority of popular music.

*“ The main issue is that there is so little talent. The visions that need to be captured are so sparse. The ingenuity is so rare. Because of this, no streaming service will change this situation. The leverage by record companies is needed for now for a non-specified amount of time.” – Pekka Ruuska, Kaiku Entertainment*

#### Possibility of artists operating independently

Addressing whether or not digital distribution channels enable artists to more easily establish a career as opposed to the physical dominant distribution era, Ruuska brings up an example of the difficulty of gaining attraction without the backing of a company, despite the seeming effortless that uploading one’s music to multiple channels.

*“ Before you came in we met with a rapper that we discovered on YouTube who told us that he had published his work on Spotify, but failed to get it noticed and get streams. He even knew Samuli Väänänen from Spotify Finland who told him that you can’t just publish your work and immediately get your song on playlists. You need a company for that.” – Pekka Ruuska, Kaiku Entertainment*

In addition to the difficulty of getting noticed, Ruuska notes that even if an artist is able to break through independently, there is a huge infrastructure needed to establish a traditional artists career.

*“ -- And if you make it, are you going to be an artist at the same time as a chauffer, a roadie and everything. You need people to help you. I think the*

*purpose of a record company is to help an artist. An artist has a gimmick and the record company is there to help.*'' – Pekka Ruuska, Kaiku Entertainment

When it comes to already successful artists operating without the aid of music companies, Ruuska admits it is more likely than the previous scenario, but also that it is uncommon possibly due to the burden of having to build up a massive infrastructure and network as opposed to others taking care of them.

*''But it also happens very infrequently. And I want to ask why is that? -- If you have hundreds of millions of euros in the bank, the motivation to go after an extra 50 million may not be that great compared to the motivation to have trustworthy and capable people around you who know what they are doing.''* – Pekka Ruuska, Kaiku Entertainment

### 5.3.3 The Future of the Music Industry

#### Kaiku Entertainment's position in five years

The favorable attitude and faith in both the current and future state of the industry is evidenced by Kaiku's five-year plan to exponentially grow their business multiple times over in a relatively short amount of time.

*''We have roughly made our turnover five-fold in 10 years so it is not an astronomical figure, but it speaks of the nature of this business. It is not enough that we double our turnover in five years; it should at least be three times as big, preferably four times.''* – Pekka Ruuska, Kaiku Entertainment

A crucial component in their efforts to grow as well as another determinant of a positive future is the expansion of their efforts from purely domestic to international music business, despite the apparent risk factors that Ruuska mentions.

*''As a part of our strategy to grow our business multiple times over, are our international efforts. We are trying to boost this luck by incorporating the international aspect into our business and we are in the process of making big*

*investments, or have already made big investments in it. It is extremely risky to operate internationally.*” – Pekka Ruuska, Kaiku Entertainment

*The future of physical music sales*

Speaking on the possibility of CD sales stopping entirely due to digital music, Ruuska sees it as almost certain.

*“ It will most likely stop automatically. As long as it makes sense we will hang on to it, but it does not even make that much sense anymore. ”* – Pekka Ruuska, Kaiku Entertainment

As of now Ruuska sees the publishing and distribution of CD’s altogether as being highly dependent on nature of the artist.

*“ It depends on the artist. -- The previous Juha Tapio album that came out, there have been two released within a year... That album sold about 10 000 copies, which is quite a lot nowadays, but very low compared to what he used to sell. When the album by Tuure Borelius will be released sometime next fall, it will not most likely be released on CD at all.”* – Pekka Ruuska, Kaiku Entertainment

An important factor in this is the fact that older consumers still prefer CD players to streaming, whereas with younger demographics the situation is reversed.

*“There are still a lot of people who still have CD players, who will take a long time to move on to become Spotify users and some of them will never use it.”* – Pekka Ruuska, Kaiku Entertainment

Ruuska also brings up the notion that although CD’s by themselves do not present lucrative opportunities in terms of revenue, when their sales are combined with the live music sector during the holidays, their sales increase.

*“ -- Laura’s [Voutilainen] last album sold about a few thousand CD’s, which is not that much, but when a Christmas album is released and concerts are held, the concerts present a great avenue for selling the Christmas CD’s and the CD’s are sold Christmas after Christmas.” – Pekka Ruuska, Kaiku Entertainment*

### Future Impacts of Technologies

Similarly to his strategy concerning his approach to past technological advancements that have disrupted the industry, Ruuska does not maintain any particular responsive strategy or an eye on the future regarding technologies such as voice recognition.

*... “Of course I enjoy all benefits that technology brings in to my life, despite this, what I think is, if a new technology is going to emerge, it will still need the good songs. I focus on them and I just don’t care. If an engineer is interested then good. It is a waste of time to ask me about technological visions.” – Pekka Ruuska, Kaiku Entertainment*

### Future challenges of the Industry

Speaking about future challenges effecting the industry, the currently ongoing debate regarding article 13, which deals with copyrights and more specifically YouTube’s role in paying for content, Ruuska expressed his faith that the directive will be passed in favor of music companies.

*“ Behind copyrights, there are such massive forces backing it up, if we think about, say, computer software or whatever, like patents. There are such massive economic interests behind them that copyright as an idea cannot disappear from this world and copyrights will be dealt with as a sort ‘value’ when it will go across the board.” – Pekka Ruuska, Kaiku Entertainment*

Ruuska prefaces his stance on the matter by pointing simply to the fact that parties that do not get compensated properly create the content on YouTube and if the issue will not be resolved, then a new system will be initiated due to high demand.

*“ If YouTube’s business is based on the limitless free use of the content of other’s then it SHOULD fail. Then someone else will take its place and provide a more incentivized distribution of income. It is clear that there is demand for it.” – Pekka Ruuska, Kaiku Entertainment*

### Expansion of the Finnish music market globally

Speaking further on the exporting of Finnish musical acts to the global market, Ruuska sheds light on the harsh reality that Finnish music companies often face as their talents are signed to companies operating in countries with more relevant music markets.

*“If we come up with something interesting here, the way it works is that they try to get rid of you immediately. There is a good reason for this. If we sign an artist here in Finland, there is not a single record company here with the network needed for operating internationally” – Pekka Ruuska, Kaiku Entertainment*

According to Ruuska, the primary driver for these difficulties of exporting Finnish music come from a lack of funding compared to companies operating in larger markets.

*“Every Finnish artists success story has come from outside these companies, okay except for HIM. Usually the way it goes is along the lines of ‘Thank you, we will take it from here. Here is some money’. The reason is that there are none of the necessary contacts and resources in Finland to make these kinds of massive investments.” – Pekka Ruuska, Kaiku Entertainment*

## **5.4 Stupido Productions Oy**

### 5.4.1 Evaluating the Market Situation

#### Greatest challenges and industry disruptions over the years

Questioned about the biggest disruptive forces that the company has had to face over its 30 years in existence, CEO and founder Joose Berglund mentions the numerous format changes straight away. Additionally, he expresses his surprise at how older formats have emerged after not being widely produced for decades.

*‘‘At this point I have to say that it has been the format changes. No one could’ve believed, at the beginning of the 2000s, when CD’s were at the top that in twenty years it would [the format] come tumbling down. Also that there would be streaming, which had not even been invented yet at that point and to counterbalance that these [points to an LP record] would come back.’’ – Joose Berglund, Stupido Productions Oy*

#### 5.4.2 Industry Dynamics Between Various Players

##### Changes in dynamics within the industry

When questioned if streaming platforms provide smaller music companies an easier route to distribute music to the same position as bigger companies’ music, Berglund states that the opposite is more likely, especially in indie music.

*‘‘I feel more like it is easier to disappear in the flow of music streams. In our specialty field, in indie music, people seem to appreciate physical copies more, especially vinyl records.’’ – Joose Berglund, Stupido Productions*

Berglund makes his point by bringing up an example of a seemingly attractive band that’s music was initially streaming-only, but only began to get recognition after the publishing and distribution of physical copies.

*‘‘We were working on a ‘super-group’ called ATK... They recorded two albums for us and the original idea was that they were only going to be released on streaming platforms, but they got lost in there. People began talking about the band and it started to get noticed only after we released an*

*album consisting of the song on streaming platforms and the band started doing concerts.’’ Joose Berglund, Stupido Productions*

### Music companies’ positions as industry gatekeepers

Comparing the position that music companies are in nowadays after the industry has become digitized, Berglund notes that the market has become more democratized since independent distribution is available, but that without specific expertise, distribution alone won’t guarantee anything.

*‘‘The process has definitely become more democratized. -- Our professionalism comes into question once the music needs to be marketed and stuff like that and booking shows is definitely for people with expertise. You need to be recognizable and have a good roster and the way you get recognizability and a good roster is not so simple.’’ – Joose Berglund, Stupido Productions*

Continuing on the subject matter of industry gatekeepers, Berglund carefully acknowledges that the processes that music companies value solely as their expertise, can in fact be handled by the artist on their own.

*‘‘ Well I need to choose my words carefully here. Of course I need to side with our small industry on this matter, but it is a fact that nowadays an artist can, at least up to a point, take care of these matters by themselves. So, it is possible but it requires a special type of man or woman to do so.’’ – Joose Berglund, Stupido Productions*

Berglund even goes as far as naming a specific artist who has in fact carried out all of these processes on their own accord, despite being in fact offered collaborative efforts in the past.

*‘‘On the other hand, when it comes down to it, very few artists are Jukka Nousiainen. Jukka does everything by himself. I have offered collaboration to Jukka regarding the aspects where he needs collaboration if at some point he does not want to do it by himself.’’ – Joose Berglund, Stupido Productions*

### Receiving royalty payments from streaming services

On whether or not Stupido Productions has had any issues receiving royalties from streaming services, Berglund denies any issues citing trust in their digital distributor, despite not knowing the exact sums that are in fact legally entitled to.

*“ I believe that Playground is a big enough player that they are being paid adequately. So to answer your question, we have not had any issues receiving payments. I believe that we have received everything that we are entitled to.” -  
Joose Berglund, Stupido Productions*

### Competencies needed to succeed in digital disruptions

Questioned about competencies that have enabled Stupido Productions to stay operational despite facing multiple industry disruptions over three decades, Berglund describes a combination of wariness, professionalism, premonition and luck.

*“ I don't really know. I think it is a mix of some kind of professionalism, a hunch and pure luck. Also maybe the fact that we have not gone along with all the craziest expansions over the years. We have had to maintain a certain degree of cautiousness. A lot of players that have gone along with investors have clipped their wings in the end in their adventures”. Joose Berglund, Stupido Productions*

In adapting to digital changes such as streaming, Berglund also mentions the importance of signing certain types of artists that have faired well both in terms of selling physical copies and succeeded in digital platforms as well.

*“-- Bands like PääKii have not only sold a lot of physical copies, but they have also succeeded with streaming. They have been a good source of revenue for us in many ways. They're a popular live band, they just work overall.”*

### 5.4.3 The Future of the Music Industry

#### Future of Physical Music Sales

Speaking of the future of physical music distribution and whether Stupido Productions will eventually give up their physical music sales, Berglund quickly points out that sustaining a business model based solely on physical music is inconceivable and that their primary income comes from live music.

*“We would not be operational without our live music. It is what keeps our heads above the water. ...-- After the vinyl record ‘boom’, their margins have been rundown to a minimum and making a living solely by selling vinyl records incredibly difficult.” – Joose Berglund, Stupido Productions*

Despite the low margins on vinyl records, Stupido Productions established a brick-and-mortar store this year that sells physical records that Berglund clarifies will likely be operational as long as possible.

*“ Well it was initially promoted as a pop-up, but that was more due to the possibility of it not succeeding in which case we could ‘walk away from the crime scene with our hands clean’ There is sort of a ‘comme ci, comme ca’ type situation going on with it.” – Joose Berglund, Stupido Productions*

Berglund explains that whether or not the brick-and-mortar store fails or succeeds, they will still distribute physical copies via their online business.

*“But in any case, we will not stop publishing [physical copies] or end our mail-order business. We are gearing up towards a situation where our mail-order business is fully operational in the case that the brick-and-mortar store fails.” – Joose Berglund, Stupido Productions*

On the reason why would Stupido Productions continue releasing physical copies in the future, the sentimental and nostalgic value that Berglund associates with them is evident.

*“-- I’m just so used to playing with these [vinyl records] so I really don’t know how to be without them.” – Joose Berglund, Stupido Productions*

Seeing as vinyl records have resurfaced decades after being mainstream, Berglund commented on if CD’s may also become a specialty product in the future by stating that CD’s do not possess the same characteristics and sentimental value compared to vinyl records.

*“ CD’s don’t have the same value as vinyl records do. -- Sure the nostalgia factor plays a role of its own in this, but if we’re talking about purely an object, I don’t feel that CD’s are a very appealing format. I can get by without it. It also gets stuck.” - Joose Berglund, Stupido Productions*

#### Future of music downloading

Berglund’s opinions on the future of music downloading service such as iTunes is that they do not essentially have a future at all in the industry and that they do not provide any real value to consumers anymore.

*“ It is pretty much dead already, I think its share is around two percent of the Finnish music market. -- I haven’t really bought anything from iTunes, aside from a few silly songs as a test. I don’t see it having any sort of future or functionality. It’s very hard for me to imagine why someone would want to buy songs from there. I think it is a completely useless service at the moment.” – Joose Berglund, Stupido Productions*

#### The Future of Stupido Productions

When questioned about the future of Stupido Productions, Berglund’s views are very modest, focusing more along the lines of survival and maintenance, rather than striving to expressly grow the business.

*“...-- We have to be constantly working in order to stay on track with the bigger players. But of course I hope that in five year’s time we would be doing at least as well as now. -- I don’t have enough faith to believe that Stupido would be Finland’s biggest booking agency or music company, because it most likely won’t be that, but I hope that we can still stay competitive and be like a terrier that’s biting on other players’ ankles.” – Joose Berglund, Stupido Productions*

Despite denying expansive activities per se and maintaining domestic focus, Berglund does admit that they are in perpetual motion in terms of working on artist exporting. Berglund notes that this process has become seemingly easier nowadays as Spotify provides a platform and easy access for international efforts.

*“It of course depends on each individual artist, but we are constantly working on exporting activities and thanks to Spotify anyone can basically listen to our music anywhere around the world if they are interested, but in a company that is the size as ours is, we have to admit that the domestic market is what moves us forward and all exporting activities are sort of extra fun.” – Joose Berglund*

### The value gap

At the end of the interview the discussion turned to how digital distribution and more specifically streaming may influence the industry in the future and what role YouTube will play in it as its legislative merit is currently being debated in the EU. Berglund notes clearly that its current model is a problem.

*“ ...-- There is no denying the fact that YouTube is a major [explicit] problem for this industry. The way Google is operating is like if I would pull pantyhose over my face and went to the corner store to steal stuff from the shelves. I don’t understand it.” - Joose Berglund, Stupido Productions*

Berglund underlines his frustrations by explaining the irrationality of YouTube’s operational model that is facilitated by the current legislative loopholes.

*“ -- At the moment it makes no sense! The content of production professionals flows to consumers free of charge on the excuse of freedom of speech. That’s a bunch of [explicit] basically.” – Joose Berglund, Stupido Productions*

Berglund compares YouTube’s situation to other music streaming services and refers to the obvious paradox where one party should compensate others, while another is exempt from this duty.

*“ I have said all the time that we want to be compensated for the content. We are compensated for our content that is on Spotify and it is fine so if we really think about it, I think the channel [YouTube] should’ve already been shutdown by authorities already.” – Joose Berglund, Stupido Productions*

As YouTube has expressed their intentions of shutting the service down entirely from Europeans if they would suddenly be required to pay for all of the content they stream, Berglund does not see this as a plausible reality and should the situation come to it, he feels the result would only be beneficial for the industry.

*“ I have a hard time believing in it. I don’t believe they will do it and even if they did, so what? Problem solved. But of course then there would probably be some other software that we need to start fighting with. But I don’t believe that it will come to that.” – Joose Berglund, Stupido Productions*

## 5.5 Summary of research findings

In the following table a summary of the most notable and unifying findings uncovered from the semi-structured interviews are presented. Rather than presenting the results case-by-case, they are organized according to the themes that emerged during the data gathering process and presented as generalizations affecting all case firms. A comparative analysis between the selected case firms will be presented in the following chapter.

**Table 2.** Summarized research findings according to themes**Evaluating the Market Situation****Current industry atmosphere**

- Primarily positive
- Primed for growth and possibilities

**Current challenges**

- The value gap
- Finding the right recourses to invest in
- Difficulty adapting to format changes in specific music genres

**Piracy**

- Virtually non-existent

**Physical music sales**

- Overall sales declining due to music streaming

**On demand services**

- Sales declining due to music streaming

**The domestic market**

- Declining consumption of Finnish music
- Still remains the backbone of the Finnish market

**Industry Dynamics Between Various Players****Changes in dynamics within the industry**

- More accurate consumption data available from streaming services
- Difficulty determining accuracy of royalty payments
- Data from streaming services influences more what is produced
- Greater juxtaposition between independent and major music companies

**Comparing physical and digital era**

- During physical era most of revenue came at the end of the year
- Due to streaming revenue is spread throughout the year
- Lowered dependence on physical retailers
- Streaming enables the revenue generation process to stay in constant rotation

**The effect of streaming on music companies' position as industry gatekeepers**

- Seemingly changed power structure
- More possibilities for independent distribution
- Emphasizes the need for music companies to capture talent
- Increased need for music companies to provide additional value

**Feasibility of artists operating independently without music companies**

- Possibilities for highly established artists or entirely new artists
- Difficulty differentiating music as 20 000 songs are released daily
- A successful independent career may become too demanding
- Music companies stay necessary by maintaining networks of resources

**Practices by music companies adapting to a digital environment**

- Combining live and recording industry activities → transitioning from record labels to music companies
- Focusing on core activities (song writing, artist management etc.)
- Having artists signed that do well in both digital and physical markets

**The Future of the Music Industry****The future of physical music sales**

- Overall physical music sales decreasing
- Distribution dependent on artist, genre and consumer demographics
- May become a specialty product
- A niche market for some players and different musical genres

**Future of music download services**

- Likely to become more marginalized
- Possibility of being entirely replaced by streaming services

**Future technologies affecting the industry**

- Blockchain technology may improve quality of royalty payment data → requires industry wide pilot projects
- Blockchain may bring new competitive advantages
- Voice recognition technology may affect consumer behavior on the music market → changes in aggregator side

**State of the music industry in five years**

- Music streaming still likely the biggest driver of growth
- Expansion of streaming services to new markets
- Balancing of market share due to new players
- Voice recognition technology may become a competitive factor

**Future challenges for music companies**

- Creating additional value for artists -> creating faster royalty payment processes
- Resolving the value gap -> receiving adequate royalty payments from YouTube

## 6. CROSS-CASE ANALYSIS AND DISCUSSION

In the previous chapter the data collected from interviews was presented as within case, focusing on one case firm at a time. As the focus of this thesis is rather broad, spanning many phenomena across the music industry, in order to form generalizations, compare actions and their outcomes of firms in similar situations, the results are going to be compared in a more systematic manner in the form of a cross-case analysis. Out of the studied case firms Universal Music Finland, Kaiku Entertainment and Stupido Records are thus going to be collectively analyzed regarding themes and viewpoints that emerged during the course of the interviews. As the IFPI is an organization that oversees the entire industry and operates on behalf of its member organizations, instead of operating under similar parameters as the rest of the organizations, its role in the cross-case analysis is more supplementary in nature. Additional data sources such as previous interviews, website data and other information are used as needed in the analysis as need be regarding each specific issue for the purpose of triangulation.

### 6.1. Strategies for Adapting to Previous Challenges set by Digitalization

Through its decade long tenure, Kaiku Entertainments strategy towards industry disruptions brought on by large-scale technological advancements has been to not to employ a separate strategy per se (assuming of course that partial aversion in itself is not a strategy), to address the disruptive mechanism, but to focus on creating good songs, core activities and simply ensuring that costs do not exceed revenue. Comparatively Universal's Kimmo Valtanen stated a similar view in an interview (this question was not included in the interview for this thesis due to this specific reason). Valtanen stated that if the core of the music company is on an excellent basis, the disruptions negative effects could be averted. This was especially in reference to more recent technological advancements such as streaming. (Elo 2016.)

Seeing as out of the three examined cases, Stupido Productions has had to adapt to the most challenges in thirty years, the assumption would be that they would also have more of a refined strategy to overcoming these disruptions, but instead their CEO notes quite honestly, that they are not entirely sure how they have managed to overcome

them. He does however note that the likely combination of attributes that have led their path this far are 1) professionalism, 2) luck) and finally 3) premonition. Additionally Stupido Productions has maintained a careful strategy in avoiding moving towards new markets or starting new ventures. Although not expressly mentioned regarding this interview question, the majority of Stupido Production's revenue comes from live music bookings, which supposedly has aided the company in carrying in through the turmoil of especially decreasing physical product sales.

More strategy decisions come apparent as stated by the IFPI, since after CDs initially started to decline in sales and digitalization became more prominent, many record companies began to transform into music companies, incorporating an additional live music branch into their business models, along with producing and publishing music. This was the path followed by two out of the three major music companies operating in Finland (Warner Music Finland and Sony Music Finland), but disregarded by Universal Music Finland. As of 2019, Warner Music's position in the market has fallen to the last of the three, with Sony Music placing second. However Sony Music has outsourced their live music branch to Fullsteam as of 2018 (Fullsteam 2018.). So by this logic, ultimately the key to surviving these types disruptions caused by digitalization may more likely come from focusing on core competencies rather than adopting new practices and expanding the business model as an adaptive measure.

#### 6.1.1 Adapting Marketing Channel Management to Current Environment

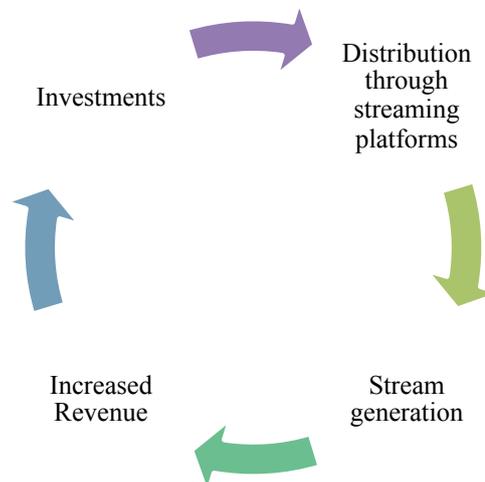
Despite the numerous different disruptions and challenges presented to the music industry in the past decades, streaming has posed tremendous changes ranging from both possibilities as well as structural changes to marketing channel management decisions. Streaming has changed the parameters of distribution given that it has increased the share of digital music globally to 54 percent. (IFPI 2018.)

The distributional strategies presented in the literature review chapter published by Prekumar (2003) have evolved into a process where the most prominently utilized strategy among all of the case firms is: *record/music company-intermediary-consumer*, with the exception that the intermediary, is more often than not an audio-on-demand service, instead of a digital download intermediary such as iTunes.

As far as additional and more transformational distributional strategies affecting all three case firms relatively equally and in the same manner, the publishing of individual songs in relation to the entire album cycle has changed. Compared to the era of physical music distribution, where the bulk of any given years revenue came at the end of the year, when entire albums were released prior to the holiday season, preceding by only a few single releases, now the revenue output is more even throughout the year, meaning a steadier revenue stream. What this entails is that music is released with an emphasis on the releasing of singles, rather than the album itself. These findings echo with research previously presented in this thesis about the industry by Bockstedt et al. (2014) in regards to digital marketing channels unbundling products. Singles from artists are released throughout a given time period, say a year, depending on each individual artist and an album may be released after a considerably longer period than it was compared to the era of CDs. This fact is underlined also by the IFPI, whose director states that with streaming the revenue is divided every month among music companies, and in order to get a hold of it, aggressive distribution of hit songs is necessary. An extreme example of this may be seen in the case of the music producer Alan Walker, whose album was released in December 2018. The Album's first single, "Faded" was first released on Spotify in 2015 and has since generated over 983 712 284 (as of 29.3.2019) streams on Spotify. This expands the entire product cycle into three years. (Spotify 2019.) The length of the product cycle is however likely dependent on both the genre of music and most effective in the case of global hit songs.

Kaiku Entertainment's views on the possibilities and opportunities afforded by streaming are described in a process model where once a song is published on a streaming platform, it generates streams, which in turn generates revenue for the record/music company. This becomes a reality in the instance that there are a sufficient number of streams, (this also enables the total amount of songs not to be as high). The songs that have been released stay in rotation essentially forever, which in turn creates a rotation of revenue for the company, enabling them to make investments, as there is steady growth from streaming. This same logic of course extends also both to Universal Music as well as Stupido Productions, although in the case of Stupido

Productions, their primary source of revenue is live music, so their share of this is presumably less significant.



**Figure 3.** Generation of revenue through music streaming

The significance of this rotational revenue is most prominently highlighted in the case of Universal Music since they are the current market leader, having generated 19,9 million euros in revenue as of 2017. During the interview conducted for this thesis the general manager of Universal Music Finland also pointed to how the situation has changed compared to the physical era where the amount of CD's sold through retailers determined revenue, whereas today's revenue streams are generated more by new hits and the music catalogue (combination of the music rights owned by a company) a music company has acquired. Universal Music has built up a massive music catalogue through buying out their competition such as smaller independent labels and acquiring their music catalogues in the process. This enables them to have a significant amount of revenue through rotation and to invest further to ensure new hits and artists in the future. (Universal Music Finland 2019.) Universal's growth and subsequent climb to the market leader position is made all the more impressive considering the fact that the majority of their revenue comes from domestic artists who operate solely in the domestic market. One of the effects that streaming has had on the Finnish domestic music market is that it has decreased its consumption rate to roughly half, due to increased supply by streaming services. (IFPI 2019.)

Stupido Productions' marketing channel management decisions stand out from the other two case companies rather clearly, since not only does their business model rely more on physical music sales through their online record store, they also established a brick-and-mortar store in 2018 as a part of their 30 year anniversary. Although the store was at least officially established as a pop-up, according to their CEO, it will stay operational as long as it remains in demand. So rather than slowly decreasing the distribution of physical sales and moving more heavily towards digital streaming, Stupido Productions has employed a strategy where they have intergrated their digital and physical marketing channels. Keeping in line with this type of thinking, a part of their adaptability in the transitional situation from physical to digital has come from signing artists that have both sold well during the physical product as well as the digital era.

## 6.2 Adapting To New Dynamics Between Industry Players

As streaming has become the "primus motor" of the industry, it has somewhat modified the arrangement and power balance between the players involved. All case firm representatives agree on the matter that, as there are more and more streaming platforms available that enable the independent distribution of music, the set up has at least theoretically become more democratized.

In the case of Stupido Productions the discussion around the benefits and possibilities regarding changed dynamics due to streaming are a little different however. As a smaller independent label in a more democratized field, one would think provided them with a more leveled playing field with larger players and major music companies, but in their case they have stated having issues with getting music that is digital only noticed through Spotify. Paradoxically, they noted their music getting traction only after being released as a physical copy and in combination with word-of-mouth generated by a concert tour. So in essence, based solely on this instance, this indicates a need for a more traditional route to marketing channel management activities. A contributing factor in the case of Stupido Productions may also come from the musical genre(s) that they represent, which are focused more or less on punk rock. As their CEO noted, their target demographic is older as opposed to more mainstream music

consumers such as is the case with Universal Music and somewhat also with Kaiku Entertainment. This target demographic still prefers physical copies in addition to streaming services, which would explain at least part of the lack in attention. Although no academic literature exists on the matter, the positions and listing of songs distributed by certain record/music companies on streaming services are presumably at least partially the result of negotiations. As for Kaiku Entertainment and Universal Music Finland's dynamics and relationships with streaming platforms, they are much more positive. Universal's general manager described their relationship with most platforms as mutually beneficial and very natural as they provide an easy access for digital distribution and data reports about consumer preferences. This applies presumably also for Kaiku Entertainment, as their distribution is handled by another major music company, Warner Music Finland, and ultimately receives the same type of benefits through this network relationship.

One central aspect of the power balance and dynamics in the music industry is the notion of record companies as industry gatekeepers, who essentially dictate what type of music is being listened to and produced. The general consensus is that this is/was a role held by record/music companies, especially during the era where physical music was the more prominent mode of consumption. With streaming on the foreground of growth drivers in the industry, they have become to play a part in this process. As stated by the IFPI, streaming services such as Spotify release extensive data reports about their users, concerning their demographics, and the like, which are closely monitored, analyzed and applied by record companies. From the data music/records companies can decipher what songs are listened to, when and what songs are skipped (known as "skip rate"). This gives the companies more guidelines into what type of music is necessary to be produced in order to achieve the maximal amount of streams and thus to generate more revenue. (Elo 2016.) These factors relate closely to previously discussed themes on value creation in the music industry by Choi et al. (2013) who describe the "traditional" process of value creation in the music industry to be largely controlled by record/music companies as they decide what needs to be produced, which is then complied by artists and finally the value is captured by copyrights and marketing channel management.

When it comes to factors that may decrease this gatekeeper position, all case companies note that nowadays it is indeed a possibility for independent artists to publish music through independent distribution channels, without any outside aid, seemingly shifting the power balance. Alternatively the ideal situation would be one where the artist is either just beginning to establish their career or conversely, a very well known one, with an already established network and repertoire. This type of situation may also be the most prevalent in a more specialized, genre specific market, as the parameters needed to establish a career in this instance may be lower and more manageable. Additionally successful distribution alone does not guarantee a path to live bookings, which require an already established recognizability. In any case, as all the interview subjects in this thesis agree, establishing a career entirely independent from music/record companies requires tremendous networking skills as well as handling a multitude of other issues that may distract an artist from their likely core competence, which is making music. So even though it is possible to distribute music more independently through streaming platforms, it hardly seems like enough of a threat by itself to shake the gatekeeper position. These findings challenge previous literature explored in earlier chapters on the subject of independent distribution by Eiriz & Leite (2017) as well as the literature by Moreau (2014) and Bockstedt et al. (2014) who claim the gatekeeper position to have diminished.

So even though artists themselves may not be able to shift this balance of power through solely distributing their music independently, Spotify has taken initial steps towards developments that could alter this scenario further down the line. As of 2018, they have begun signing deals with artists themselves, bypassing record labels/music companies in the process and leaving them entirely out of the loop. This distributional strategy is in line with research by Prekumar (2003) where *On-demand-services* distribute music directly to consumers without any other parties involved in the process. These deals differ significantly from the traditional deals offered by music companies, as they are not exclusive, meaning that the artists are free to distribute their music also on other channels and they are reportedly offering more lucrative royalty payment schemes as opposed to traditional deals offered by record/music companies. (Sisario & de la Merced 2018.) So while streaming services or artists may not be able to shake the foundations of the music industry by themselves, together they at least propose a potential threat, that overall ramifications will not likely be seen until some

years have passed. This solution may become more enticing to artists over time since currently the emphasis of music companies regarding artist career management center more around producing more and more hit singles, without a prominent focus on the length of their careers.

### 6.3 Current Situation and Challenges

Out of the examined firms, Universal Music Finland and Kaiku Entertainment saw the current situation in the industry as clearly positive and primed for growth. These views are in line with the general economic developments in the industry over the last three years, which have presented growth. (IFPI 2018.) For these companies the changes brought on by technological disruptions and the shift to new marketing channels have thus seemingly created less significant problems.

An exception to these findings came from Stupido Records, whose overall outlook on the current market situation in terms of their own success reflected more the need to maintain the current situation and survive, despite being operational for thirty years and thus the longest out of the three inspected case firms by over a decade.

Challenges that the case firms are currently facing that emerged from the interview data show different types of issues for each individual case. Universal Music Finland's market leader position sets its challenges in terms of maintaining their attained position, which according to their General Manager is the result of managing artists, understanding consumer needs and reactivity to market changes. Similarly Kaiku Entertainment's greatest challenges at the moment also deal with the discovery of new talent as they are in the process of building a network of people and actors, who are essential in finding this new talent. These developments are key in their pursuit to grow and expand to a bigger player.

The exception in the examined case firms comes from Stupido Productions, as even though not explicitly mentioned as their greatest challenge, based on the answers given by their CEO (the interviewee had no sales data to provide, nor was any readily

available online) their greatest challenges come from competing with bigger players in the industry. Additionally their operations still rely heavily on the sale of physical music, mainly the sale of vinyl records and though their consumption has risen by 22,3 percent from last year, the sale of physical music overall has declined to very marginal figures and will largely continue to do so. (IFPI 2018.) This can become an issue further on, if the sale of vinyl records will start to decline.

In terms of challenges affecting all of the case firms in a relatively equal manner is the settling of article 13, which all interview subjects found to be a major problem for the industry. At the moment that the interview conducted for this thesis was carried out at the IFPI, the head of the Finnish branch noted the resolving of article 13 in favor of the music industry to be the single greatest challenge currently affecting the industry. As of the 27<sup>th</sup> of March 2019, the directive was passed in parliament of The European Union. Before the directive can be applied to each member nation's national legislation, it must pass the vote of the commission, which is set to take place on the April ninth. The directive is significant for the music industry in the sense that under previous legislation large multinational actors such as YouTube and Facebook have been able to publish copyrighted material, without proper compensation to the rights holders under so called 'safeharbour' laws. This has supposedly resulted in large amounts of lost revenue especially to music companies. (European Parliament 2019.)

Additionally a problem that Article 13 also relates to and would potentially solve it is piracy. According to the IFPI, the current most harmful form of piracy comes directly from the content that YouTube hosts. As the songs and albums of artists are freely uploaded, users make playlists of them, which are then used to make pirated physical copies. There have also been recent services, which have enabled the downloading of music directly from YouTube to consumers.

#### 6.4 Future Developments

On the subject of physical music sales and especially the fate of the CD in the next few years, Kaiku Entertainment and Universal Music Finland are steadily decreasing the

production of CDs as their demand keeps decreasing. Kaiku's strategy regarding their output depends on the artist and their target market in question. Some of their artist's audience is comprised of older consumers who still prefer CDs and do not stream music possibly at all. Therefore CD's are still produced and distributed to this demographic, whereas artist's music with a younger target demographic will likely not be published physically at all (currently this has not been the case yet). The IFPI's, Kaiku Entertainment's and Universal Music's views on the future fate of the CD follow a similar suite in their description of it possibly becoming a specialty product, released only as a part of campaigns or per the artist's wishes. Essentially this would mean that CD's would become much like vinyl records are today. Currently this scenario is already a reality as Kaiku Entertainment does heavily utilize the sale of CD's for example at Christmas concert merchandising.

These views are adamantly challenged by Stupido Productions, as their business is relatively reliant on the sale of physical music, both CD's as well as vinyl records, but more on vinyl. In addition to their current situation, their future plans do not include shutting down the production of physical music sales, even if streaming and digital services will continue to become increasingly more popular. The notion that CDs may become a specialty product is also strongly challenged by Stupido Productions' CEO, since in their view the CD does not contain the same type of characteristics as vinyl records do, neither sentimental nor functional. As far as vinyl records go, there are currently no signs of their sales being on a steady decline, so their sales may very well continue at the current level. This scenario however needs to be understood in relation to the musical genre, such as punk rock, as opposed to more mainstream music genres.

As a part of this thesis, one theme was to find out whether blockchain technology could be a possible future technology that had enough transformative capabilities to change and improve music industry players' digital rights management and distributional systems. Out of the studied case firms, only one music company, Kaiku Entertainment, had concrete plans to implement it into their payment processes, but the plans were in such initial planning stages that they could not specify anything further. Additionally the IFPI saw there to be great potential in blockchain technology with its ability to improve data related to rights management, but stressed that it needs to be properly tested and that the implementation has to be a unified effort involving many

large actors. These views are in line with previous research by O'Dair et al. (2017) who have addressed the fact that one of blockchain's biggest flaws stems from the need for a more industry wide implementation for it to become mainstream. Universal Music's stance on blockchain technology echoes the views of the IFPI in addition noting that if it manages to enhance the payment processes of companies significantly, music/record companies could use the ability to process payments to its artists faster as a promotional tool. But seeing as their payment processes are seemingly at a good enough level and such large actors are needed in its further implementation to ensure its place in the industry, it does not bode well for blockchain's future. Using blockchain for faster royalty payments is closely related to findings by Khouri's (2017) regarding the possibilities of blockchain, which were discussed in a previous chapter.

Other notable technological developments with potentially far reaching ramifications regarding the entire industry may come from voice-recognition technology. Though not speaking expressly on how it will directly effect their businesses processes yet, both the IFPI's and Universal Music's representatives mentioned the possibility of streaming services adopting this technology and changing the aggregator side of competition. Examples of these include Amazon's "Unlimited" music streaming service and their voice activated Alexa, which are already gaining popularity. There are also other services such as Spotify that are reportedly currently in the process of establishing their innovations in the field. Exceptions in the case firm's views came from Kaiku Entertainment and Stupido Productions who had not followed discussions related to this technology at all.

On a global, industry wide glance, Universal Music's general manager believes that the next big change may come from the stunting of the current growth as new competition come into the market and cause the growth to be divided among new actors. The IFPI also believes in new competition, at least in that they are hopeful that new competition will arise. Also their reports indicate that Spotify has recently expanded their operations to India, and other large markets such as Russia and China are beginning to adopt streaming services. Filling these markets with new competition would thus redistribute the income flow. This would also likely be the case if they were to be filled by existing actors such as Spotify, as their market share would grow, essentially meaning re-distribution as well.

The most likely and impactful scenario comes from the resolving of Article 13 and the changes it will bring, which as of now are still purely speculative. This far YouTube has defended their right to utilize copyrighted material by claiming the process of finding all correct right holder parties (There are 400 hours of content uploaded every minute) that are involved in the videos that the website hosts, to be an insurmountable task. This mirrors the findings of O'Dare & Beaven (2017) concerning the problems of digital rights management issues in determining the adequate parties involved in creative work. Also YouTube appeals to having already paid the music industry billions of dollars. The biggest threat YouTube has perhaps issued is shutting out European Union member nation's consumers from its service entirely. This of course relates only to the content that violates the new copyright laws. (Wojcicki, Susan 2018.) As one of the main issues YouTube claims to have is related to digital rights management systems, perhaps the utilization of blockchain technology could yield some potential in offering a solution with automated payment systems and copyright tracking.

#### 6.5 Summary of key findings from cross-case analysis

In the following table the key findings from the cross-case analysis are presented comparatively allowing for case-by-case comparison of differences and similarities between the case companies. The main focus points of the summary are categorized based on the four focus points in the cross-case analysis: 1) Strategies for adapting to previous challenges, 2) Adapting marketing channel management to current environment 3) Current situation and challenges and finally 4) Future development.

**Table 3.** Key findings from cross-case analysis

	<b>Kaiku Entertainment</b>	<b>Universal Music Finland</b>	<b>Stupido Productions</b>
<i>Strategies for Adapting to Previous Challenges set by Digitalization</i>	-Focusing on core activities -Content creation -Maintaining balance between costs and revenue	-Focusing on core activities	-Combining professionalism, luck and premonition -Avoiding frivolous ventures Emphasizing live music
<i>Adapting Marketing Channel Management to Current Environment</i>	-Longer product cycles -More frequent distribution of singles -Generation of revenue through rotation of streams	-Possibility for extremely long product cycles -More frequent distribution of singles -Higher generation of revenue through rotation of streams due to massive IP-portfolio	-More frequent distribution of singles -Generation of revenue through rotation of streams -Maintaining high emphasis on physical distribution -Integrating physical and digital distribution
<i>Current Situation and Challenges</i>	-Growth through investments in intangible resources -Resolving the value gap	-Maintaining market leader position -Resolving the value gap	-Maintaining current position & surviving -Competing with bigger players -Resolving the value gap
<i>Future Development</i>	-Targeted/decreased output of physical music -Implementing blockchain technology -Expanding to international markets	-Decreased output of physical music	-Maintained output of physical music -Possibility of expanding to international markets

## 7. CONCLUSIONS

The aim of this thesis was to provide an answer to the research question: *What measures have enabled the marketing channel management of music companies to succeed through industry disruptions?* The music industry, along with many other industries has gone through a severe restructuring due to the effects of digitalization. Over the past decades there have been multiple disruptive challenges such as the decline of physical music sales, the rise of digital download services and music streaming services, which have forced music companies to adapt their operations along with their marketing channel management to new standards.

One of the goals in this thesis was to determine what types of threats and possibilities has digitalization created in the music industry. The possibilities include the rotation of revenue through music streaming. This process can be illustrated through a model (figure 3) where the frequent distribution of music through streaming services builds up the catalogue (amount of music rights owned by the company) of a music company, which is being constantly listened to through streaming platforms and thus generates a steady revenue stream. This process also holds other key conclusions of this thesis, one of the being the fact that revenue is generated throughout the year, instead of the previous emphasis on the end of the year. Another important conclusion to draw is the fact that especially when it comes to distributing pop music through streaming platforms, the product cycle i.e. Releasing of an album can now last even more than a year, compared to the traditional model where the releasing of a physical album would typically only last a few months. These developments have in turn created possible threats for companies that are still relying on physical music sales, as physical music is consumed and thus distributed less.

The second goal to answer was to find out how the threats and possibilities in the industry has changed it structurally and in terms of dynamics between various parties operating in the industry. All case companies are able to analyze data more efficiently thanks to reports provided by streaming services and to determine what music sells and what does not. For smaller music companies, the situation may present as unbalanced as streaming has created a venerable onslaught of new music being

released, with over 20 000 uploads taking place daily, this challenges smaller labels to get their music prominently featured on streaming platforms and poses the threat of their music not being discovered from the masses.

The last one of the goals of this thesis was to discover what types of practices have music companies utilized as a result of the disruptions. Comparing adaptive strategies to disruptive changes that the case firms have faced, the unifying characteristics among two of the most successful ones culminated in focusing on core competencies as a general, all encompassing strategy. Another widely used strategy among record labels also has included transitioning from record labels to music companies, essentially meaning the incorporation of other business processes, such as live music booking into as a part of their business models, as a possible adaptive measure. The efficacy of this strategy however remains extremely debatable.

### 7.1 Managerial and Theoretical Implications

Grouping all the findings together, a set of managerial implications can be determined through exemplifying the most successful practices that are applicable to mainly the music industry, given its unique nature as a creative field.

#### **Practice 1:** *Focusing on core competencies*

Emphasizing resources and focusing on core activities that have proved successful for a company in the past may provide a buffer against disruptive forces and turning points. In the music industry this often implies ensuring the quality of the artists signed to the company and marketability of the music.

#### **Practice 2:** *Determining what music to produce*

Through the increased amount and specificity of available data concerning the music consumption habits of consumers, companies are able to better understand what music should be produced.

**Practice 3:** *Emphasizing volume in marketing channel management*

By placing stress on the amount of songs distributed through streaming services, more revenue can be generated through an increased IP portfolio and the subsequent rotation of revenue.

**Practice 4:** *Extending the product cycle*

As the amount of revenue generated in the music industry is determined primarily by distributing individual songs, as opposed to full album releases, a company may benefit from waiting a significant amount of time between distributing individual songs, provided that they generate a considerable amount of streams.

**Practice 5:** *Scaling down physical sales as necessary*

As the sale of physical music has been on a declining trend for some time now, the distribution of physical releases such as CD's and vinyl records should be tailored specifically according to each artist, musical genre and the demographics of their fans/consumers. Focusing physical sales to be in conjunction with live music events to be sold as specialty products may also prove to be a successful auxiliary strategy.

**Practice 6:** *Investing in new resources*

Though the growing popularity of streaming services and subsequent growth provided to the entire industry, newly found revenue may be generated through the rotation of IP portfolios. This revenue enables new investments, particularly investments towards finding new talent, through the hiring of talent agents, composers and other similar human resources. These resources may ensure that the process of revenue generation through IP portfolios grows, keeping the cycle alive and providing new growth for the company.

The main theoretical implications of this thesis focus on its contribution to academic literature concerning marketing channel management activities and strategic actions in response to industry wide, digitally disruptive changes and forces. As the field of research and the theoretical framework are heavily focused and reliant on the music industry, which as a creative industry has unique attributes compared to companies operating in many other industries, it may hinder the applicability and generalizations of the marketing channel management strategies to other contexts. However, specifically due to this focus, the contribution of these findings extend the current academic literature published on the music industry, as currently there have been no studies conducted on the adaptive measures of music companies during the advent of digital streaming. Also, the presented changes in dynamics between different types of industry players provide a new point of view into how different parties with varying types of characteristics have been affected.

Additionally, though already previously researched, this thesis complements the existing literature on how record/music companies have transitioned from physical to digital business models, and through this provides new insight, as it pertains to smaller independent companies with a strong reliance on physical music. Within the confines of the music industry this thesis also extends existing models of digital distribution of music, such as Prekumar's (2003) model.

## 7.2 Limitations & recommendations for further research

The limitations of this research derive largely from the initial difficulty in the planning stages of the study. The lack of relevant literature concerning the research subject made the creation of the theoretical framework difficult, which in turn may have affected the results.

A perhaps significant limitation of this study concerns the nature of the research question, which is quite broad and conversely the representativeness of the findings uncovered by examining only a handful of case firms. So essentially the industry wide generalizations made in this study should be viewed critically. Generalizing the experiences and operations of a limited amount of firms may prove to be too ambitious if the framework of this study were to be exposed to, say, twice as many

cases. In conjunction with the limitations associated with the number of cases, possible issues may arise from the number of subjects interviewed in the data gathering process. For example, as many interview questions were centered on possible future developments, the answers, though based on subjective experiences, were largely opinion based and perhaps by interviewing a wider range of representatives from each case firm, these opinions may have become clearer. Additionally, certain specific subjects regarding possible future scenarios of the industry such as blockchain technology's place and possible aid for the music industry and other future technology oriented questions like voice-activated technology proved to be relevant only for some of the case firms.

Drawing from the limitations associated with this thesis, further research on the subject may benefit from the inclusion of more case firms, as opposed to subjecting the research to just a few. Increasing the number of case firms could also be coupled with conducting a cross-case analysis with both a variable and case oriented approach in order get more specific data (Miles et.al. 2013.) This type of research could potentially also include even more polar opposite case firms, on the one side being only major music companies and on the other purely small, independent music/record companies. This would be done to provide more contrast in a multiple case study. (Yin, 2003.)

The three music companies researched in this thesis, each represented different musical genres, which may have had an effect to some degree on the findings, as some musical genres' consumer demographics and consumer consumption habits have slightly different characteristics regarding digital and physical marketing channels. An additional study might be conducted where the case firms all share a common music genre and see whether or not this may significantly alter the uncovered findings.

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ATTACHMENT 1 – Interview Questions (Universal Music Finland, Kaiku Entertainment, Stupido Productions)

General Questions

1. What have been the most impactful changes in the industry of the last few years concerning your business/How have you responded to industry disruptions?
2. How would you describe the current market situation?
3. What are the greatest challenges for your company at the moment?

Digital Music Distribution

4. How has streaming affected your marketing channel management?
5. How would you describe the dynamics between your company and streaming services?
6. Have you had issues receiving royalty payments from streaming services? Do you see that fixing the value gap could resolve these issues? What about blockchain technology?
7. Do you see that streaming will replace all other digital music sales?

Changes in the Dynamics Between Various Players in the Industry

8. Differences between the prerequisites for success between independent and major music companies?
9. How would you describe the power dynamics between music companies and streaming services?

10. Has the role of music companies as industry gatekeepers diminished due to streaming?

11. Do you see that thanks to the possibilities provided by digital distribution that there may be an increase in artists operating without the aid of a music company in the future?

#### Future Developments

13. Where do you see your company and the industry in five years? What do you think is likely to have the biggest impact in the future?

14. Possibilities and threats provided by new technologies? (blockchain, voice recognition technology)

15. Is there a possibility that physical music sales will end entirely in the future? What are your plans regarding physical distribution in the future?

ATTACHMENT 2 – Interview Questions (Musiikintuottajat – IFPI Finland)

General Questions

1. What have been the most impactful changes in the industry of the last few years?
2. How would you describe the current market situation?
3. What are the greatest challenges in the music industry at the moment?

Digital Music Distribution

4. How has streaming affected the music industry?
5. How do you describe the dynamics between music companies and streaming services?
6. Do you see that there are issues in the amounts of royalties that streaming services are paying? Do you see that fixing the value gap could resolve these issues? What about blockchain technology?
7. Are there still issues stemming from music piracy affecting the industry? If so, how significant are they?
8. Do you see that streaming will replace all other digital music sales?

Changes in the Dynamics Between Various Players in the Industry

9. How would you describe the power dynamics between music companies and streaming services?
10. Has the role of music companies as industry gatekeepers diminished due to streaming?

11. Do you see that thanks to the possibilities provided by digital distribution that there may be an increase in artists operating without the aid of a music company in the future?

#### Future Developments

13. Where do you see the music industry in five years? What do you think is likely to have the biggest impact in the future?

14. Possibilities and threats provided by new technologies? (Blockchain, voice recognition technology)

15. Is there a possibility that physical music sales will end entirely in the future?