MUSIC DIGITALIZATION AND ITS EFFECTS ON THE FINNISH MUSIC INDUSTRY STAKEHOLDERS

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1 INTRODUCTION

1.1 Purpose of the study

Digitalization of music is considered to be the innovation to have most profoundly affected the music industry for the past nearly two decades. The digitalization of music content and the expansion of the Internet worldwide have greatly affected every stage of the music industry value chain: from creation through production and distribution to promotion of music. (Bourreau – Gensollen – Moreau 2008, 2.)

Music digitalization as an innovative process can be described as the development of all types of products and software for the composing, recording, distributing and consuming of music. The usage of digital products has dramatically accelerated its pace in comparison to the usage of traditional physical copies. The consumption of music in digital forms is at present rapidly growing thus amounting to 25% of global music revenues in 2008 (IFPI 2009), therefore in the future digital music carriers may completely replace the hard copies such as CDs for example (Shayo – Guthrie 2005, 1-2). The digitalization process has been further facilitated by the advanced usage of the Internet as a means of creating new business models or altering existing models of online music distribution (Kauffman – Wang – Miller 2001, 2). However, this has presented music industry with the challenges of retaining control over the consumption of music and of better enhancing intellectual property rights.

Furthermore, digital music creates an entirely new consumer behavior. Digital stores and online downloads successfully compete with the conventional “brick-and-mortar” (physical) music stores thus diminishing the importance placed on physical logistics (Bockstedt – Kauffman – Riggins 2006, 23). With the help of the Internet many artists and composers are trying to bypass producers and record companies and directly address music consumers (Shayo – Guthrie 2005, 1-2). Giaglis, Klein and O’Keefe (1999) claim that new business conditions attribute to the involvement or disappearance of intermediary organizations in the added value chain (Giaglis – Klein – O’Keefe 1999, 1-2). Some traditional roles of all participants in the music industry have at present become unclear and overlapping, while others are to become obsolete in the nearest future. As a result, companies operating in the music industry have to reconsider their functions and their strategies in order to take adequate actions to better reflect the changes in the digitalizing world of music. Failure to do so may threaten companies’ expertise and profits, as well as put them out of business.
The topic is novel and interesting but not well researched previously as music industry is rarely the focus of serious scientific research (Burnett 1996, 6) and music digitalization is a very recent and still ongoing process; hence, there is a considerable gap in this realm of research. For example, the Finnish office of The International Federation of the Phonographic Industry (IFPI) only started collecting data and releasing reports of the digital music sales in Finland in 2006, which makes music digitalization in Finland a relatively new phenomenon.

However, it is inevitable that music digitalization and its impact on the industry’s structure and value chain require significant attention in the years to come as is seems to determine the future development of the music industry worldwide and in Finland respectively. For example, in 2009 the total digital music sales in Finland amounted to nearly €4,2 million, which shows 60% increase in comparison to the previous year’s digital music sales (only €2,6 million) (IFPI Finland 2010a).

Most research on music digitalization conducted in the last years focuses on digital technology (Thomond – Lettice 2002), digital music consumption, file-sharing and new business models (Bergman 2004; Bourreau – Gensollen – Moreau 2008; Lin 2005; Molteni – Ordanini 2003; Sprigman 2006) and the implication of piracy on the music industry (Bergman 2004; Bhattacharjee – Gopal – Sanders 2003; Fagin – Pasquale – Weatherall 2002). Other studies examine the value chain dynamics and the role of intermediaries in electronic markets regardless of the industry (Garon 2008; Gialis – Klein – O’Keefe 1999; Wikström 2006) or from the perspective of certain stakeholders (Graham – Burnes – Lewis – Langer 2004).

Therefore, this work will provide an integrated scientific research on the global music industry structural changes in recent years due to digital innovations and how Finnish music industry value chain has been reorganized at present in order to meet the new needs of the modern digital era. Some research on similar topics has been done already by Bockstedt, Kauffman and Riggins (2006), Tuomola (2004) and Wikström (2006), however, it can be even better enhanced by further studies adding a country specific element.

The choice of Finland as a research area is mostly based on the researcher’s relatively easy access to companies operating in the country. It is also determined by the rapid evolution of the Finnish music industry in recent years following the global structural change imposed by digital distribution and piracy (FIMIC 2005). The stable growth in the revenues from copyright royalties from Finnish music exports in the last years also indicates the increased significance of Finnish music for the European, Japanese and North American markets (Music Export Finland 2007). Finland seems to be an appro-
appropriate choice also because its music industry is too small and dependent on the big indus-
try players as to influence the course of industry development on a global or even domestic level. Therefore, it is representative of the largest part of the national music industries in the world.

Shayo and Guthrie (2005) pose several questions related to the music industry value chain which require further studies. The questions concern the viability of the existing business models and the adjustments these models require as well as the goals of all stakeholders in the music industry and how these goals can be best achieved through the utilization of modern technology and the Internet. (Shayo – Guthrie 2005, 12.) These questions have been taken into account when formulating the research purpose of this study. As a result the research question of the study is the following:

*How can music digitalization influence changes in the Finnish music industry?*

The sub-questions to the above research problem have been formulated in the following way:

1. *What role does digitalization play for the music industry stakeholders?*
2. *How is the Finnish music industry value chain being reorganized as a result of digitalization?*
3. *How do the Finnish music industry stakeholders adapt to the process of music digitalization?*

As it can be seen from the research questions, the study is mainly concerned with the managerial side of the innovation process rather than the technological impact of any innovation in particular. The emphasis is on how managers of different types of players, which participate in the music industry value chain, deal with the present situation in the industry in regard to the challenges triggered by digital innovations. The thesis does not focus on any particular player per se, however, for the purpose of the research the main industry players will be systematized in categories according to their position in the value chain (i.e. music creation, production, distribution and consumption) and will be analyzed in terms of the value chain activities they perform.

In order to understand the managerial importance of the research problem, first the music industry and the modern trends within it will be defined and the current situation in Finnish music industry will be presented. A brief overview of the most relevant digital technologies and new business models which affect contemporary music will follow. Next, the main stakeholders and the interactions between them on a global scale will be
examined in details and a value chain model will be presented. In the end of the theoretical part of the thesis, the notions of change and development will be described in the light of the population ecology concept.

### 1.2 Music industry overview

The music industry has not yet been given a clear definition due to the multiple activities and participants the industry is comprised of. Scholars define music industry as a constructive part of several broader terms such as copyright (Wikström 2006), cultural (Molteni – Ordanini 2003), creative (Aggestam 2007) or entertainment (Burnett 1996) industries, etc. Whichever term is to be utilized, however, modern music proves to be a typical representative of the today’s global socio-economic change tendency of shifting from production industries to knowledge and information-based industries (Aggestam 2007, 30).

Burnett (1996) presents music industry as a mass communication medium. He divides the term into its main components and further elaborates on each of them individually. According to him, mass communication media can be regarded as the industrialization of production, reproduction and distribution of messages through certain technological vehicles. When combined with the definition of entertainment as keeping one’s attention steady or amused, the music industry can be envisioned as the creation and release of different types of performed music in order to attract audiences for financial profit. (Burnett 1996, 9.)

Aggestam (2007) also views music industry from a pragmatic angle with emphasis on profitability. Music industry is an entrepreneurial-venturing process, which leverages resources in order to support the activities of actors interested in the creation of popular music. In this sense music entrepreneurs are trendsetters producing art-industry (musical) commodities in their attempts to persuade consumers to switch from certain established fashions to new ones (Aggestam 2007, 31-32). In addition, Aggestam (2007) describes the dynamics of music industry in the light of music’s qualities as commodity, i.e. as important part of people’s everyday life, hence a valuable and fast-growing economic sector highly influenced by communication networks and new digital technologies. Therefore, music industry has the potential to generate added value and enhance knowledge and technology transfer. (Aggestam 2007, 32; Ó Cinnéide – Henry 2007, 73.)
Technology allows participants in the music industry to extend their operations beyond any national borders, thus to target the global customer from the very beginning of each music project. Burnett (1996) believes this to be particularly true about music because nothing crosses national borders and cultural limitations as fast as music does. In addition, he claims that music is probably the most significant of the entertainment industry components since it is represented in all other kinds of media. (Burnett 1996, 9-10.)

A similar idea can also be found in the work of Vogel (1994) who considers music to be the most fundamental of the entertainment industries. According to him music is the form of entertainment which is the easiest to personalize and access, hence the rapid pace at which it penetrates practically every culture and level of society. (Vogel 1994, 128.) This can be further supported with statistical data. In 2008 music record sales amounted to $18.4 billion worldwide out of which $13.8 billion were attributed to physical sales and nearly $3.8 billion – to digital sales (IFPI 2008). In Finland physical music sales for 2009 were worth approximately €41.8 million (IFPI 2010b) and digital sales – €4.2 million (IFPI 2010a). Therefore, music in its commercial form seems to be an important part of people’s leisure activities and a major business sector with enormous revenues. (Illing – Peitz 2006, 73.)

Another definition by Molteni and Ordanini (2003) emphasizes the cultural aspect of music industry. In their view music industry is an organizational system, in which non-material goods in the form of music fluctuate between producers and consumers in reconciliation with the market demands. Therefore, music as a cultural good serves to satisfy the consumer’s aesthetic rather than practical needs. (Molteni – Ordanini 2003, 389-390.)

Wikström’s (2006) adds a significantly different viewpoint to the definition of music industry. He defines music industry according to its functions and participants. Wikström (2006) synthesizes the ideas of a number of scholars and as a result presents music industry as comprising of three main blocks of activities, that is, recording, publishing and performance of music. The last one, however, is arguable as it can as well form a part of the performing arts industry. This can also be seen from the other definitions presented so far where the live music performances are not being included in the music industry. Indeed, the academic literature concerning live music performances as part of the music industry up to date has been insufficient.

\[\text{1 The remaining } $0,8 \text{ billion are revenues from performance rights (IFPI 2008)}\]
Wikström (2006) also attempts to systematize the music industry value chain activities, although he believes they are subject to rapid change due to the dynamics of the industry, thus they cannot constitute a viable definition. Therefore, as a whole, he adopts the definition that “music industry consists of those companies concerned with developing musical content and personalities which can be communicated across multiple media.” (Wikström 2006, 29-31.)

The author of this thesis considers the music industry definition regarding its participants and functions as the most contemporary and practical. It also reflects the most profoundly the research problems of this study. As previously mentioned due to the ambiguity of the live performances as a founding part of the music industry, further in this research only recorded music and merchandizing will be regarded as music products. Therefore, under music industry in this thesis will be understood: companies and organization which develop artists, produce recorded musical content, distribute musical goods (including merchandizing) to the audience or promote live music performances (excluding the act of performing itself), i.e. players involved in music production, distribution and consumption. However, music industry structure and functions cannot be understood fully without a brief overview of the overall current state of the global music industry. Hence, the dynamics of music industry’s environment will be discussed next.

1.3 Contemporary music industry dynamics

Wikström (2006) expresses an opinion that at present music industry is undergoing a period of instability and dynamic but rather chaotic changes (Wikström 2006, 17). Following the global business tendencies, music industry can be characterized as liberalizing, globalizing, integrating, specializing and reorganizing its value chain like all other contemporary industries. This comes to prove that the way music industry sees music in its various forms is mostly as any other commodity, therefore it reflects the changes in the global business development as a whole. (Ó Cinnéide – Henry 2007, 73.)

Firstly, the music industry has been consolidating in the recent years. Contrary to what is generally believed, the music industry of today is not so exclusively dominated by American record companies anymore. In the recent years Europe and Japan have become important players on the global music scene because of the business needs for distributional integration. The world music market is indeed being mainly comprised of large transnational corporations. This has resulted in the high concentration of media
ownership and the increasing globalization of record companies in particular (for example the merger of Sony and BMG in 2006). (Burnett 1996, 10.)

Consolidation of the music industry can also be accounted for through the role major record labels play in all music processes by providing initial capital and marketing know-how in order to create, market and distribute music. Therefore, they occupy a central place in the music industry value chain. They are also in close contact with most of the other main stakeholders in music industry and determine the success or failure of each music project. And despite the tendency of aspiring artists to bypass record companies and contact the customers directly, record labels are the ones to still dominate the current music industry structure. (Parikh 1999, 2-3.)

In terms of globalization and integration music industry is still mostly dominated by very few multinational organizations, namely the major four record labels: EMI Group, Sony BMG Music Entertainment, Universal Music Group, and Warner Music Group. They control approximately 80-85% of the world music sales and participate directly or indirectly in almost every significant music industry activity: from talent search and development, through music recording and publishing to marketing and distribution (IFPI 2005; Osterwalder 2010; Wikström 2006, 17). All four major record companies have their local branches in Finland and the size of their Finnish market shares follows their global performance. In 2009 major labels in Finland altogether held 71% of the national and 84% of the international sales of Finnish music (IFPI Finland 2010c).

Secondly, as far as specialization is concerned, a growing number of independent distribution intermediaries are beginning to integrate into the major labels’ corporate umbrella, thus allowing the large record conglomerates also to focus on local market needs. This is made possible thanks to the purchase of small and independent labels or to the investment in start-up companies. The whole process has led to the creation of satellite or auxiliary small record labels specialised in discovery and development of new talent as well as in facilitation of local music distribution. However, it is incorrect to assume that all independent labels are to be assimilated by the major record companies as they prove to be efficient in satisfying the demand of specific niche markets. (Burnett 1996, 61.)

Another tendency in the development of music industry is related to the advancement of technology. On the one hand, new technological achievements and Internet file sharing are lowering the entry barriers for new artists who are now capable of producing, marketing and distributing their own work without the participation of intermediaries. (Kalakota – Robinson 2008, 28.) Moreover, new competitors such as aggregators and infomediaries can introduce alternative business models upon entering the music busi-
ness, which further reduces the functions of some music industry players (Shayo – Guthrie 2005, 13).

On the other hand, record companies can compete successfully with wholesalers and retailers in terms of prices by leaving intermediaries out of the distribution chain and selling straight to the end-users. (Shayo – Guthrie 2005.) Shayo and Guthrie (2005) also believe that new technologies will not only affect deeply the traditional music production and distribution networks, but that they will also endanger the existing music recording business model if music industry does not take any measures to effectively reflect the process of value chain reorganisation (Shayo – Guthrie 2005). Any inability to comply with the new requirements of the digitalised music industry will present the music industry stakeholders with great difficulties to overcome in the nearest future.

Lastly, today’s music industry is moving towards the era of digitalization. While total music industry sales have declined dramatically after 2004 with nearly 30% by 2009, digital music sales have risen by 940% for the same period of time (IFPI 2010). In Finland digital music sales have increased with 60% only in the year 2009. It can be said that the changes in music consumption due to digital technology has affected the large majority of the audience and the music industry participants. Therefore, it is of great importance to identify what digital innovations have affected the music industry the most in the recent years and what implications they have on the music industry value chain.
2 DIGITALIZATION AND DIGITAL INNOVATIONS IN THE MUSIC INDUSTRY

Digital technology deeply penetrates all three major music industry sectors: music production, distribution and consumption. On the one hand, digital technological innovations have facilitated the search and the acquisition of music products, thus changing the consumer behaviour which inevitably will affect the organization of the music industry value chain (Monteni – Ordanini 2003, 389-390). On the other hand, they have also lead to the immense facilitation of music dissemination. New technologies have contributed to the great reductions in music reproduction prices making digital copies almost costless, thus easy to distribute to a larger audience. (Fagin – Pasquale – Weatherall 2002, 457.)

As a result, the application of digital technology to music industry has accounted for the emergence of several new phenomena such as independence from distance restrictions, negligible transaction and information discovery costs, increased market transparency and reduction of business intermediaries (Bergman 2004, 6). Therefore, the importance of digital innovations and the new business models for music distribution they create will be discussed further in this chapter.

2.1 Digital technologies in the music industry

The technological field is constantly evolving thus producing new inventions in order to substitute or enhance the capabilities of the existing ones. The changing economic environment determines the emergence and selection of new technologies as well as their advancement and final disappearance (Dossi 1982, 156). Moreover, disruptive technologies affect the successful performance and survival of the populations (music industry stakeholders) within organizational communities (music industry) (Astley 1985, 225).

Anderson and Tushman (1990) suggest an evolutionary model of technology to explain the turbulence in technological development. This approach is also applicable to music industry (for example the invention of the CD format); therefore its very essence should be introduced in brief. Anderson and Tushman (1990) describe technological change as a socio-cultural evolutionary process triggered by a certain technological disruption. It further leads to periods of technological variation, selection of a single industry standard and retention of the selected standard in the form of dominant design through additional incremental innovations. Although discontinuities never establish
themselves as dominant designs in the form they initially occur, they lay the groundwork for the technological innovations of all industries. (Anderson – Tushman 1990, 604-605.)

The term “disruptive technologies” (also called technological discontinuities or disruptive innovations) is attributed to Christensen (1997) who uses it to explain the role of new technologies for a company’s existence (Hirota 2010). According to Christensen (1997) disruptive technologies are those which present the customers with an entirely different value proposition than the previously available ones, i.e. with products which are smaller, cheaper and simpler or more user-friendly (Christensen 1997, XV). However, initially these products usually perform relatively poorly in comparison to the existing ones making the majority of customers reluctant to use them in the first place (Bower – Christensen 1995, 45). A technological discontinuity can therefore be observed when an innovation causes a considerable increase in the customers’ interest in the product which leads to a dramatic change in product’s design (Anderson – Tushman 1990, 620).

Discontinuities may not be radically new or sophisticated technologies but they either introduce some radically new product characteristics and capabilities valuable to the customers, or improve the quality of the existing ones (Bower – Christensen 1995, 44). They also generate new market possibilities or create a product/service which is implemented initially by a small share of customers at the bottom of the market. As time passes the significance of these technologies increases until they eventually drive competition out of the market (Christensen 2009).

Utterback and Acee (2005) further claim that a disruptive technology not only may dramatically enhance the cumulative demand for an industry’s products, but it may also create entirely new market niches supporting the entry and survival of new industry players as the old companies will be unlikely to establish themselves successfully in the newly created niches (Utterback – Acee 2005, 15). When the unsatisfied needs of the emerging or niche markets are fulfilled thanks to the disruptive technologies, the investments in the new innovations increase thus accounting for the innovations’ better performance and the customer base enlargement. This further leads to the greater awareness and the better market perception of the disruptive technologies’ value proposition, which helps the new innovations to establish themselves as industry standards. (Thomond – Lettice 2002.)

Disruptive technologies have underlain the music industry development since its very establishment. Shayo and Guthrie (2005) divide the technology innovation lifecycle in the music industry into five big periods of time: experimental technology intro-
duction period (1877-1919), competition and industry standard appearance period (1920-1950), market segmentation and lower cost period of incremental change (1950-1970), new technologies search period (1970-early 1990s) and technological discontinuity period (mid-1990s-2003). (Shayo – Guthrie 2005, 13.) However, this thesis is dedicated only to periods of new technologies search and technological discontinuity as they can be characterized mainly with the expansion of the Internet and digital storage and the intersection between the Internet, peer-to-peer file sharing (P2P) and mp3 technologies (Shayo – Guthrie 2005, 13).

Therefore, Internet, MP3 files and peer-to-peer file sharing should be introduced as probably the most significant of all contemporary disruptive innovations connected with music digitalization. Without them the changes in the relationship “production-distribution-consumption” cannot be fully understood as they provide the means to compress and store sound recordings in small, new and standardized forms and to distribute them to the final consumers relatively effortlessly, thus altering the structure and functions of the traditional music industry (Molteni – Ordanini 2003, 392).

The Internet plays an important role in the modern person’s life as a means of information goods dissemination. Acquiring music through the Internet is becoming more and more popular thanks to the fast spreading of the network around the globe and the lowering of access costs (Águila-Obra – Padilla-Meléndez – Serarols-Tarrés 2007, 187-188). Moreover, the elaborate Internet infrastructures, as well as the increasing speed of connection, are prerequisites to the Internet’s becoming the most viable music distribution tool (Wikström 2006, 145). As such, the Internet is a technology which strongly affects music industry companies’ business models, forcing them to comply with the new trends.

The implication of this process is twofold. Firstly, the Internet can shorten the music industry value chain through the removal of certain intermediaries (disintermediation). Secondly, it also creates new intermediaries, which have not existed previously, such as e-retailers for example (reintermediation) (Águila-Obra – Padilla-Meléndez – Serarols-Tarrés 2007, 187-188; Tuomola 2004, 33-34). The notions of disintermediation and intermediation will be discussed in more detail in Chapter 3.

Another breakthrough innovation to follow the boom of the Internet is the invention of a new way to compress music which has made music goods easy to store and share. The German Fraunhofer Institute for Integrated Circuits in Erlangen patented in 1989 an audio compression algorithm later known as mp3 format, which nowadays is the most commonly used form of audio compression. The newly invented algorithm accounted for the 10 times better representation of sound with a very small distortion of the quality. (Wikström 2006, 145-147.)
What really is revolutionary about the mp3 and makes it a disruptive innovation is that the format contains significantly lower amount of information and fidelity to the original music piece compared to an analogical CD (Utterback – Acee 2005, 10). This is so because the range of sounds which the human ear cannot distinguish has been removed from the compressed file. Therefore, one minute of compressed audio file can now be stored in only about 1/12 of the disk space the same audio file recorded on a CD has required previously (Molteni – Ordanini 2003, 392). Moreover, a compressed file in mp3 form not only takes about 10 times less time to send and download via the Internet (Wikström 2006, 145-147) but also exempts the transportation and storage of files from the previously confining copy-management technology (Águila-Obra – Padilla-Meléndez – Serarols-Tarrés 2007, 187-188; Utterback – Acee 2005, 10).

And while mp3 files were difficult to acquire in the beginning of the 90’s, soon they provided new business opportunities for entrepreneurial music companies, however, triggering serious conflicts over digital music distribution and illegal downloads. The reason for that has been another radical innovation in the face of the peer-to-peer file-sharing technology (P2P). The P2P file-sharing technology represents a network, which not only gives users access to all other users’ hard drives in order to obtain digital files, but also guarantees them relative autonomy in file sharing due to the lack of copyright supervision. (Águila-Obra – Padilla-Meléndez – Serarols-Tarrés 2007, 187-188.)

The process of digitalization has been further facilitated by the wide spreading of the Internet, the more powerful personal computer technologies and the growing bandwidth potential. Therefore, P2P sharing of files has proved to be a very functional model of music consumption based on user partnership and networking. The major advantage of P2P file sharing in comparison to the traditional client-server networks is derived from its independence from the server’s limited resource constrains. On the contrary, every new network user provides additional content available to all other users, thus they enhance the network’s capabilities rather than hinder them as it was the case with the client-server networks. (Oram 2001, 3-5.)

The P2P model of consumption, as Molteni and Ordanini (2003) rightly call it, poses several challenges and opportunities to the music industry. The notable decline in CD sales and the growing dominant position of the file-sharing culture put pressure on music industry players to revise their attitude towards online music sharing and downloading. The old strategies and competitive advantages seem to be of little aid when the completely new digital consumer behavior of today is concerned. (Molteni – Ordanini 2003, 392.) Therefore, the identification of the digital consumers’ needs and behavioral
trends as well as the adequate reactions to them will be setting the course of music industry development in the nearest future.

New business models

Business models are the building plans companies utilize in order to establish a fit between their business structures and their constituent operational and physical systems. Therefore, in this sense business models are “the blueprint of how a company does business”. (Osterwalder – Pigneur – Tucci 2005, 4.) Kalakota and Robinson (2000) describe the process of new business models implementation as determined by innovative infrastructure. They categorize innovative infrastructure into digital products infrastructure and mobile infrastructure. Digital products infrastructure sustains business models based on digital products software and hardware, while mobile infrastructure introduces business models relying upon new digital products delivery mechanisms. (Kalakota – Robinson 2000, 28.)

However, regardless of the type of infrastructure and respectively of business model, the main concern of the music industry has started to shift from offering hits to the mass market to satisfying the customers’ needs and cooperating closely with partner organizations (Ek 2000). Distribution sustains closer integrity with other value chain members in order to generate higher profits and attract venture capital for future development. The new business models also introduce alternative revenue sources, such as subscription fees instead of advertisement-supported businesses, as the existing revenue sources fail to comply with the current industry situation. (Kauffman – Wang – Miller 2001, 11.)

In the era of digitalization the single prevailing business model based on the major record labels’ dominance has proved to need revision. Osterwalder (2010b) claims that the future is to be determined by the competition between multiple novel business models, which will rely on music ownership rights (in the form of downloads) or music access rights (in the form of music streaming). (Osterwalder 2010b.) Therefore, the new business models will incorporate a combination of subscriptions, downloads, ad-supported music websites, online merchandising stores and live concert ticket sales (Ek 2000). In this thesis à-la-carte downloads and subscription websites business models will be presented because according to Lin (2005) they are the two most common purely online modes of digital music distribution (Lin 2005, 50). The author of this thesis also agrees these two business models significantly influence the contemporary music distribution in its digital form.

À-la-carte download services offer customers the convenience of purchasing and downloading single tracks or albums without requiring the customer’s commitment to other bundled goods (Lin 2005, 53). This is particularly necessary because of the pre-
Internet consumers’ dissatisfaction with the poor quality of some CDs in terms of music content, i.e. the consumers were forced to buy whole CDs containing only a couple of hit songs due to lack of alternative consumption models (Amsellem 2009). In addition, the à-la-carte download services also provided radio content streaming and audio books purchasing. The price for all downloads is usually set to 99¢ per track therefore competition between providers is based on usage rights, catalogue size, and exclusive content, for example pre-released or promotion tracks. (Lin 2005, 53.)

A typical representative of the à-la-carte music downloads business models is Apple’s iTunes Music Store (iTunes). The purpose of iTunes’ online store is twofold: on the one hand it sells digital music downloads, while on the other hand it enhances the sales of related devices, therefore Apple’s business model represents a whole set of complementary offerings (Osterwalder – Pigneur – Tucci, 2005, 8). In 2008 iTunes has achieved the status of the largest distributor of digital music in the world and is still holding its number one position (Garon 2009, 229). This is also facilitated by the possibility to play the downloaded tracks via a compatible portable music player – iPod (Sprigman 2006, 111).

At present iTunes offers over 11 million DRM-free² tracks at the prices of 69¢, 99¢ or $1.29 per song or $9.99 per album (Apple 2010). The current music format adopted by iTunes is AAC/Fair Play, which can be digitally protected from illegal re-play and re-distribution while at the same time maintains a quality higher than that of the mp3 format (Lin 2005, 53). iTunes’ music content is mostly obtained directly from all four major record labels, which receive compensation of nearly 65-70% of the monthly sales (Sprigman 2006, 95; Future of music coalition 2009). Moreover, iTunes provides exclusive releases from independent labels, promotional tracks and weekly free singles downloads (Lin 2005, 53). iTunes’ services include also blockbuster movies’ renting and TV shows episodes, audio books and applications for iPhone and iPod as well as free podcast subscriptions (Apple 2010).

Music subscription services websites give the customers the opportunity to listen music online unlimitedly for a certain low monthly subscription fee. These subscription services websites are designed to give listeners instant access to large music catalogues

² Digital Rights Management – exclusive proprietary digital rights management systems, which are incompatible with music players other than the ones provided by the company. Hence, they require from the aforementioned music players’ owners to purchase music content only with their own DRM coding. (Garon 2008, 5.)
without purchasing the tracks as the music is only being streamed without downloading it and saving it onto a PC. (Gleghorn 2010.)

Spotify is the newest and fastest growing in popularity music subscription website. It was founded in 2006 with the purpose to provide users with on demand online streaming and music downloads. It also contains various editorial content options such as artist biographies and album reviews as well as a number of promotional offerings via links to other legal online retailers. (Spotify 2010.) Spotify is also a good way of discovering new music as the consumers can listen to Artist Radios, which contain tracks of their artist of choice together with other resembling artists. Moreover, Spotify’s software analyses the listener’s music preferences and suggests new similar tracks. (Varsavsky 2007.)

Spotify’s business model is based on obtaining music content directly from the right holders and distributing it to the consumers through a technical platform, i.e. through the download and installation of a simple and user-friendly software. The service is delivered to customers in the form of monthly, daily or free, ad-supported subscriptions. (Spotify 2010.) The main benefit of the subscriptions is that the consumers do not own the music and as so can enjoy unlimited music streaming without having to pay separately for each track (Varsavsky 2007).

By dominating the modern digital music markets the new business models introduced above entirely support Hamel and Prahalad’s (2006) insight that the “newcomers who change the rules of the game” are the ones who initiate the organizational transformation within the industry. Companies nowadays should not embark on reengineering processes but instead should regenerate new strategies through innovative thinking and thus reinvent their industries. (Hamel – Prahalad 2006, 18-19.) Therefore, the music industry value creation will be introduced in the next chapter in order to facilitate the understanding of how new digital technologies and business models transform the industry landscape and functions.
3 VALUE CREATION IN MUSIC INDUSTRY

An important notion for the creation of value within an industry is the value chain concept. The value chain is a sequence of activities performed in order to increase the value of the offered product and thus to compete with alternative offerings. Products pass the activities of the value chain and at each activity they gain some additional value. Hence, the chain of activities gives the final products more added value than the sum of added values of all activities. These activities can be connected with product design, production, marketing, delivery, support, etc. (Fill – Fill 2004, 22).

Additionally, the understanding of the value chain activities can prove to be a positive factor to the company’s competitive strategy. It can also form a competitive advantage, based on which a business not only can receive high rates of return, but also can deliver value to its customers (Hollensen 2004, 17-18). Music industry as a part of the entertainment business which generates profits and creates additional customer value makes no exception from the value chain theory. Therefore, for the purpose of this research, the popular concept of value chain will be assessed in this chapter. First, the main stakeholders in the music industry will be introduced and then the value chain activities and their alterations will be discussed in a greater detail.

3.1 Stakeholders in the music industry value chain

The value creation in the music industry cannot be thoroughly explored without the definition of its main participants. Moreover, knowledge of their roles and the interactions between them will give a better understanding of the process of structural changes within the industry. In addition, knowing the structure and the functions of the music industry players proves important for gaining insight to the turbulences within the industry resulting in disintermediation and reintermediation of the value chain.

Graham, Burnes, Lewis and Langer (2004) consider the traditional music industry value chain, i.e. before the digitalization, as very inert since the actors in it were mostly big and well-established names. The limited choice of music industry players due to the high vertical integration of the major record companies has lead to the establishment of mainly strong long-term relationships within the industry. Therefore the traditional music industry has maintained its structure almost intact since the initiation of music commercialization. (Graham – Burnes – Lewis – Langer 2004, 1093.)
The number and the roles of the music industry stakeholders differ among various scholars. Nevertheless, the biggest players seem to be relatively the same in most research conducted on the music industry structure. Graham et al. (2004) identify the following three levels of intermediaries between the artists who create the music and the consumers: record companies, distributors and retailers:

![Diagram of intermediaries in the music industry](https://via.placeholder.com/150)

**Figure 1** Traditional levels of intermediaries in the music industry (Graham et al. 2004, 1093).

Based on the above Figure 1 and the work of other scholars (Parikh 1999, Dustry 1999) as well as in accordance with the music industry definition accepted in this thesis three main blocks of activities in music industry can be distinguished: *creation/production of music, marketing/promotion of music* and *distribution of music*. These three blocks of activities will also be adopted in this study for the purpose of systematization of music industry stakeholders according to their functions.

Parikh (1999) appoints concrete values to the given blocks of activities, namely he identifies persons and organizations which participate in any of the processes. According to him the people behind the creation of music are musicians, recording artists and lyricists or altogether artists. Their main property is creativity through which they produce art in the form of music. (Parikh 1999, 2.) Therefore, the artists’ implication for the music industry value chain refers to the creation of initial value through the pieces of music they compose or arrange. However, the process of creation cannot be made possible without the interactions with other entities such as publishers and especially record companies as they provide the capital and the know-how for all other activities of the value chain. (Graham et al. 2004, 1093.)

Next, the marketing of music is an elaborate process which combines various activities such as branding, information dissemination and community building on the basis of similar tastes among consumers. Marketing’s key purpose is to raise awareness of the music products and to bring end users together, hence to enhance customer value. This is achieved through the integration of multiple promotional channels, which include promoters, pluggers and broadcasters (clubs, TV channels, radio stations, user communities, etc.). (Parikh, 1999, 2.) Record companies play a special intermediary role in the music marketing process as they possess strong relationships with all media as well as
retail stores (Graham et al 2004, 1093). Retailers can also take part in the marketing as they provide additional promotional merchandise (Parikh 1999, 2).

And finally Parikh (1999) regards music as a perishable “liquid” product which has to be captured and preserved in “containers”, i.e. given a material form and delivered to the audience. This constitutes the process of music distribution mainly executed by manufacturers, distributors and different types of retailers. Moreover, public and private performances can also be considered a part of the music distribution in its live form. (Parikh 1999, 2.)

The processes of creation, marketing and distribution of music goods outline the following music industry structure presented by Dustry (1999):

![Organizational structures in music industry](adapted from Dustry 1999)

**Figure 2** Organizational structures in music industry (adapted from Dustry 1999)
On the basis of the above figure and the work of other authors (Fetscherin 2004; Shayo – Guthrie 2005) the following main stakeholders and their interrelationships can be identified:

Composers/songwriters are the originators and content creators of all music. They can be artists, bands, individuals or companies who receive royalties from record sales, performances or the use of a composition in other media such as television, films, advertising or videos (Shayo – Guthrie 2005). They are also the ones heavily affected by Intellectual Property Rights infringement due to illegal file downloading and P2P file sharing (Fetscherin 2004).

Artists/bands are the individuals engaged in the performing of songs and compositions created by the previous stakeholder group. They receive a certain share of the record sales revenues and other fees determined in the contracts they sign with the record labels (Shayo – Guthrie 2005).

Managers, as specialist in the music business, represent artists and composers in their interactions with recording and publishing companies as well as other stakeholders in the industry. They also employ accountants, lawyers, agents and tour managers on the behalf of the artists/composers for which they receive a percentage of the income. The main function of the managers, however, remains to be the dealing with daily problems and the smooth running of the artist’s career (Dustry 1999).

Producers/production companies can be regarded as an alliance between various players such as managers, producers, musicians and composers who create the commercial image of the artists and then market it to the record companies. Sometimes production companies do not seek to produce mass culture but help unique talents bypassed by the major labels to build a career (Dustry 1999). Composers and songwriters sign contracts (publishing deals) with publishing companies through which they assign their copyrights to the publisher (Shayo – Guthrie 2005). From their part publishing companies license the use of the copyrights to record companies to record the compositions. They receive royalties from record sales for their intermediary work. Publishing companies can also file lawsuits for copyrights infringements on the behalf of the composers and seek additional exploitation of the copyrights in other media such as films, television, advertisements, etc in order to increase the profits from the licensing out. (Dustry 1999.) Marketers or marketing agents, promoters, song pluggers and broadcasters are public relations agencies, clubs, discos, radio and TV stations and concert organisers which participate in the promotion of artists and performers (Shayo – Guthrie 2005).

Record companies cannot be assigned to a single functional category as their main functions can be identified as exploiting and facilitating the artist’s creativity through recording, manufacturing, distribution and promotion of his/her recorded music. That is,
record companies perform activities related to production, distribution and marketing of music at the same time. The record companies also provide financial, organizational and promotional support to the artist and therefore bear a substantial financial risk when signing and launching a new act given that only two out of ten new artists manage to pay back the initial investments and make long term profits. This is the reason why record companies base their business on artists who possess the ability to sell a great number of recordings and make huge profits (Dustry 1999; Graham et al 2004, 1093).

The role of the record companies for the music distribution is twofold. On the one hand, they create additional value while serving as a link between the artists, the retailers and the consumers by providing them with physical music products as well as by investing in distributional infrastructure. On the other hand, they create significant entry barriers for new entrants in the music industry through maintain high costs of the establishment of distribution systems and through strong control over the main distribution channels. Therefore, they further limit the flexibility of the traditional music industry participants in terms of music distribution. (Graham et al. 2004, 1093; 1095-1096.)

According to Shayo and Guthrie (2005) manufacturers are mainly record companies in possession of facilities for pressing records and for designing the artwork and the packaging of the record sleeves. This is a common function of many independent record labels (Shayo – Guthrie 2005). Distributors are also mainly record labels which sell the finished products to wholesalers and retailers (Graham 2004, 1093-1094; Shayo – Guthrie 2005). Distributors can also be digital, namely approved websites which offer preview samples, singles or full albums online for download (Music business dictionary). In addition distributors often provide marketing and promotional support to record labels and retailers. The support includes activities such as customer mail order delivery, live performances, web site building and print and broadcast media promotions. Since the success of a record is determined to a great extent by the promotional activities, this function of the distribution channels should not be underrated (Dustry 1999). And finally, retailers can be retail shops (“brick-and-mortar”) and online retail companies which buy records from wholesalers or straight from the record labels and sell them to the end-users or obtain licenses to allow customers to download music online (Shayo – Guthrie 2005).

As it was made clear, before the introduction of the digital innovations discussed in chapter 2, the music industry value chain has followed a relatively stable and coherent cycle of activities, performed by producers, distributors and user interface (such as TV or radio stations). Along the value chain various goal keepers have enhanced or limited the consumers’ access to the created music content in accordance with the industry
needs. (McClelland – Markel 2009.) The most significant goal keeping role was and still is played by the major record labels as they impose entry barriers to new players, exercise control over the artists and manage the marketing and distributional channels, i.e. restrict the consumers’ free choice of music (Graham et al. 2004, 1095-1096).

3.2 Traditional music industry value chain

Porter’s generic value chain concept (1985) can be applied to the music industry in order to understand how a product moves from the content provider or inventor to the final consumer. In the case of music industry a typical value chain consists of production, manufacturing, packaging, marketing and delivery of the final product to the customer. (Tuomola 2004, 28-29.)

Porter (1985) presents the value chain as a combination of nine value activities and a margin. The value activities are the physical and technological operations an organization performs, which take part in the creation of benefits for the customers, while the essence of the margin is in the difference between the price of the product and the overall costs of the producer’s value activities. Porter also indicates two ways of creating and sustaining competitive advantages in terms of his value chain concept: (1) by offering customers comparable value more efficiently than the other competing organizations and thus entering long-term relationships based on lower prices, or (2) by operating at comparable costs while at the same time creating higher customer value than the competitors, thus establishing buyer-seller relationship on the ground of product differentiation. (Porter 1985, 38-39.)

Porter (1985) further divides the added value chain activities into two major groups: primary activities, which include inbound logistics, operations, outbound logistics, marketing and sales and services, and support activities, such as procurement, technology development, human resource management and infrastructure (Porter 1985, 37-43). According to Porter primary activities are the ones directly connected with the production, sales and distribution of the products/services to the customers while the support activities indirectly influence the production and the delivery of goods, i.e. serve to facilitate the direct activities (Porter 1985, 38). As all the primary and support activities interact with each other, they offer greater value to the buyer and better satisfy the customers’ particular needs (Hollensen 2004, 18-19,22).

Shayo and Guthrie (2005) later elaborate on Porter’s value chain theory and implement it into the music business. They manage to attribute concrete dimensions and func-
tional entities to all primary and support activities, which can be summarised in the follow-
ing figure:

<table>
<thead>
<tr>
<th>Support activities</th>
<th>Manufacturing activities</th>
<th>Outbound logistics</th>
<th>Marketing and sales</th>
<th>After sales service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>- Recording</td>
<td>- CDs</td>
<td>- Brochures</td>
<td>- Returns</td>
</tr>
<tr>
<td></td>
<td>- Pressing</td>
<td>- Tapes</td>
<td>- Media (TV, radio, press)</td>
<td>and allowances</td>
</tr>
<tr>
<td></td>
<td>- Publishing</td>
<td>- Videos</td>
<td>- Concerts, clubs, discos</td>
<td>- Royalty collection</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Online files</td>
<td>- Wholesalers, retailers</td>
<td>- Answering customer queries</td>
</tr>
<tr>
<td>Human resource management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology development</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inbound logistics:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Copyright owners</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(composers, artists, bands, text writers)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Producer (sound engineer)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Primary activities</th>
</tr>
</thead>
</table>

Figure 3 Traditional music industry value chain (Shayo – Guthrie 2005,11)

The primary activities presented in the picture include music composition and production, recording, pressing and publishing of albums, music distribution, marketing activities and after-sales services. The secondary activities which support the direct value creation consist of infrastructure, information generation and financial mechanisms, human resource management and technological development. For the purpose of this thesis only the primary activities will be studied further in the light of only one secondary activity – technological development – which in the author’s opinion plays the most significant role for the modern music industry value chain’s restructuring.
Based on the primary activities identified above, the traditional music industry value chain can, therefore, be represented in the following way:

![Figure 4](image)

**Figure 4** Traditional structure of the music industry value chain activities (adapted from Graham – Burnes – Lewis – Langer 2004, 1092).

The composition of music represents the inbound logistics, i.e. the music content input into the industry. Recording and production constitute the process of manufacturing physical copies of the music content and their publishing. The distribution of physical copies or online files constitutes the outbound logistics; that is the delivery of music to the retailers and promoters. And finally the retailing is in charge of the marketing and sales of the music as well as providing after sales services to the end customers.

What can also be seen from the picture is that the traditional value chain is a linear series of independent processes determined by a natural sequence of activities. It also involves very strong vertical integration of resources and activities and is intensely dependent on physical goods and physical market places. (Graham – Burnes – Lewis – Langer 2004, 1091.) Nevertheless, this could only be considered true for the music industry before the wide spreading of the Internet as a means of music distribution.

Wikström (2006) further defines the music industry activities in the light of the value chain theory. He not only identifies core (primary) activities and supporting activities but also adds a third category which contains industries indirectly related to music industry but still playing a significant part in its value chain:
Table 1  Music industry activities (Wikström 2006, 303)

<table>
<thead>
<tr>
<th>Core activities</th>
<th>Supporting activities</th>
<th>Related industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Song-writing and composition</td>
<td>• Music press</td>
<td>• Internet/e-commerce</td>
</tr>
<tr>
<td>• Administration of copyright in composition</td>
<td>• Multimedia content</td>
<td>• Television &amp; Radio</td>
</tr>
<tr>
<td>and recordings</td>
<td>• Digital media</td>
<td>• Film &amp; Video</td>
</tr>
<tr>
<td>• Production, distribution and retailing of</td>
<td>• Retailing and distribution of digital music via Internet</td>
<td>• Advertising</td>
</tr>
<tr>
<td>sound recordings</td>
<td>• Music for computer games</td>
<td>• Performance Arts</td>
</tr>
<tr>
<td>• Management, representation and promotion</td>
<td>• Art and creative studios</td>
<td>• Interactive Leisure Software</td>
</tr>
<tr>
<td>• Live performance (non-classical)</td>
<td>• Production, distribution and retailing of printed music</td>
<td>• Software &amp; Computer Services</td>
</tr>
<tr>
<td></td>
<td>• Jingle production</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Photography</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Education and training</td>
<td></td>
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</tbody>
</table>

Wikström’s (2006) core activities closely resemble the already described main functions of the music industry with one addition: he also includes live music performance in the primary value chain activities. This comes to prove the increasing role live performances are playing in the contemporary music industry for the creation of added value and the delivering of customer satisfaction. However, there is a significant difference between the supporting activities suggested by Shayo and Guthrie (2005) and Wikström (2006). The emphasis shifts from physical infrastructure and human resource management towards the advancement of technology and the Internet in particular and the interaction between the music industry and other related industries on the basis of digital technology.

Indeed with the rise of the Internet and the development of digital innovations, the modern music industry is facing several challenges such as technology dynamics, better connectivity, low switching costs and decreasing sales. On the one hand, the Internet has attributed to the shortening of the traditional value chain and increased customers’ exposure to music content at more competitive prices. On the other hand, it has hin-

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3 Based on survey of the British government (DMSC 1998)
dered profitability from the established activities of traditional players, thus making the traditional top-down organizational structure of the value chain obsolete.

Therefore, music industry should focus on building dynamic relationships with various networks, new partners and even former competitors rather than keep managing talent in-house while trying to compete for market shares with other players. In brief, the music industry of today should either revise its value chain or suffer severe losses in the future. (McClelland – Markel 2009.) To illustrate this claim, a reconsideration of the traditional music industry value chain will be done next.

### 3.3 Digital music industry value chain

After the Internet and other technological innovations were introduced, the music industry structure seems to have increased its dynamism as it has already been suggested earlier in the thesis. The Internet as a global communication tool has facilitated the interaction between the music marketing and music distribution and the listeners. On the one hand, this has made a great impact on the music industry by reducing the length of its value chain as the need for physical distribution and retail has diminished. In this way the bargaining power of both artists and consumers has increased. (Graham et al. 2004, 1094, 1096.) The industry focus has shifted from initiatives aiming to upsell the artists to a common mass audience towards the acknowledgement of the singular consumers’ various music preferences. Gialis, Klein and O’Keefe (1999) consider the individual consumers’ tastes to be the force which generates industrial dynamics and alter the music industry’s structure and functions (Gialis – Klein – O’Keefe 1999, 1).

On the other hand, technology has significantly lowered the entry barriers to the industry and new companies and organizations have emerged and begun to specialize in certain activity of the value chain. The new entrants not only overtake some of the functions previously performed by the record labels but also offer an enormous selection of partner organizations, business models and services. (Graham et al. 2004, 1094, 1096.) The following figure illustrates the shift in the actors’ position in the digital music industry. While the traditional value chain is still maintained, the importance of new service companies and direct distribution aiming straight at the end consumers becomes apparent:
Figure 5 serves two purposes at the same time. Firstly, it makes visible the go-between function the new service companies (such as SecuryCast in Finland) play in terms of establishing and sustaining a connection between the creators of music and the consumers. And secondly, it emphasizes on the new opportunities for the artists to directly distribute their music to the listeners without the mediation of several other players. Therefore, the existence and functioning of intermediaries should be considered next.

Intermediaries are economic agents which serve as a bridge between supply and demand in a given market. (Hess – Walter 2006, 3). According to Bockstedt et al. (2006) the main functions of intermediaries are to manage inventories, set market-clearing prices, make purchase and sales decisions, supply information and coordinate market transactions (Bockstedt et al. 2006, 11). As far as the music industry is concerned, intermediaries reduce transaction costs and information asymmetries between the producers and the end customers (Hess – Walter 2006, 3). In addition, intermediaries also tend to increase the prices of the final products by adding considerable costs to the value chain while simultaneously lowering the profit margins for the music producers (Gialis et al 1999, 1).

However, digitalization and technological advancement towards electronic markets alter the function of traditional intermediaries as they dismiss the necessary middle agents in several activities (Garon 2009, 227). Gialis et al. (1999) summarize the essence of the music industry restructuring as a course of development in which certain intermediaries will become unnecessary or others will differentiate and re-enter the digital music business (Gialis et al. 1999, 1). These two processes are known in the business literature as disintermediation and reintermediation of the value chain.
The term disintermediation is used to explain how the contemporary added value chain is progressing towards becoming shorter as a result of digitalization. (Gialis et al 1999, 1; Tuomola 2004, 33). Indeed digital means of distribution account for several incentives from the part of music suppliers and consumers in order to eradicate music industry agents through the establishment of direct connections between each other (Gialis et al 1999, 1). As an outcome traditional “sales-entities” will be circumvented or even rendered obsolete as there will be no need for physical production and distribution (Tuomola 2004, 33-34).

According to Gialis et al. (1999) however, disintermediation is not applicable to all music industry players, thus it should not be accepted as a general rule. New online intermediaries are emerging in order to help decrease the information search costs as the music infrastructure grows heavier. Moreover, some intermediary functions are relatively indifferent to cost reduction and hence cannot be affected by the value chain shortening. (Gialis et al. 1999, 11.) Therefore, other intermediaries utilize their exclusive ownership of intellectual property and know-how to create brand loyalty and brand exclusivity (Garon 2009, 227). This can be explained with the process of reintermediation.

As suggested by Tuomola (2004) digitalization does not always reduce the activities comprising the value chain. On the contrary, it often affects the quality rather than the quantity of the intermediaries. As a result the industry landscape is reorganized to include new participants and functions (such as Internet service providers, digital sales service providers for online distribution or CD mastering and duplication services for self-financed and home-recorded albums), i.e. the value chain is reintermediated especially in terms of distribution. (Tuomola 2004, 34.) This idea can also be seen from Figure 5 where new service companies and direct distribution to the customers were introduced.

Reintermediation does not necessarily contradict the processes of value chain shortening as it focuses on certain values appreciated by the consumers. Garon (2009) identifies these values as relevance, affinity and exclusivity. Relevance is associated with recognition and satisfaction of customers’ needs and tastes. Affinity is related to building a strong and long-lasting relationship with the consumers. Exclusivity can develop through the establishment of specific distribution channels based on copyrights and patents. Exclusivity can be built on contracts such as service agreements and subscriptions (for example music streaming websites) but is only effective when it serves to attain affinity in the consumers, i.e. to create additional emotional customer value. (Garon 2009, 230-231.)
Hess and Walter (2006) further explain the changes in the music industry regarding reintermediation by introducing new intermediaries and allocating new functions to various stakeholders:

Table 2    Music industry reintermediation (Hess – Walter 2006, 7)

<table>
<thead>
<tr>
<th></th>
<th>Artist</th>
<th>Label/record co.</th>
<th>Studio</th>
<th>Press</th>
<th>Logistics/distributor</th>
<th>Retail</th>
<th>Internet</th>
<th>PC</th>
<th>User</th>
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<tbody>
<tr>
<td>Identification</td>
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<td>Selection</td>
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<td>Aggregation</td>
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<tr>
<td>Transformation</td>
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<tr>
<td>Reproduction</td>
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<tr>
<td>Distribution</td>
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<tr>
<td>Presentation</td>
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Table 2 clearly presents the functions various actors perform in music industry. The black fields indicate the traditional functions allocated to different stakeholders while the grey ones show the newly added players and their allocated functions. The table strongly emphasizes the new responsibility of artists and internet service providers for music presentation: that is how to market the music products to the consumers. At the same time the final users’ role for selection and aggregation of music content is increasing. It is now to a lesser degree in the activity scope of record companies to determine the consumers music tastes and preferences. As a result the artists and the consumers become more directly related to each other.

Moreover, the table suggests the increasing importance of digital technology and innovations for several activities performed by modern intermediaries. The Internet and the computer technologies in the face of internet service providers and digital music stores will displace record labels, studios and physical distributors in certain functions such as identification of artists, aggregation of music content, reproduction, distribution and presentation of music albums. Therefore, disintermediation and reintermediation of the value chain are considered to affect mostly record labels, wholesalers and retailer stores. (Tuomola 2004, 33-34.)
As a result of the reintermediation new digital retailers appear to replace the physical ones. Manufacturers and distributors are rendered unnecessary because of the established direct communication between record labels, producers or even artists and the digital retailers without the need for manufacturing a hard copy of the music product (Bockstedt et al. 2006, 11). In this way music creators and producers are able to reduce their transaction costs and perform certain activities in-house instead of using the services provided by traditional intermediaries (Gialis et al. 1999, 2).

Furthermore, the music content delivered to the customer will become richer because of the facilitated interaction between suppliers and customers through digital media and the resulting lowering of transaction costs (Garon 2009, 227). This will inevitably result in the redistribution of profits and added value within the industry and affect the functioning of intermediaries or even drive some of them to extinction (Gialis et al. 1999, 2).

As the suppliers and consumers are drawn closer to each other through the reduction of the value chain, the record labels may also lose ground in the new digital markets. Since the digital reproduction, storage and distribution of music are practically costless, digitalization decreases the costs associated with the production of an album such as expenses for pressing and packaging of albums, shipping to retail stores and maintaining inventories. Therefore, it will be easier for artists to bypass the record companies as the amount of investments in creation and distribution of music will become less significant. (Bockstedt et al. 2006, 21.) Several artists will choose to remain independent of record labels and establish their own websites or utilize user communities in order to promote and sell their music (Parikh 1999, 7).

Record labels and other intermediaries can uphold their positions in the value chain only by providing value which artists cannot do alone. As a result in the future intermediaries will shift their value creation activities towards providing promotional and marketing services, artist management services, consulting services or copyright implementation services (Bockstedt et al. 2006, 21.) The disintermediation and reintermediation processes will further present the traditional music industry stakeholders with surviving difficulties which can only be eliminated through the stakeholders’ differentiation and niches targeting thanks to digital technologies (Gialis et al. 1999, 12). The new technologies represent a powerful tool for natural selection of “the fittest” music industry companies as they can disrupt traditional business models and force the industry players to either adapt to the industry dynamics or to die out (Vaccaro – Cohn 2004, 46). The notion of natural selection will be assessed in the next chapter through the introduction of population ecology theory.
4 POPULATION ECOLOGY AND MUSIC INDUSTRY

Scholars apply multiple sophisticated organizational theories to the understanding of change and development such as life cycles, teleology, dialectics, evolution, etc. While some of them are inter- or multidisciplinary, theories can also be borrowed from other disciplines and sciences (Van de Ven – Poole 1995, 510). Such is the case with the population ecology theoretical view, which will be acquired for the purpose of this paper. The notions of change, development and selection in the music industry play central a part in the theoretical framework of this thesis, therefore they are to be better defined and understood through this chapter. This will be achieved by examining central issues of population ecology theory, namely environmental selection, structural inertia and niche theory.

4.1 Populations as units of study

Population ecology presents the natural selection view of Charles Darwin and applies it to business organizations (Van de Ven – Poole 1995, 518). In its essence it is an evolutionary view based on models, theories and methods used in biological study of plant and animal populations and their evolution (Young 1988, 1). In organizational populations, just like in biological ones, population ecology provides explanations of various events such as organizational birth, evolution and mortality (Betton – Dess 1985, 751). Therefore, population ecology seems to be a useful paradigm in understanding the changes within music industry structure and its development and adaption to the requirements of the dynamic modern music business environment.

Indeed the main focus of research in population ecology applied in the context of this particular research proves to be the growth and decline of populations (music industry) as well as the interactions between different populations (music industry and other entertainment industries) and the organizational units within them (music industry stakeholders). In this sense, population ecology combines natural ecology and the theory of evolution which results in the development of a selection approach towards the environment. (Caroll 1984, 72.)

Before engaging with the explanation of environmental selection, definitions to what organizational forms and population of organization are should be given in the first place. A common definition of organization, adopted by the population ecologists, is that of McKelvey. McKelvey (1980) states that a population of organization is an active
system with a distinct purpose which constitutes of at least one autonomous purposeful subsystem. Furthermore, an organization survives in a constraining environment through the optimization of its input-output resource ratios. (McKelvey 1980, 115.) This definition is also applicable to the music industry as a population of separate organizations interacting between each other, striving to survive in a dynamic environment and to make a profit from their activities.

Similar view can also be observed in the work of Hannan and Freeman (1977), according to whom “a population of organizations consists of all the organizations within a particular boundary that have a common form”. They borrow the term “blueprint” from biology, namely how energy is transformed into structure or how organizations learn to adapt to the environment. According to them, in organizational population the blueprint is the organization’s ability to transform inputs into outputs, that is, in the case of music industry to add value to music propositions. (Hannan – Freeman 1977, 935-936.)

Hannan and Freeman (1977) define populations as a wholesome of organizational entities rather than singular organizations. In their opinion, for a wholesome of organizations to qualify as a population, its members should possess distinct similarities which account for a common unit character. Therefore, they regard the individual organizations within a population as being somewhat homogeneous in their exposure to environmental change as they serve the common purpose to enhance music industry added value chain. (Hannan – Freeman 1977, 934.)

Indeed, population ecology highlights the standardization of organizational entities rather than their diversity and uniqueness. This is achieved through narrowing down the study focus to factors determining the development only of certain population members, which fulfil particular criteria of environmental adaptation. Population ecology tends to homogenize organizational forms and thus sustain stability within the populations. As a result, it delves into studying the change mainly occurring throughout the lifecycle of existing populations and the modes they use to develop and adapt. (Astley 1985, 224.) So in this sense it is a reactive rather than a proactive theoretical view. This is very much the case with the music industry in Finland which is reacting to global music digitalization through adaptation to the new environmental conditions without being able to affect the outcome of the digitalization process per se.

In other words, in its essence population ecology focuses not on individual actions (single organizations) but on structural changes in populations and communities of organizations (music industry as a whole), where individual behaviour only reflects the changing properties of the whole environment. Therefore, Astley and Van de Ven (1983) position population ecology as a deterministically oriented view on a macroeco-
nomic level (industry level). (Astley – Van de Ven 1983, 247). Han (2007) adds to this statement his view that individual behaviour is rather insignificant if not seen through the effects of the interactions between organizations coexisting in the same locus (Han 2007, 124).

The idea of the population as a unit of analysis is best explained in the work of Hannan and Freeman (1977). They oppose the common tendency of analyzing singular organizations in the context of their environment and suggest industry or community levels as more appropriate for research (Hannan – Freeman 1977, 934). This is a particularly useful level of study because organizational activities are the product of multiple interactions between various actors and their environment; hence they represent a synergy between industry and environmental conditions (Katz – Gartner 1988, 430-431.) That is why the author of this study believes that population ecology can give a good insight to the dynamics and evolution in the music industry as a population of organizations under study, thus it can present a viable theoretical framework to this research.

4.2 Population ecology and organizational change

Barnett and Carroll (1995) define organizational change as structural alteration which takes place between two points in time (in the case of music industry before and after the digitalization process). The change is accessed through the comparison of the organization’s state at these two points and the analysis of the different structural features at the later time point. Therefore, structural change involves drastic transformation in certain key elements of organizational structure, namely how organizations rearrange the added value chain in a digital environment. Another important aspect of change can be the speed of transformation, the sequence of activities, the decision-making process and the internal resistance to change. (Barnett – Carroll, 219.) In this chapter the characteristics of organizational change in music industry are to be further examined in the light of population ecology view of environmental selection.

According to Van de Ven and Poole (1995) change in an organization’s existence should be regarded as a process in which the organisational entity passes through various forms, qualities and states in a certain time frame (Van de Ven – Poole 1995, 512). Moreover, they believe organizational change resembles an evolutionary cycle of random variation in organizational forms, selection and retention of the fittest organizational entities like in biological populations (Van de Ven – Poole 1995, 519; 521). This can be illustrated with the following figure:
What Van de Ven and Poole (1995) attempt to explain with the above figure is that birth or creation of new forms of organizations is an event dependent on random circumstances rather than planned activities. But which one of them will survive is determined through the process of selection (Van de Ven – Poole, 518). Hannan and Freeman (1977) consider selection as inter-organizational competition for limited resources, which are vital for the survival of each organizational entity (Hannan – Freeman, 1977, 939). Then organizational fitness is the prospect of survival and endurance of an organization in certain environmental conditions (Hannan – Freeman 1977, 937).

As it was already explained in the previous chapters, information and technology as well as greater customer satisfaction are displacing the physical resources in the music organizations’ strife for survival in the modern digital environment. Therefore, retention can be regarded as the process of sustenance and preservation of these organizations, which prove to be the most suited and the most adaptable to environmental change towards digitalization (Van de Ven – Poole, 518).

A focal point in population ecology is the notions of environmental selection, structural inertia and niche theory. They give insight as to how populations change and develop internally due to the transformations that their constituent members undergo. Astley (1985) sees environmental selection as a process in which some organizations fail to meet the requirements of the environment and thus are selected out of the population while other entities are created to replace them. Some music organizations do not succeed to follow the environmental transition towards digitalization and are driven out of business by newly emerging competitors specially established to monetize on digital innovations. Hence, the population landscape also changes as the organizations replace
each other and bring new characteristics into the whole population through creation and selective retention (Astley 1985, 225).

### 4.2.1 Environmental selection

Van de Ven and Poole (1995) identify two general types of modes of organizational change depending on whether the transformation events are determined a priori to the process of change or during its advancement. In this sense population ecology adopts a prescribed mode of transformation. They define prescribed mode of change as a process which “channels the development of entities in a pre-specified direction, typically of maintaining and incrementally adapting their forms in a stable, predictable way.” (Van de Ven – Poole 1995, 522). Therefore, population ecology can be regarded as a notion opposing strategic choice.

In the first place, the evolutionary change of an industry is largely dependent on its surrounding environment in general and the allocation of scarce resources among the participants in particular. Organizations are regarded as narrowly confined in their ability to make autonomous strategic choices. Furthermore, change represents a natural movement of resources through the economy, which is little dependent on internal managerial actions. Hence, internal managerial choice of action is limited to following certain directions predetermined by the changes in the environment. (Astley – Van de Ven 1983, 249-250.) In the case of the music industry, the choice of value chain adaptation to digitalization is required by a global environmental trend, which music organizations are being forced to abide to in order to continue their operations.

If organizations fail to respond to competitive pressure of other entities in possession of better resources (digital technologies, easier access to consumers, etc.), they die out. Thus, population ecology considers competitive success of organizations as determined by the number of survivals in the population rather than the profitability of individual organizational entities. Organizations, which cannot evolve according to the environmental development, cannot survive under the new competitive conditions and are outperformed by other organizational entities. (Han 2007, 124-127.) And since populations are mostly densely filled with competitors, competitive saturation accounts for the optimization of the environment according to the changing consumer needs. In other words competition is a factor which facilitates the selection of the most viable competing organizations which offer greater added value to the customers (Astley 1985, 229). So in this sense, it is the environment that optimizes rather than the population itself.
unlike in strategic choice’s viewpoint where organizations search for alternative modes of sustaining themselves in a changing environment (Hannan – Freeman 1977, 939-940; Han 2007, 124). In the case of music industry intense competition for customers due to the sales drop drives the environment towards the enhancement of digital technology and online distribution. As a result the companies have to adapt their business strategies to the new conditions as they cannot determine the flow of environmental changes.

At this point environmental selection sets in. Even though individual organization may not consciously adapt to the environmental change, it is the environment which selects the most advantageous organizational forms which will be maintained in the long run (Hannan – Freeman 1977, 937). As far as the selecting out of organizational forms is concerned, Carroll (1984) states that failures largely depend on factors external to the organizations, thus they often are impossible to control and prevent through managerial actions (Carroll 1984, 84).

### 4.2.2 Structural inertia

Hannan and Freeman (1977) introduce the term “structural inertia” to complement a certain population ecology view regarding organizational structures as relatively inert to environmental changes. They claim that various factors limit the ability of organizational entities to adapt to the changing environmental conditions and they call this inability to adapt “structural inertia” (Hannan – Freeman 1977, 930-931). In other words, structural inertia is “a correspondence between the behavioural capabilities of a class of organizations and their environment” (Hannan – Freeman 1984, 151). As it has already been explained in the previous subchapter, the stronger the environmental pressure proves to be, the lower the organizational adaptability is, hence environmental selection prevails over strategic choice and a selection model should be adopted. (Hannan – Freeman 1977, 930-931.)

Structural inertia also rules out the mechanisms of adaptation by introducing populations of mostly inflexible organizations, for which change is difficult to accomplish and bears high risks (Amburgey – Kelly – Barnett 1993, 51). Since organizational entities are subjected to strong inertial pressures, they seldom manage to achieve radical changes in their structure and strategy when encountering environmental threats (Hannan – Freeman 1984, 149). As an alternative, populations change over time through selection and replacement of existing organizations rather than through adaptation (Singh et al. 1986, 587). Therefore, in the contemporary music industry under the pressure of digital innovations, it is more likely for new and specialized digital organiza-
tions to emerge rather than for the existing ones to successfully adapt to the changing environmental conditions.

Singh, House and Tucker (1986) further argue that organizations appear to be relatively inert when environmental conditions change at a more rapid pace in comparison to that of the structural transformation within the organizational entity (Singh – House – Tucker 1986, 588). Therefore, the notion of structural inertia seems to apply better to such organizational entities which are difficult to change, namely the complex, large organizations. This is particularly true because larger organizations are less likely to enhance radical changes due to the heavy and thus inert hierarchical structure which characterizes them. (Hannan – Freeman 1984, 149). So it is logical to conclude that the major record labels are the most resistant to transition towards digitalization because of their size and more sophisticated operational coordination at a global level. In addition, the new digital organizations should retain a simple and flexible organizational form in order to meet the requirements of a dynamic environment.

Peterson and Berger (1971) further provide examples from the music industry to illustrate how organizations survive in turbulent environments. They consider the organizations’ chances of sustaining themselves relevant to the organizations’ size. Small and loosely structured independent record producers can manage their business through proactive entrepreneurial activities while large record labels, which cannot reduce the environmental turbulence, adapt their structure to the newly created market requirements by creating specialized units within the organization. (Peterson – Berger 1971, 98.)

Age and size of organizations and their relation to structural inertia also appear as a major issue in the work of other scholars. Barron, West and Hannan (1994) suggest that structural inertia increases as roles, structures and procedures within large organizational entities become well instituted through time and repetition (Barron – West – Hannan 1994, 384). This implies once again that the major record labels will be the most inflexible and resistant to the process of digitalization.

As Hannan and Freeman (1984) consider structural change a major cause for organizations being selected out, they propose a definition of what constitutes “core” structural changes. According to them, these are, in hierarchical order based on their significance, fundamental changes in organization’s mission, authority structure, technology and marketing strategy. (Hannan – Freeman 1984, 156.) The major record labels in comparison to the indie labels and new digital organizations are characterized with firmly established mission, hierarchical structure and marketing strategy, therefore structural changes within them are slower and difficult to establish. This claim is further developed by Barnett and Carroll (1995) according to whom core changes trigger or
require other changes in structures and practices, which affect the overall soundness of
the organization (such as the establishment of digital units and digitalization of the music content). This also accounts for the unlikelihood of organizations to undertake structural changes because of environmental pressure. (Barnett – Carroll 1995, 221-224.) As a result new organizational structures appear to fulfil unsatisfied customer needs in the form of environmental niches.

4.2.3 Niche theory

In Young’s definition (1988) “a niche is defined in terms of a set of constraints in abstract space that are sufficient to maintain a species”. In organizational sense, a niche is limited by the number of conditions an entity requires in order to survive. Hence, the dimensions, which delineate a niche, are the levels of the resources it possesses (Young 1988, 4-5). Moreover, the amount of environmental resources a niche encompasses is subjectively difficult to influence by singular population members (Astley – Van de Ven 1983, 249).

As it has been mentioned previously, surviving organizations are selected through competition for a niche’s scarce resources (Hannan – Freeman 1977, 939). Since organizations have restricted abilities to adapt structurally to different niches, they are presented with the opportunities either to establish a fit with their environmental domain or to be selected out (Astley – Van de Ven 1983, 249-250).

Hannan and Freeman (1983) also conclude based on the variation in organizations’ tenure and mortality rates that organizations inhabit different environmental niches in respect to their width and grain and thus adapt differently to them (Hannan – Freeman 1983). Betton and Dess (1985) further claim on the basis of Hannan and Freeman’s research results that organizations do not compete directly for the same resources and as a result the whole populations change rather than the singular entities (Betton – Dess 1985, 753-754).

4 “Niche width refers to a population’s tolerance for changing levels of resources, its ability to resist competitors, and its response to other factors that inhibit growth.” (Hannan – Freeman 1983, 1118)

5 “Grain refers to the degree of mixing of different types of outcomes in the temporal or spatial distribution.” (Hannan – Freeman 1983, 1119)
The environmental niches of small and large organizations also significantly vary from each other and small and large entities experience environmental change differently (Betton – Dess 1985, 754). In a changing environment the surviving entities are those, which comply the best with the resource base of the environmental niche they reside in (Hannan – Freeman 1977, 939). As a result the overall population’s dynamics of a niche can be predicted to a certain extent although it is not possible to identify which individual entities will survive (Van de Ven – Poole 1995, 518). Environmental variation pre-designs a common destiny for the population’s inhabitants (Hannan – Freeman 1977, 934).

According to Astley (1985) the process of organizational selection starts with the diminishing of the available resources within a niche as the populations grow and products are standardized. However, untapped demand in the population stimulates experimentation and technological discontinuities appear. New innovations further account for the emergence of new and various organizational forms, thus the population becomes diversified before a dominant population form is established in the later stages of its growth. Astley (1985) also considers the dynamics of populations to be dependent on the technological discontinuities as a driving force to organizational communities’ evolution. (Astley 1985, 224, 229-230.)

Indeed population ecology strongly embraces the notion that industries develop through technological changes. Technological changes allow for the innovative combination of scarce resources thus leading to the opening of new niches. Moreover, organizations themselves contribute to the development and implementation of new technologies and trigger the development of the industries. (Brittain – Freeman 1980, 295-297.) The characteristics of technological discontinuities in general as well as digital technologies and their implementation into the music industry in particular have already been discussed in detail in Chapter 2.
5 METHODOLOGY

Methodology can be described as a general approach to the understanding and analysis of a research problem (Silverman 2005, 88). Zalan and Lewis (2004) identify methodology of a research to serve the following main purpose: “to lay out general methodological considerations consistent with the research problem, ontological and epistemological positions and underlying theories.” Therefore, the choice of methodology should be considered with great care as methodology not only describes the accumulated knowledge about a certain theory of what methods are, but also justifies the author’s preference of one research approach over a variety of other existing approaches. This choice is based on the advantages of the chosen approach as well as the objective of the study, the nature of the research problem and the theoretical framework of the study. (Zalan – Lewis 2004, 511-512.)

5.1 Research method

Scholars often present the qualitative method as opposed to the quantitative one. This, however, should not be taken as an absolution. The purposes of both quantitative and qualitative researches are the same: to generate new theories or to test existing ones and thus contribute to the accumulation of knowledge for the sake of knowledge itself. They aim to arouse attention in the audience to important contemporary events rather than provoke actions. (Patton 2002, 10-11.)

Andersen and Skaates (2004) further differentiate the research approaches to be qualitative, quantitative and view-oriented, modelling or commentary papers. In their work quantitative studies are the ones which utilize quantitatively measurable data in order to test the validity of a proposition or a number of causal relationships. Qualitative studies, on the other hand, are connected with the usage of primary data in the form of interviews or secondary data embedded in internal company documentation and archival texts. (Andersen – Skaates 2004, 466.) Generally qualitative research is also thought to convey a more in-depth understanding of the researched phenomenon than quantitative research (Silverman 2005, 8; 89). The third type of research approaches is mainly used for the development of theory and compiling general commentaries. (Andersen – Skaates 2004, 466-667.)

Furthermore, distinction between quantitative and qualitative studies can be made on the basis of the type of questions they utilize and the final written report structure. While the former ones rely on closed-ended questions (quantitative hypotheses), the
latter ones are in favour of open-ended questions (interview questions), where no prior hypotheses are being tested. Respectively, the final written report of a qualitative research has a flexible structure in the form of free narrative in contrast to the fixed structure of the quantitative research. (Creswell 2009, 3-4.)

A qualitative approach has been chosen for the purpose of this research. The reason for it lies in the essence and the specific purposes of this study which can be better attained through qualitative research. According to Creswell (2009) qualitative research is applicable “for exploring and understanding the meaning individuals or groups ascribe to a social or human problem” (Creswell 2009, 4), which is also the very aim of this study. Therefore, in its essence the qualitative approach is inductive, i.e. it builds theory as a result of data collection rather than vice versa (Saunders – Lewis – Thornhill 2007, 118-121).

As music digitalization is a relatively new and constantly developing phenomenon, its effects on the music industry value chain have not been so far fully apprehended by the music business. Moreover, according to the author of the thesis (and proved throughout the research), Finland as a peripheral music market significantly lacks statistical data about digital sales on global and local level. Therefore, a qualitative approach will provide means to determine the connection between the new business models in digital music and the changes in the industry value chain using expert opinions and personal experiences expressed in a free form.

Silverman (2005) regards qualitative research as better suited for long narratives with a descriptive content and identifies the following features to illustrate in what cases qualitative approach is preferable (Silverman 2005, 8; 90):

- When the research requires the analysis of words and images rather than numbers;
- When the research examines naturally occurring events rather than experiment with the events;
- When the research is concerned with exploring the meaning studied entities put into the event rather than their behaviour;
- When natural science has been rejected as a model;
- When the research implies inductive generation of hypotheses rather that their empirical testing.

All of the above considerations are applicable to this research. Firstly, since the very aim of the study is to gain insight to personal beliefs and interpretations on a very subjective topic, the study necessitates the analysis of longer verbal rather that numerical
data. Secondly, it observes a natural process of industry development in its dynamics, hence its outcome is highly impossible to manipulate by individual entities. And lastly, the research does not require a priori generated hypotheses as it attempts to reveal a cause-effect relations rather than test predetermined claims.

5.2 Data collection

As previously mentioned qualitative data collection can be primary (field research), secondary (analysis of already existing data collected for other purposes) or mixed (utilizing both primary and secondary data simultaneously) (Andersen – Skaates 2004, 466-667). This research is conducted entirely on the basis of primary data in the form of personal interviews. The reason for choosing primary data collection method in general and personal interviews in particular was determined by the opportunity they present for the gathering of valid and reliable data directly applicable to the research objectives (Saunders et al. 2007, 310).

Holstein and Gubrium (2002) consider personal interviews as the most common and widely used technique for conducting a qualitative research as they provide in depth insight to various phenomena through conversations (Holstein – Gubrium 2002, 112). Interviews, contrary to general belief, are not merely one person asking questions and another one responding to them. Interviews have an interactive form which serves the purpose to reveal past events, understand the present situation and make predictions about future outcomes. (Erlandson – Harris – Skipper – Allen 1993, 85.)

Generally, personal interviews consist of face-to-face, telephone or electronic media interviews or focus groups. They are comprised of a small number of unstructured and mostly open-ended questions which aim to explore the respondents’ opinions and viewpoints on a broader subject. The interview data are collected by using hand-written notes, video- or audio-taping. Often audio-taped interviews are supported by researcher’s notes taken during the interview (Creswell 2009, 181-183.) All interviews in this study were audio-taped with the agreement of the respondents as this provides options for further review of the interview contents. Some field notes were also taken during the interviews, however, the clarity of experts’ responses did not require thorough note taking. Audio-tapes and field notes also reduce certain validity problems related to the accuracy of later interview recollection (Peräskylä 1997, 203).

Saunders et al. (2007) classify interviews as structured, semi-structured and unstructured (in-depth) interviews according to the formalization and standardization of the interview questions applied to each respondent. Structured interviews follow a prelimi-
nary compiled, standardized questionnaires (interview-administered questionnaires) delivered to each respondent in the same form and manner without any deviations; therefore, they can be referred to as quantitative research interviews. In opposition to them, unstructured interviews are utterly informal, without any predetermined questionnaire where the interviewees are encouraged to express their opinions, experiences and beliefs freely and openly. Finally, the semi-structured interviews resemble the unstructured ones by being non-standardized. However, what distinguishes them from the previous type is the existence of preliminary list of questions and themes to be addressed in the interviews, although they may be introduced differently to the individual interviewees. (Saunders et al. 2007, 310-313.)

Which type of interview questions the researcher would prefer depends on the complexity of the research design and the level of interaction closeness required by the research objectives (Marshall – Rossman 2006, 55-56). The current research utilizes semi-structured interviews as some questions from the predetermined questionnaire were omitted in some cases and other questions added in other cases. These changes were necessitated by the diversity of the respondents and their field of expertise as well as the data aimed to be acquired from each respondent. Moreover, as this is an explanatory study of a current, natural event, semi-structured interviews are considered in business literature to be the most appropriate source of data collection (Saunders et al. 2007, 313-314).

The choice of respondents plays a significant role for the overall trustworthiness of the collected data. The respondents’ personal experiences and opinions account for the correct understanding and evaluation of the phenomenon in question. Therefore, the respondents are determined with regard to what the researcher is aiming to achieve with the interviews and to the chosen perspective of the study. (Erlandson et al. 1993, 91.) Since the purpose of this study is to draw a holistic picture of the current situation in the Finnish music industry, the interviewees represent various units of Finnish music business value chain: record labels, musicians, researchers, government agencies and online solutions providers.

In order to collect sufficient data for this study, five expert interviews with six respondents were conducted. The first four interviews were individual while the fifth one involved two experts at a time. The interviewees for the study were selected first “serially” (one at a time) and then “contingently” (on the basis of the received information from the previous respondents (Erlandson et al. 1993, 92). As the theoretical framework of the study proved the enormous significance of the record labels for the modern music industry value chain, the choice for a major record label representative as a first inter-
viewee came naturally. The first and second interviewees were also suggested as experts in the topic by the gatekeepers, namely the supervisors of the research. The other interviewees emerged in the course of interviews as they were nominated by the previous respondents through snowball sampling. In addition, the later interviewees were chosen for their complementary knowledge and abilities to assess the research problems from different angles to the already available ones.

All potential interviewees were contacted via e-mail and the times and locations of the interviews were agreed upon. The experts were familiarized with the research topic and the general purpose of the interview questions prior to the actual interviews. Issues concerning publicity and confidentiality as well as options for receiving additional information by e-mail were also discussed in advance. The following table visualizes the specifics of each interview conducted:

Table 3 Interviews summary

<table>
<thead>
<tr>
<th>Interview date &amp; time</th>
<th>Digital director - Sony Music Entertainment</th>
<th>Deputy director – IFPI Finland</th>
<th>Finnish metal music researcher – BogFires</th>
<th>Managing director – Sakara Records</th>
<th>Managing director &amp; business development director – SecuryCast</th>
</tr>
</thead>
<tbody>
<tr>
<td>09.03.2010 10:30</td>
<td>09.03.2010 14:00</td>
<td>11.03.2010 14:00</td>
<td>24.03.2010 14:00</td>
<td>14.04.2010 10:30</td>
<td></td>
</tr>
<tr>
<td>Interview length</td>
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<td>43min</td>
<td>51min</td>
<td>40min</td>
<td>1h10min</td>
</tr>
<tr>
<td>Interview location</td>
<td>Espoo, company office</td>
<td>Helsinki, company office</td>
<td>Helsinki, Aalto University School of Economics</td>
<td>Tampere, club Klubi</td>
<td>Espoo, company office</td>
</tr>
<tr>
<td>Language of conduct</td>
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<td>English</td>
<td>English</td>
<td>English</td>
<td>English</td>
</tr>
<tr>
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<td>yes</td>
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<td>no</td>
</tr>
<tr>
<td>Themes sent beforehand</td>
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<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Audio-taped</td>
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<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>
The interviews were conducted in March and April 2010. They consisted of approximately 20 questions, which, as previously mentioned, slightly varied from one respondent to another. The length of each interview was between 40 minutes and 1 hour 20 minutes. Although all interviewees are of Finnish nationality, the interviews were taken entirely in English language due to the researcher’s limited knowledge of Finnish language. Nevertheless, the interviews ran flawlessly as the experts exhibited excellent knowledge of the language of conduct. Moreover, as the modern music industry is highly internationalized, English has become the official language to execute business in music industry, therefore some issues have become universal and easier to discuss in English language.

The first person to be interviewed on 09.03.2010 was the digital director of Sony Music Entertainment. The second interview with Finnish IFPI’s deputy director took place in the afternoon of the same day. Both interviews were conducted in the interviewees’ offices in Espoo and respectively in Helsinki. The third interview also took place in Helsinki on 11.03.2010 in the International Business department of Aalto University, where the interviewee is a PhD student. Her involvement in the Finnish metal music research project BogFires and her research on the internationalization of Finnish heavy music made her a suitable respondent with an insight to the musicians’ attitude towards digitalization. The locations were chosen for the convenience of the experts and in order to provide relaxed settings for efficient interaction.

The forth interview was conducted on 24.03.2010 in the rock club Klubi in Tampere. As the time for the interview was set in the early afternoon, the atmosphere of the club did not present any impediments to the smooth running of the interview. The interview involved a Finnish metal band’s guitarist and managing director of the independent record label Sakara records. Apart from the common interview questions, the respondent was asked several additional ones concerning the establishment and the operational policies of Sakara Records. The aim of these specific questions was not only to explore music digitalization’s effects on an indie label but also to provide a better understanding of the role digitalization plays in the discovering, signing and producing of new artists.
The last interview was not intended originally. It was suggested by the previous respondents as an additional information source regarding the subject. Therefore, there is a bigger time gap between the last interview and the previous four. Moreover, it was conducted after the previous interviews were already transcribed and partially analyzed. As such the interview questions were easier to adapt to the particular interviewees in order to obtain the sought supplementary point of view. The interview was initially arranged with online solution provider SecuryCast’s managing director for 14.04.2010 in the company’s office in Espoo. On the date of the interview, the managing director was voluntarily accompanied and assisted by the company’s business development director. The interview was conducted with both experts simultaneously but since their answers were complementing each other, the author of this research considers it as a single interview and that is how it is to be referred to in the next chapter.

5.3 Data analysis

Since qualitative research is not designed to test hypotheses formulated a priory, it is in its essence an intellectual method of developing theory through cause-effect relationship exploration. Therefore, the processes of data collection and data analysis in qualitative research are considered inseparable by scholars. (Zalan – Lewis 2004, 515-518.) Similarly, the transcription of the interviews and the data analysis of this study were conducted simultaneously while other interviews were still ongoing so that no important aspects of expert opinion would be omitted in the time gap.

The greatest problem the researchers encounter during the process of data analysis has to deal with complexity due to abundance of information. (Zalan – Lewis 2004, 515-518.) Non-standardized and intricate qualitative data require specific tools for data reduction and categorization so that the analysis does not fall into mere description of viewpoints (Saunders et al. 2007, 474). Thus, is vital for the viability of research findings to give a detailed description of how this challenge has been tackled and overcome.

There are multiple different approaches to analyzing qualitative data. However, interviews are commonly analyzed as relatively accurate descriptions of personal experience or as representations of reality through systematically reducing, coding, grouping and summarizing of the descriptions. As a result, they build a theoretical framework which reflects on how the respondents portray the event under study. (Holstein – Gubrium 2002, 134.)

The author of this thesis has adopted a similar approach based on those of Scapens (2004) and Saunders et al. (2007) as they share several common features and comple-
ment each other even further. In this mixed approach the process of data analysis begins with simple story-telling, i.e. word-to-word transcription of the interview audio-tapes. This stage represents an exact and chronological narrative of the events which have taken place and of the experts’ opinions in their own words. It also gives a description of the interviewees’ background and expertise as well as the situations in which the interviews were conducted. (Scapens 2004, 118.)

The data analysis of this research began by transcribing each interview in chronological order as a separate Word file. In addition, a clear distinction between the interviewer and the interviewee was made so that any confusion about the authorship of certain claims could be eradicated. The same interview questions and the answers to them were given the same numbers in all interviews in order to facilitate the identification of relevant data later in the process of actual data analysis.

The second stage of data analysis is related to data filtering and rearranging it into conceptual categories (Scapens 2004, 118-119). The categorization process is twofold. On the one hand, it is used for grouping and coding the data according to themes relevant to the actual study, thus facilitating the conclusion drawing (Scapens 2004, 118-119). On the other hand, during the categorization stage relevant units of data are attributed to the identified themes (Saunders et al. 2007, 480).

The data categorization can often be made on the basis of the theoretical framework of the research, thus allowing for the identification of relationships between the themes of data and the research questions (Saunders et al. 2007, 479-480; Scapens 2004, 119). The data analysis of this research makes no exception from this trend. This was made particularly easy as the structure of the questionnaire strictly followed the research questions, i.e. the questions were initially divided into three big themes related to each research question.
Table 4  Operationalization table

<table>
<thead>
<tr>
<th>Research question</th>
<th>Sub-question</th>
<th>Theoretical background</th>
<th>Interview questions</th>
</tr>
</thead>
</table>
| How can music digitalization influence changes in the Finnish music industry? | What role does digitalization play for the music industry stakeholders? | • Music industry scope  
• Disruptive technologies  
• P2P, mp3, Internet  
• New business models  
• À-la-carte downloads, subscription services | Questions 1 – 5 |
| How is the Finnish music industry value chain being reorganized as a result of digitalization? | | • Value chain theory  
• Music industry organizational structure  
• Digital music value chain  
• Disintermediation and reintermediation | Questions 6 – 11 |
| How do the Finnish music industry stakeholders adapt to the process of music digitalization? | | • Population ecology of organisations  
• Natural selection  
• Organisational change  
• Organisational lifecycle  
• Structural inertia  
• Niche theory | Questions 12 – 19 |

The above operationalization table illustrates the relations between the research questions, theoretical framework and interview questions, hence it gives a clear idea how the data was thematized. The data from the interview transcripts were reduced to the most relevant units of information for each question in the form of bullet points. Next, all interview questions were written down in numerical order in a separate Word file under the three main themes. Then the bullet points data units from all respondents were rearranged under the question they related to. The answers from each singular respondent were highlighted in a certain colour in order to keep record of the data source. In this way the data was grouped and coded in specific themes related to the research ques-
tions. It also allowed for the detection of similarities and differences in the respondents’ answers, thus it naturally led to the final stage of data analysis.

The last stage of data analysis is based on the identification of similar key ideas and patterns as well as dissimilarities across the respondents’ answers within the formulated themes. Therefore, this stage can be described as relationships recognition and conclusions drawing. (Saunders et al. 2007, 482; Scapens 2004, 120.) The trends and findings, which have emerged throughout the process, are finally integrated into the initial theoretical frame. As a result a new theory or model could be generated to clarify how the observed phenomena are connected and what effects they have on each other. (Scapens 2004, 118). The author of this thesis will attempt to better explain the emergent relationships and draw viable conclusions as well as build an adapted theoretical model in the following chapters.

5.4 Trustworthiness of the research

Contemporary scholars consider the issue of research trustworthiness to be of a great importance to the objectivity of scientific claims as the purpose of science is to provide realistic descriptions of the phenomena under study (Peräskylä 1997, 201). Moreover, inquiries tend to affect the overall amount of scientific knowledge either by building new theories or by providing solutions to actual problems. Therefore, trustworthiness should be accountable for in order for the research to receive practical application and recognition by the intended audience. A valid research should also allow for evaluation of its methods’ appropriateness and the objectivity of its findings. (Erlandson et al 1993, 28-29.)

The issue of trustworthiness is addressed differently in quantitative and qualitative studies. Quantitative research trustworthiness indicates that the research tests the accuracy of its results and conclusions towards certain numerical measures (Creswell 2009, 190-191); while the difficulties with establishing qualitative study trustworthiness originate from the nature and quality of the data it manages (Zalan – Lewis 2004, 514-515). Therefore, qualitative research trustworthiness is more subjective as it relies on the accuracy of data collection and analysis procedures (Creswell 2009, 190-191).

The criteria for qualitative research trustworthiness are well defined in the work of Lincoln and Guba (1985). They introduce the following four terms to evaluate how reliable qualitative study findings are: credibility, transferability, dependability and con-
firmability (Lincoln – Guba 1985). These four criteria will also be utilized to establish the trustworthiness of this study.

Credibility is related to establishing the truth value of the research findings. In naturalistic inquiries the truth value is assessed in terms of the research’s internal validity: that is how accurately the research data reflects the phenomena it represents. However, as qualitative research tries to contemplate phenomena, which do not often exhibit a single objective reality, credibility can be defined as the compatibility between the constructed realities created and expressed by the research’s respondents and the constructed realities ascribed to them by the researcher. (Erlandson et al. 1993, 29-30.)

Lincoln and Guba (1985) describe the task of credibility implementation as twofold: on the one hand, the researcher should conduct the study in such a way that the likelihood of the findings’ being valid is enhanced and, on the other hand, the findings’ credibility is confirmed by the respondents as correctly reflecting their views and experiences (Lincoln – Guba 1985, 296). Therefore, credibility should be established with the persons under research in order to assure that the results of the inquiry obtained in a certain setting correspond to the respondents’ constructed realities (Erlandson et al 1993, 29-30).

Lincoln and Guba (1985) suggest several methods of asserting credibility such as prolonged engagement, persistent observation, triangulation, referential adequacy checks, peer debriefing, member checks or negative case analysis (Lincoln – Guba 1985, 301-316). However, most of the above mentioned methods (such as prolonged engagement and persistent observation) are hard to execute in the limited period of interaction time available to the author of this thesis. Others (referential adequacy and peer debriefing) require additional materials and expertise little possible to obtain. That is why the method of triangulation seems to be the most relevant to this study.

Triangulation is based on the usage of various different sources of data, methods and sometimes even theories (Lincoln – Guba 1985, 305). The author of the thesis has adopted the recommendation of Erlandson et al. (1993) to accumulated data from people from the given setting who possess different opinions, understandings and experiences. The data collection involved experts from different units of the Finnish music value chain who assess the research questions from various dissimilar angles thus making the research relatively credible. The number of interviewees and different viewpoints, as well as their knowledge of the topic, seems to be sufficient to establish the overall credibility of the results. Moreover, the research findings correspond to the theoretical setting to a very large extent, which suggests the credibility is high.

Some limitations of the credibility of this study, as already mentioned, include the limited time assigned to the conducting of the interviews. This rules out the possibility
for long-term observation and deeper understanding of the respondents’ constructed realities. Moreover, there has been a two-year time gap between the interviews and the completion of the research. For these reasons evaluation of the data and the findings accuracy with the interviewees has not been performed.

Another limitation has to do with the scarcity or confidentiality of secondary data. The credibility of the research findings could not be triangulated towards existing company materials and publications. In this case, the credibility of the research should depend only on the expert opinions’ analysis as well as the researcher’s ability to interpret them according to reality. However, the credibility was improved in this sense by utilizing audio-tapes in order to capture the interviewees’ answers as accurately as possible as well to allow for further review of the collected data.

Furthermore, since the study aims to build a holistic picture of the Finnish music industry value chain, the interviewees were asked questions regarding the whole process of music creation, production and distribution and some of them proved to be out of the area of expertise of the certain respondent. Therefore, at times the opinions and the data respectively are very speculative and only based on the interviewees’ assumptions, which can further diminish the credibility of the research.

Finally, the interviews were all conducted in a language non-native to all participants. As so, it is highly possible there to be mismatches between the intended answers, the actually expressed opinions and the researcher’s interpretations of the constructed realities due to language barrier limitations.

The second criterion for trustworthiness defined by Lincoln and Guba (1985) is transferability. Transferability reflects on the extent to which the finding of a research conducted in one context with certain respondents can be applied to other contexts and different respondents (Erlandson et al. 1993, 31-32; Lincoln – Guba 1985, 290-291). Nevertheless, no context remains permanent outside a limited time frame as the persons it involves, their constructed realities and the relationships between the observed events change with time. As a result, no study findings could be generally transferable as they are valid only for the given context within a certain period of time. (Erlandson et al. 1993.)

Relatively transferable research findings depend on the degree of similarity between the context they are obtained from and the context they are to be applied to, i.e. the sending and the receiving contexts (Lincoln – Guba 1985, 297). Therefore, it is important that the researcher provides detail description of data collected in the context and time period under study (thick description) in order to facilitate transferability. However, the obligation for transferability establishment remains for the person who wishes
to apply the empirical results to a context other than the sending one. (Erlandson et al. 1993, 33; Lincoln – Guba 1985; 316.)

The author of this study believes it to be highly transferable to other companies and organization in Finland as the contexts of the researched units and the rest of the industry seem to be very similar. Moreover, the selected respondents have proved to be representative of the overall music industry situation in Finland, which accounts even further for the good research transferability at a local level. The research results also seem applicable to other countries with relatively small and isolated music markets which cannot influence strongly the digitalization process or make individual decisions regarding leading music industry business models. But as long as big international music industry players are concerned, the research findings’ transferability is dubious.

Furthermore, the research results showed that the global music industry current state is very turbulent and transient, thus no clear predictions about the future could be made at this point. And as it was previously mentioned the two-year period between the data collection and finalizing the research may already imply there has been a certain change in context. Therefore, the results are only transferable for a very limited period of time as the situation is very likely to further change significantly in the nearest future.

The third criterion for trustworthiness, dependability, is connected with the research’s consistency: that is whether the research, if repeated, in the same or similar context with the same or similar respondents will yield the same results (Erlandson et al. 1993, 33-34). Lincoln and Guba (1985) believe the establishment of dependability to be impossible without the existence of credibility and vice versa. That means that once established the credibility of the research generally indicates that the results are also dependable. (Lincoln – Guba 1985, 316-317.)

One technique for enhancing dependability is the dependability audit. On the one hand, it involves a detail examination of the process of data collection in order to eliminate any influence from the part of the researcher. On the other hand, it is used to demonstrate the accuracy of the research findings. (Lincoln – Guba 1985, 317-318). The dependability audit could be performed by providing thorough documentation of the data collection and analysis processes (Erlandson et al. 1993, 34).

Having clearly established the credibility of this study, the author of the thesis believes it also to be highly dependable. The interviews and the following analysis of the results were documented truthfully and systematically, therefore the possibilities for manipulation of the process by the researcher are minimal. However, as a music enthusiast and a researcher with a limited experience in the conducting of interviews, the author may have involuntarily misled the respondents and thus influenced the results. At several points throughout the interviews the researcher has allowed herself to give her
definitions of some terms, share her personal experience or common opinions on the subject as well as to recapitulate and evaluate the respondents’ claims. As a result, she may have guided the answers of the interviewees in a desired direction. Otherwise, no other external factors seem to diminish the dependability of the study.

The last criterion of trustworthiness, confirmability, refers to the objectivity of the study, i.e. to what extent the results are adequately obtained from the study and are not a product of the researcher’s biases (Erlandson et al. 1993, 34). In other words, the inquiry is confirmable when it would generate the same results if performed by another researcher with the same respondents (Lincoln – Guba 1985, 319).

Confirmability can be enhanced through confirmability audit, which involves affirmation that the results are based on the collected data and logically drawn from the interviews through appropriate analytical techniques (Lincoln – Guba 1985, 323). The confirmability of this study is difficult to establish as the time gap between the analysis of the interviews and the publication of the thesis did not allow for the interviewees to verify the objectivity of the conclusions. However, the author believes that the results were obtained unbiasedly from the collected data to the best of her knowledge. Moreover, the study findings seem to correspond to a large extent to the theoretical framework of the thesis; therefore, they could be confirmed to a certain point through popular literature.

In conclusion, the integrative research can be assessed as mostly trustworthy since each of the four requirements of trustworthiness are conformed to with only minor limitations. These limitations originate mostly in the author’s little experience in conducting research and analyzing qualitative data which may have led to some misinterpretation or distortion of the results. The second main limitation of the study originates of the significant amount of time the research has taken to complete. As a result the findings could not be confirmed by the interviewees as they needed to be familiarized with the topic one more time. The interviewer herself has been faced with the problem of remembering correctly the interviewing process due to the time gap. However, the last limitation should not affect greatly the trustworthiness of the research as the interviews were recorded, transcribed and almost entirely analysed immediately after their conduction.
6 EFFECTS OF DIGITALIZATION ON THE FINNISH MUSIC INDUSTRY

6.1 Digital innovations in the music industry

6.1.1 Contemporary music industry characteristics

The literature review of this thesis has shown a very broad understanding of what music industry is. Therefore, before going into more detailed exploration of the digital innovations and their effects on the value chain, the empirical analysis attempted to discover what the experts think the music industry consists of. As a result the music industry was assessed from various different angles: in terms of its stakeholders and functions, of its composing elements and of its mission. In this way the main stakeholders in the Finnish music industry and their functions relative to this study will be identified much more easily later in the analysis.

What the experts agree upon is that the contemporary music industry is a dynamic system undergoing a process of structural change. It is also expanding in new areas and searching for opportunities to integrate other businesses into its structure. Music industry is not so much a phonographic industry as it used to be before the digitalization but is now more and more concentrating on becoming an entertainment industry. Furthermore, it is beginning to collaborate with other entertainment businesses and media such as TV formats and mobile blogging for example, thus bringing the music to the web. In this aspect, the study findings entirely support the theoretical framework of the thesis, i.e. that the music industry is shifting its focus from material production towards information sharing in the form of music content (see Aggestam 2007, 30) through the involvement of related industries, mostly the Internet and telecommunications. (See table 1).

In its essence the music industry is a symbiosis of players who revolve around the art of music. As music affects emotionally every individual, it constitutes a natural part of people’s lifecycle. Since music is the core and the reason for the existence of the whole industry, the main mission of the music industry can be identified as: to discover talented artists and quality music compositions, develop them and present them to the audience while in the same time gain profits from the exploitation of their talents.
“The mission [of music industry] is to find and develop music for music lovers. The most important thing is to connect people who love music and people who make music. ...and it’s also developing the artist in the music, that’s the most important thing.” (Managing director of Sakara Records)

An opinion was expressed that music industry as such is not definitely necessary. However, the music industry shortens the distances between music creators and music consumers as it serves as a bridge between people who love music and people who make music. Therefore, the two key units of the music value chain are the artists and the listeners and they are the only ones that cannot be removed from the industry.

“And actually the people making music and the people loving it are the essential part of this whole thing. Those two can’t be taken away. The music industry, well it’s good to have but it’s not essential to have music industry at all. If you go to the simple level, you just need the artist and the fan and then music industry comes in to connect the fans from a larger area.” (Managing director of Sakara Records)

However, the author of this thesis assumes this statement is an emotional exaggeration as the further analysis of the data has proved the music industry players to be inseparable from each other and dependent on other related industries as well. While all the other music industry players are not fundamental for the industry, they somehow still contribute to the establishment of the connection between the artists and the audience.

The other music industry stakeholders are engaged in music production, distribution, marketing and copyright sales or in other words with commercializing and monetizing the music products which in fact accounts for the profitability of the whole music industry. The functions of the music industry identified by the experts overlap to a great extent with the primary industry activities defined in the theoretical part of the thesis. The experts recognize the composing elements of the music industry as music record sales, marketing/branding, live music performances and merchandising. Furthermore, they believe nowadays the traditional focus on record sales has already started to move towards giving more significance to other activities such as live performances and merchandising.
This finding presents a phenomenon relatively little emphasized in the traditional music industry value chain theory. It further proves, however, that music industry is evolving towards being less physical and more entertaining. It is also attempting to monetize on activities other than record sales which account for the better customer satisfaction:

“...because the artists’ income is, well, with the bands I study, only 30% come from the physical, not even physical but the sales of the CDs or the music. The other 30% is from the merchandising and 1/3 is from live performances. So if you give the music out for free to build audiences you can still get like 60% or even increase that 60% of your income. ...and metal heads in general they are like: they go to the concert, they pay 30 euros for the concert ticket, they buy a t-shirt for another 30 euros and pay another 30 euros for beer at the concert. So compared to 20 euros for a CD, it’s not as much as how much they spend out there.” (Finnish metal music researcher BogFires)

As in can be seen from the above only one third of the artists’ profits come from record sales and the record sales have been dramatically going down in the last 5 years. In order to counteract to these trends, the music industry should better assess the possibilities for increasing the profits from the other two sources of income, namely live performances and merchandising, thus reorganizing the industry traditional value chain.

Artists themselves are regarded as a media which further enhances merchandising and ticket sales. Therefore, another very important function of the modern music industry is to develop and to brand the artists:

“So music industry is working around the artist brand and trying to make good artist brand, make artist to get money from what he or she is doing. And the artist and the music is like the middle focus of the whole business.” (Digital director of Sony Music Entertainment)

In order to achieve higher profitability, the music industry is concentrating on creating greater artist visibility and establishing stronger connections between the artists and the audience. However, branding artists is difficult and expensive as discovering and differentiating quality artists is becoming even harder after the considerable sound improvement due to digital technologies. Hence, many media and distribution channels find it difficult to create artist publicity. Furthermore, contemporary media are believed to be very fragmented and creating a strong artist brand is highly improbable. That is
why media has concentrated on targeting only certain groups of consumers. Nevertheless, managing and branding artists is considered as one of the relatively new activities in the music industry value chain which will account for higher profitability in the future.

Since the music industry is strongly concerned with pleasing various target groups, it is constantly introducing new activities and business models in its quest to try and identify what the customers prefer and what is the most convenient mode of music consumption for them. The interviews further supported the claim of Wikström (2006) that the industry at the moment is in a very dynamic state of reconsidering its traditional activities. As a result, it becomes clear that the music industry is at present in a stage of experimenting with new digital technologies and innovation and only time will tell which ones will become dominant and which ones will be selected out. Therefore, the process of digitalization and its impact on the music industry will be reviewed next.

### 6.1.2 Digitalization and its effect on the music industry

The interviewees strongly acknowledge the considerable impact digitalization has already produced on the music industry. In addition, SecuryCast’s business development director believes that today’s music industry is relatively familiar with the digitalization process in comparison with other industries such as publishing and book industry. Digitalization of music is considered by the experts a naturally occurring process following the overall development of technology and as such it both competence destroying and competence enhancing:

“First it [digitalization] destroyed the music industry and now is the future of the music industry” (Managing director of SecuryCast)

Digitalization has destroyed the music industry through providing means for audio piracy. Since the record companies digitalized their music content and published it in digital forms, digitalization has made ground for the emergence of illegal P2P file sharing websites. Piracy has strongly affected the record labels leading to a consistent recorded music sales drop of nearly 30% for the last 5 years. The selling of physical albums is becoming more and more difficult as consumers are presented with possibilities to illegally download music without paying for it. The music industry has failed to foresee the scope of digitalization’s negative impact on the record sales and to react ade-
quately to it respectively. Even more, the record labels’ initial response was to digitalization was either to ignore it or to try and prevent it.

Having understood the threat of illegal music downloads, record companies have slowly started to react to it. New practices have been adopted and marketing and distribution channels have moved to the Internet and social media. Record labels have recently been trying to establish legal alternatives to P2P file sharing through removing technical barriers (such as DRM), facilitating payment methods and introducing new formats, products and easy-to-use services. In conclusion many companies do not yet fully realize the need of going digital and continue to put the emphasis on the physical record sales. The reason for that is that physical records are still a major source of short-term income since digital sales have not become a volume business up until today. However experts agree, as it has been identified earlier in the theory, that some new business models have emerged to counteract the illegal downloads including à-la-carte downloads and subscription websites such as Spotify.

6.1.2.1 Technological innovations in the modern music industry

Next, the interviewees have attempted to identify the main technological discontinuities which have affected the music industry of today. These technological innovations include the advancement of mobile phones, computers and broadband connections as well as new digital music formats. The experts, however, consider the Internet to be the technological discontinuity which has influenced most significantly the music industry.

Digitalization and the Internet have in a way created a new consumer behaviour which can be described as an attempt to get closer to the music without buying it. On the one hand, the Internet has developed social media and communities such as MySpace and mobile blogging in order to bring the fans closer to each other and closer to the artists. Moreover, live music products and digital reproductions of live performances in the form of long-form videos are also gaining popularity in making artists more visible to the audience.

On the other hand, the Internet has introduced new business models and services which can be labelled as the breakthrough innovations in the digital music world. Two new business models deserve special attention in the experts’ opinions, namely à-la-carte downloads (iTunes) and subscription services (Spotify, Pandora, etc.). Still à-la-carte downloads are believed to be the most important business model as distribution of income is easy to follow within this model. However, the trend of audio and video music streaming is at present on its rise and is thought by some experts to be the future of
the music industry as it will facilitate the access to music products without binding the consumers with purchases. Absolution cannot be made for all music consumers though, as many devoted music lovers will still prefer to be in possession of their music.

The major problem with the modern business models, however, remains how to make a profit from the new digital consumer behaviour.

“I think I’m more worried about how to get the money out of your investment. There are very cool ways to consume music at the moment but... it still goes back to getting money from the CDs, which is a very outdated thing. Quite very many Internet concepts, these concepts they come to us and they offer their way to do whatever in the Internet. But whatever the concept it always goes back to that you would have to pay for it and we would have to pay for it from the money which we get from selling actual, old-fashioned CDs.” (Managing director of Sakara Records)

In the experts’ opinion the situation is going to change radically in the nearest future. Sony Music Entertainment’s digital director believes that services such as Spotify are the upcoming model of the mass listeners’ music consumption as they will increase the yearly amount of money used for purchasing music. According to her, the physical sales of CDs per capita in Finland for the time being are insignificant and they cannot stimulate the development of the music industry in the long run:

“...2,5 million people [in Finland] buy CDs and they buy 1,2 CDs per year. So it’s a quite small number. And now we can get people to actually use 10 euro for 12 months for music. So we have to think really, really differently than what we are used to think. It’s a really, really huge change. But I think it’s really positive because I don’t believe that CDs are the way that can be the future.” (Digital director of Sony Music Entertainment)

In conclusion a new business model such as Spotify Premium accounts is necessary at least in the short term in order to stimulate the users’ actual expenditures. They will increase the music industry income from legal music consumption as it is very unlikely people will start buying a larger number of physical music copies again.
Another thing which has become clear from the interviews is that digital innovations and new business models can only be attributed to the new music industry players while the record labels are rather inert to developing and implementing innovations. They are still very traditionally oriented towards physical record sales as most of their profits come from them. However, new digital service companies, Internet service providers, mobile and telecom operators at present and especially in the future are to become essential partners to the record companies changing the way music is produced, distributed and consumed.

6.1.2.2 Digitalization’s effects on the music industry

The experts believe that the process of digitalization has not affected equally the three main blocks of music industry activities. The least significant changes can be observed in the music creation. They can be described mostly with the reduction of production costs. As it was made clear from the interviews the recording of music has become cheaper as digital technology allows aspiring artists to produce good quality demos in their homes rather than buy expensive studio time:

“In the old days you needed so much money to buy studio time to make a record which is listenable for people. But nowadays if you buy a Mac computer, you have better software than you would have in an old-fashioned studio. ... the technical level has gone up very much because of the digitalization... it has made it much easier for people to do professional recordings but still that doesn’t change the fact that you have to have the content in the music, you have to have good songs and good words and all that.” (Managing director of Sakara Records)

The costs for packaging could also be cut down as the Internet provides means for direct distribution to the customers without the need for a physical product. This can lead to the shortening of the music industry value chain by omitting intermediaries such as outlets and even record companies engaged in physical manufacturing and packaging of albums. However, the cheaper packaging and the improved sound quality is a serious obstacle for record labels in discovering good music acts as it makes it harder to distinguish between quality music content and simply good music presentation.

The Internet also facilitates the communication and content exchange between the artists on one side and the audience and the record labels on the other. The managing
director of Sakara Records affirms that digitalization has helped new coming artists gain fan base and attract the attention of the record labels as the talent scouting process has become easier.

“Especially in the demo scenes it has been really good. Like mikseri.net and that kind of services are really good for demo bands to get feedback and to get actually fans. There might be really big bands in the demo scene before they have any contract with any label... And also for us when we check out new bands it helps a lot... OK, this band seems to be something because people talk about it that much and this has been ranked really high. So it helps both ways.” (Managing director of Sakara Records)

However, the digital technologies seem not to affect considerably the professional music making as the production of a professional record requires the whole set of services provided by a record label. That includes recording, packaging, distribution, marketing and promotional efforts as well as artist brand management from the part of the record label without which the artist cannot achieve large audience and record sales. So in this sense, the music creation has only been influenced by digitalization at an amateur level keeping the traditional value chain activities performed by record companies intact.

As far as music distribution and consumption are concerned, digitalization shows a more significant impact. As already mentioned, the distribution of demos and amateur records has been greatly facilitated by the Internet. However, this is not entirely true about the record labels. The record labels have maintained their traditional distribution, marketing and promotion channels. Big chains (such as Anttila for example) still perform most of the music sales in Finland and they are to stay on the top at least in the recent future. Nevertheless, the interviewees are unanimous that the future of music distribution lies in the online sales. Sony Music Entertainment’s digital director summarizes the trend well:

“There is a million possibilities to do things in the Internet and also we can take the business into our hands and not rely on this kind of big, huge chains.” (Digital director of Sony Music Entertainment)
What Sony Music Entertainment’s digital director refers to is the new opportunities the Internet provides. On the one hand, digitalization has increased dramatically the amount of music content available to the audience in comparison with the traditional physical channels of distribution in the face of the retail chains. Moreover, it allows independent labels and niche artists to make their music visible to the public through direct sales from their websites without intermediaries. As a result, the customers can benefit from the digital distribution on the basis of greater choice of music and shortened production and delivery cycles. And these aspects of distribution seem to grow in importance for the customers as the music industry is globalizing and becoming over saturated with music propositions which are hard to distinguish from.

On the other hand, digitalization has had one negative effect on the distribution of music, namely as to how to help consumers differentiate between the growing amount of artists and albums available on the Internet. Therefore, the music industry should concentrate on finding new channels of communication and promotion together with the distributional changes as the Internet has not yet offered sufficient means for online marketing.

“The human is a funny animal. It means that the human can create unbelievable issues under the pressure... In the digitalization of music when the people come to a cross on the road, now we have to do something new. So I strongly believe that the human will create something new, which will find a new way to develop the music in digital platforms or in digital life. For example, our digi label is a good innovation platform to the bands which don’t have a major label deal but they have the opportunity to present the content that they have created to the official stores.”
(Business development director of SecuryCast)

In conclusion, in can be said that the physical distribution channels are still holding a very strong position in the music industry as they reflect the traditional purchasing habits of the mass consumer as well as possess resources to market to a larger audience. Nevertheless, the new online retailers are gaining popularity as the consumer behaviour is changing towards new forms of music consumption.

Lastly, digitalization has introduced new methods of music consumption to displace the physical music sales. The experts believe that the à-la-carte downloads and online music purchases are only a transient phase in the consumption of music while the industry is testing the customers’ preferences and needs. The next wave of change is connected with the online music streaming such as Spotify and IPTV (Internet protocol
television) rather than buying files. However, some opinion was expressed that the new business models are still merely fashionable rather than profitable and as such do not yet benefit the industry. Indeed, most of the revenues in the music industry are still attributed to physical sales. This is particularly true about dedicated music consumers who are more traditionally oriented in their preferences towards being in possession of the music they consume.

6.2 The Finnish music industry value chain

6.2.1 The Finnish music industry as a part of the global music industry

The Finnish music industry is considered by all the interviewees to closely resemble the global music industry in terms of its structure, functions and dominant business models. The main differences between the Finnish music industry and the global one can be seen mostly in the music content. While the Finnish consumers are exposed to the same global hits as the consumers in the other countries, the amount of Finnish music produced in the country is remarkable. The experts believe that 60% of the music sales in Finland are attributed to local artists. This percentage is only similar to the music markets in France out of the whole EU, where unlike in Finland the domestic music is subsidized by the government. Another interesting trend is the dominance of three main genres of music in Finland: Finnish pop music, Iskelmä and heavy (rock/metal) music.

Whilst there is not a singular mass music taste in Finland, the last of the three genres seems to have the greatest influence on the music sales. The reason for that can be found in the lack of traditions in pop music since big international names from the popular music scene used to avoid touring in Finland in the earlier years. At the same time Finland was a popular concert destination for heavy metal musicians due to the Finnish dark sense of humour and the severity of nature. The proximity to another heavy music influenced European country, Sweden, also increases the amount of metal music consumption in Finland. In addition, the Finnish music audience is believed to demand higher music quality than the global consumer as the level of music education in the country is very high.

However, the above described trends in the Finnish music market can also constitute a significant impediment to the digital music sales in the country. As already mentioned before, the dedicated music consumers have a stronger bondage with traditional physi-
digital music formats and prefer to own the music they consume rather than stream it online. Therefore, the digital music sales in Finland have been almost flat in the last three years with a very slight growth tendency while the sales of CDs and the live music performances are still the main sources of income in the industry.

The interviewees also described the Finnish consumers as laggards in technology adoption. This constitutes a certain paradox between the very technological and innovative Finnish business and the end users, thus leading to the slower music digitalization in Finland in comparison to other countries. The reasons for that can be found in the not very sustainable digital offer concepts due to the lack of big music companies. The indie labels in Finland which are entitled to introduce the global changes in the music distribution and consumption are also rather inert. The small Finnish music market and the insufficient investments in the development of new digital business models and concepts further impede the digitalization of Finnish music industry.

On the other hand, the small and domestically oriented Finnish music market has its advantages which are to play an important role in the future development of the music industry. The experts predict that Spotify is to become the next dominant business model in a global aspect; therefore Finland’s closeness to Sweden (Spotify’s country of origin) could only be beneficial for the digital music consumption in Finland. Moreover, by being small and lacking resources, the Finnish industry has developed as service oriented. As such it has strong traditions in technology adoption and adaptation and offers an appropriate environment for introducing new technologies and business trends from other countries. Sony Music Entertainment’s digital director states:

“I think all the business models and everything [in Finland] are quite much following the typical development in the way that we are not like the first country to break the new services but we are quite near it...”

(Digital director of Sony Music Entertainment)

The digital director of Sony Music Entertainment further elaborates on this statement by referring to Finland as an aggressive country in the sense that its size and technological development level allow for the fast implementation of leading services and business models in the country. Nevertheless, the other interviewees seem to be more sceptical about Finnish consumers’ willingness to apprehend the digitalization of music.

In conclusion, it can be said that Finland is in a state of waiting for the music industry to determine which digital music concept or model will become dominant in the nearest future. In the meantime, the Finnish music industry should attempt to familiarize
the consumers with the new global trends in digitalization and influence the consumer behaviour towards digital music.

6.2.2 The Finnish music industry structure and functions

As it was already recognized in the previous analysis, the Finnish music industry follows the global music industry structure. The interviewees identified the main stakeholders in the Finnish music industry value chain as very traditional. The value chain comprises of music production, distribution and consumption as defined in the theory with the addition of live music industry and copyright societies. The music industry value chain also includes marketing and promotion in the face of media houses and advertising companies which also affirms the growing importance of better artist presentation and artist branding.

“MTV3 is the channel. They have the Idols show and the Idols winners are the best selling artists. So I mean the media is kind of anyway building the brand.” (Managing director of SecuryCast)

The music production includes artists, major record labels and indie labels. The SecuryCast directors believe the major labels in Finland to be the most active players in the music industry whereas the indie labels are performing under their capabilities and the industry needs.

“It was different a few years back but now all the majors are really active. Maybe the indie scene is a little bit behind now.” (Business development director of SecuryCast) “They haven’t taken the ball as they should in this revolution. They are a little bit behind. They only make the physical act.” (Managing director of SecuryCast)

The record labels’ main functions are to discover and sign artists, manage A&R (artist and repertoire), develop and brand the artists, produce albums, sell merchandise and organize and sell concerts. As a whole it can be said that the production of music has remained the same after the digitalization but the record labels have started to apprehend the need to enhance their digital sales. As a result, the major record labels have employed digital directors and other specialists engaged in digital marketing and sales.
The record labels have also recognized the modern music industry need to provide the whole set of activities from talent scouting to audience building in order to distinguish their products from the enormous number of other music acts available to the consumers. The digital director of Sony Music Entertainment elaborates further on this issue:

“We produce the albums, sign the artists, produce the music, organize and sell the gigs. We organize and sell the merchandize products, in every way we sell the artist to the distribution channels. So we are trying to get more visibility to our artists than the other labels... it’s easier when I go and I talk with Telia-Sonera. I can be like: you can support this artist and you can lift the music, the gigs, the merchandize and you can talk everything around that artist to bring the artist to the support.”

(Digital director of Sony Music Entertainment)

This comes to prove that the record labels nowadays are putting more emphasis on marketing the artists to the audience rather than on album production. They aim to bring the music closer to the audience by providing greater artist visibility and by discussing the customer needs directly with the consumers without utilizing the services of intermediaries. The small Finnish record labels (even the major labels are considered small in Finland) and the shorter and rather informal value chain of the Finnish music industry facilitate the communication between the artists and the record companies on the one side and the audience on the other. However, the SecuryCast experts believe that record labels in Finland are still incapable of marketing the artists well despite their growing investments in artist branding.

The music distribution in Finland is executed by the traditional physical retailers (such as Anttila, Stockman and Wiklund) as well as some online retailers and digital service providers (such as SecuryCast). The main aim of the music distribution channels at present can be defined as building a strong relationship with the content owners (record companies) and the consumers. This is made possible though working directly with the record labels in order to obtain music content and discussing with the consumers what content they are interested in obtaining. This accounts once again for the disintermediation of the music industry value chain described in the theoretical part of this research.

The expert opinion is that physical and digital music distributions in Finland are still very separate from each other. Recently some of the traditional retail chains have started to recognize the importance of digitalization for the music business and have estab-
lished their own online stores. Nevertheless, the digital retailers’ music market share is insignificant as 90% of the music sales in Finland are still physical. Moreover, internet service providers in Finland do not place much effort in launching and commercializing digital content.

“There’s one thing that I forgot to mention that is a bit different in Finland than other European countries and it has to do with who were [the companies] pushing forward to digital music markets. In most of the European countries where there are à-la-carte downloads and music subscription shops or almost anything available, it’s usually done by the ISPs. But the ISPs in Finland so far haven’t done really, really that much effort towards providing digital music, digital movies or whatever it is. And that’s probably one of the differences.” (Deputy director of IFPI)

IFPI’s deputy director anticipates that in the recent future the market shares of the distribution channels will change towards the increase of digital sales as more and more efforts are made in order to fight illegal P2P file sharing and to monetize on legal downloads. As a result, the number of specialist companies in physical retail will decrease and new digital players will emerge. The trend is not yet seriously affecting the Finnish music industry so far and the main music industry stakeholders (record labels in particular) still make strategic plans mostly related to physical distribution.

In addition to the traditional music industry value chain, the experts have recognized some new industry stakeholders to have gained positions in Finland after the digitalization. They can be identified mainly as companies coming from outside the music industry which are mostly engaged with providing new services and business models of distribution. The digital director of Sony Music entertainment summarizes the situation like that:

“...the new services of course. I mentioned these already but Spotify, iTunes and there’s local DSP which is like a technical provider for music services in Finland, which is SecuryCast. They have MTV download store, radio rock store, Net Anttila, DNA store and some other stores which they support; the technique of the online music download. And of course Nokia, Nokia Comes With Music and their download shop. And of course our merchandise store Rokkikauppa.com is one which didn’t exist. But if you think of everything you can, like, the whole business has
gone into the internet so there are no limits at this point. One thing that we are waiting for is the concert videos, the long-form videos.” (Digital manager of Sony Music Entertainment)

However, the most significant new players in the Finnish music industry, iTunes and Spotify, which rank among the top 10 distribution channels in the world, do not originate from Finland. Even though Spotify and iTunes are at present increasing their shares of music distribution in Finland, they cannot yet counteract the illegal downloads and stimulate the audience to enhance its digital music consumption.

The biggest Finnish digital service provider is SecuryCast offering à-la-carte music downloads and technical platforms for online music stores. But at this point there are no other Finnish digital service providers able to make impact in the country; therefore digital sales are lagging behind the rest of the EU member state countries and there are no evident signs that this trend will change in the recent future.

Other important players for the digitalization of the Finnish music industry come mostly from the telecommunications industry. The mobile phone companies in Finland and Nokia in particular are also in the process of creating new business models of digital music distribution such as Nokia Ovi and Nokia Comes with Music. They offer attractive new propositions to their customers related to bundling mobile phones and subscriptions with music downloads. The experts believe, however, that the extent of their contribution to popularization of digital music is limited at this point:

“[They] haven’t advanced. They have tried but I mean they haven’t concentrated. They haven’t had a clear clue how to reach the finish line. They are not developing the market at all... there’s probably not a single case where a mobile operator would have developed a single artist’s career in any way. They have created artists but they haven’t pushed them forward. No, they did it the wrong way. Or they did it the right way but they didn’t know how to carry on marketing.” (Business development director & Managing director of SecuryCast)

Music digitalization is additionally enhanced by the ISPs (Internet service providers) and the mobile operators providing their own online à-la-carte download shops. Nevertheless, according to the interviewees the new industry players’ influence on the music industry can be described as relatively insignificant to the present days as their business models can offer only short-term profitability but are considered unsustainable in the long run. This further supports the experts’ claim that the music industry is in a state of
transition where new ideas and business models are being tested without any knowledge which one will become dominant in the future.

In the end, the overall state of the current Finnish music industry should be summarized before moving on to the actions undertaken by the music industry stakeholders. At present the industry’s value chain is mostly traditional with the greatest changes occurring in the music distribution and sales. The major record labels are still the strongest player offering all ranges of traditional activities and some new digital services as well as marketing and branding artists. However, despite their increasing centralization, the major record labels are believed to be the biggest industry losers in the future as the music industry value chain is shortening due to the digitalization process. The indie labels are currently not utilizing the new opportunities provided by digitalization to the fullest, thus they are still unable to benefit from the music industry value chain reorganization.

Another effect from the shortened value chain is the weakened positions of the physical retailers but despite that they are still performing the most of the sales and music distribution in Finland. On the other hand, the music industry value chain is becoming wider as new stakeholders mostly from the telecommunications are entering the digital music field. As a result, the dynamics in the industry are increasing and new digital business models are growing popular among the music consumers. This accounts for certain future actions from the part of all music industry stakeholders, which will be discussed next.

6.3 Finnish music industry reactions to digitalization

6.3.1 Preliminary measures and early reactions to digitalization process

The interviewees believe music digitalization at a global level to be a very long and still ongoing process. Music digitalization naturally has occurred as a sequel of the digitalization in other service industries (mobile operators, airlines and public transportation) and as such did not come as a surprise for the music industry. Even more, the music industry is considered to be ahead in digitalization compared to other entertainment industries. However, all experts claimed the music industry worldwide failed to anticipate the scope of the upcoming changes and take adequate measures to comply with the changes.
The experts also identified the pre-digital era as dominated by the major labels which possessed control over all units of the music industry value chain. Therefore, the labels’ reaction to digitalization and the emerging illegal P2P file sharing websites was that of protectionism. They did not foresee and embrace the opportunities presented to them by digitalization. On the contrary, the record labels tried to limit the extent of music content digitalization, which resulted in the growth of digital piracy and hindered the legal implementation of the newly emerged digital business models. So in a way, the music industry was prepared for the upcoming changes but underestimated the role music digitalization was going to play in the future.

In this sense the Finnish music industry not only makes no exception to the trend of continuing restructuring of the music industry value chain after the digitalization, but also seems to be progressing in this direction at an even slower pace than the global music industry. One of the main reasons for it lies in the Finland’s music companies’ inability to take their own decisions regarding digital music given that the most significant music deals are made outside the country at an EU level or in the record labels’ headquarters overseas.

The expert opinions vary on how prepared the Finnish music industry was for the digitalization process. The music industry was quite familiar with the issues of digital technology and new business models and even initiated some of the changes with no success. While the Finnish Internet Service Provider Elisa was the first in the world to develop the concept of à-la-carte downloads, the project was terminated 6 months before the launch of iTunes.

The Managing director of SecuryCast elaborates even further on the matter. According to him the music industry in Finland did not pay serious attention to the uprising trend. The Finnish music companies believed they could turn a blind eye to the changes and maintain the status quo as long as the physical record sales were running smoothly.

“Of course there were individuals but now we’re talking about the helicopter bits of the industry. You know the rabbit that when you try to hunt the rabbit so the rabbit stops and puts the head in the bush. So that’s actually the picture of the Finnish digitalization about until 4 years ago.”

(Business development director of SecuryCast)

The interviewees identify two main reasons for the industry’s lack of extensive preparation for the process of digitalization. Firstly, the digitalization process was difficult to establish within the music companies. On the one hand, the record labels were faced with the necessity to renegotiate their deals with the artists since the existing deals
did not encompass digital musical rights clauses. Intellectual property rights legislation did not cover the digital music rights either and the formulation of new laws was required.

On the other hand, the music companies did not possess qualified managerial personnel specialized in digital sales or their responsibilities over digital content were rather obscure. Such digital managers were later appointed in all major record labels, however, the indie labels are still significantly lagging behind in their digital activities.

Secondly, as it was already mention in the previous chapters, the Finnish music consumers prove to be more conservative than their overseas counterparts or in other words more traditionally oriented towards purchasing physical copies. In Finland subscription websites are still a new concept with limited implications on the music industry value chain. The managing director of Sakara Records even expressed an opinion that subscription services such as Spotify are still very mainstream and only dedicated to fulfilling the needs of the ordinary music listeners. Therefore, the quality of their music content improves at unsatisfying speed from the point of view of the dedicated music lovers who cannot find the music they are interested in digital format. This even further justifies the consumers’ reluctant behaviour and delayed movement towards digital innovations adoption, which account for the slow reactions from the side of the record labels when music content digitalization is concerned.

The overall expert opinion can be summarised in the following way: after the initial disbelief and protectionism towards music digitalization, the Finnish music industry stakeholders have become aware of the significance of the digitalization process for the future of the music business. As a result the major labels have started to participate actively in the distribution of digital music content and the promotion of new business models. However, despite the labels’ proactiveness, the digitalization process has been hindered by the consumers’ slow adaptation to the changes. The early attempts of the music industry to change the consumer’s mindset towards supporting the new business models and legal digital music downloads worldwide and especially in Finland show very limited impact on the consumers’ purchasing habits.

6.3.2 Finnish music industry influence on digitalization process

As far as Finland’s influence on the music digitalization is concerned, the interviewees give a unanimous opinion. From a country perspective Finland with its small music market and dependent music players cannot affect considerably the process of digitali-
zation in the global music industry. On the contrary, the experts believe that the country mostly follows the global tendencies set by the multinational music companies overseas. As it was explained before, Finnish consumers are laggards in the adoption of digital technologies and new business models. This combined with country’s peripheral location and insignificant share in the global music production, distribution and consumption, determines Finland’s course of actions as mostly reactive rather than proactive.

However, the global music companies as a whole can stimulate the adoption of digital innovations into the music industry and the Finnish music players can contribute to the process at a national level. This is made possible particularly because of the close cooperation between the record labels in Finland and their headquarters in UK and USA. The positive effect of the collaboration with the music companies’ main offices overseas is twofold.

On the one hand, the Finnish music organizations can benefit from the acquisition of best practices and relevant experiences from certain global music players. As a result they do not have to overcome several managerial problems on their own as well as learn through the process of personal trial and error. This way, Finnish music companies can save their limited resources on testing new ideas and business models and directly apply the ones which have proved profitable.

On the other hand, the goals of the Finnish music stakeholders are aligned with the common goals of the global players and constantly revisited and adapted to the local conditions. This makes Finland a part of one unified global vision of how music industry should develop in the future. Hence, the country can follow relatively effortlessly a proactive course of action towards digital innovations’ application without falling behind the global tendencies in the industry.

“We are so actively working together with London and New York offices, so we have goals which are set up together. And then we just think how these goals are the best for our market and what we can do to support that the goals are finished. So in a way it’s really good that we have vision together practically with the whole world because New York is talking with Latin America. You know everybody is onboard. So I think that’s the thing that we have the visions and they are the same visions in global level... no matter if it’s Asian office or Latin American office, we can challenge each other and together you know make the better future.”

(Digital director of Sony Music Entertainment)
Some of the actions the Finnish music industry has undertaken in recent years in order to encourage digital consumption include the digitalization of their musical content and negotiating the deals directly with the content owners, thus making it possible to release international music acts in real time. Failure to deliver a new release in time together with the rest of the world would additionally enhance the negative effects of illegal digital downloads for the music industry.

Furthermore, the major record labels have taken a risky investment and bought shares in Spotify with the belief this will bring them profit at least in the short term. Consequently, instead of filing lawsuits against online music distributors, the record labels have been voluntarily providing their catalogues to Spotify for online streaming. The purpose of this action can be determined as educating the customers about the new models of digital distribution and as an attempt to create graduated respond from the consumers’ part towards illegal downloads.

Legislation is another area where measures have been taken in recent years in order to comply with the new requirements of digital music copyrights. In the past few years IFPI has been engaged in the process of educating the consumers about legal digital sales through the publication of yearly Digital Music Reports. The Federation aims at influencing the Finnish copyright law towards creating a fair competitive environment for the music companies in the country, thus fighting piracy more efficiently. In this sense, the experts acknowledge the importance of arising consumers’ awareness of the damage illegal file sharing causes on the development of the music industry. Graduated customer response is considered the most effective measure towards the minimizing of the piracy’s negative effects on digital music sales in the long term.

6.3.3 *Evaluation and future actions*

All experts agree that the process of digitalization has been extensive and turbulent with unpredictable outturns for the music industry. Yet the music digitalization is occasionally undergoing drastic changes due to a novel technology or a new business model. This additionally corresponds to the previously expressed opinion that the music industry is currently in a stage of experimenting with digitalization and testing new ideas and opportunities.

Nothing in the digital environment is ever permanent and final. The managing director of Sakara Records describes the digitalization process as organic or naturally occurring as a result of the emergence of new concepts to replace the existing ones. As such
The music industry can be compared with a living organism constantly adapting and evolving to the environmental change.

“One thing about the digital world is that nothing is finalized ever. Everything can be built up all the time... The same goes for those concepts. They all have to be developing all the time, they have to be kind of organic in a way because it’s kind of living it’s own life at the moment. Like an organism. You just have to hang in there and try to survive in that environment. You can try to kind of direct it in a way but it’s just trying to do. You just can’t guarantee that anything will happen because it gives chances for any idea to become the main idea.” (Managing director of Sakara Records)

In this sense the expert opinion overlaps to a large extent with the population ecology’s theoretical claims. Since new technologies and business models repeatedly alter the environment in which music companies operate, the music industry stakeholders’ actions are oriented towards adjustment to the new conditions and survival. Therefore, the digitalization of music requires constant evaluation and revision in compliance with the environmental needs and demands.

Sony Music Entertainment’s digital director further elaborates on the actions’ evaluation matter. She believes assessment of activities should be done on a regular basis so that the companies can keep their actions and goals inline with the constantly changing environment. In this way the companies and organizations will be able to make quick decisions and take intime measures in order to follow the industry changes.

“If one day I wake up and I feel like I’m a genius, that’s the day when I should quit... In this field you have to be very humble every day. Even if you would know things, you would never know everything. You have to be really humble and go there and play and there’s not a day that you can be the wisest person in the world because it’s changing so fast.” (Digital manager of Sony Music Entertainment)

The above quotation illustrates well the current situation in the digitalizing music industry. It is not possible to possess enough knowledge of the industry’s driving forces at any time as the environment changes at a very rapid pace. Therefore, the music companies’ ability to react fast is vital for their survival in the dynamic digitalizing world. Consequently, traditional thinking and reactiveness to the global music trends are only a
phase in the development of the industry. The digital director of Sony Music Entertain-
ment further believes that following the trends set by the multinational music corpora-
tions would prove insufficient in the future. Finland should attempt to be more proactive
in the years to come and nurture internal innovativeness.

“Things are changing so fast but one thing that we’re trying to be is to
be one step ahead and always to be the first ones to actually break the
things through. So we don’t want to be like a record label... We want to
be like really active with the things, get experiences. So in the way it
feels that there has never been enough planning or everything. The most
important thing is to be able to react really fast because you can’t let
your partners wait for one year. If there is a good solution, it has been
worn out in 3 months. So the most important thing is to be really, really
fast and be able to do the judgments and evaluations really fast. It’s
quite different even if we have big goals and big visions. Basically we
work every week and evaluate those visions over and over.” (Digital di-
rector of Sony Music Entertainment)

Proactiveness, however, cannot be achieved without investments in music digitaliza-
tion. The experts all agree that low investment activity can be attributed to a large extent
to the inconsistent legislation. A serious issue in terms of legislation seems to be the
improper taxation of music products. While iTunes are registered in Luxemburg and
thus pay only around 3% VAT for the services they offer as they are being subsidized
by the government, the VAT percentage in Finland does not stimulate the introduction
of similar business models domestically. A music product whether in physical or digital
form in Finland is being taxed 22% VAT, which is much higher than the tax percentage
on other cultural goods such as films or books.

“In a way it is ridiculous. We’re talking about cultural goods and so
here are three different taxations. And that’s obviously something we’d
like to see change so that the competition environment will be healthier
or more fair.” (Deputy director of IFPI)

Another flaw of the Finnish legislation system concerns the term of music copyright
protection. The period of time for which music compositions are being protected in
Finland is only 50 years in comparison to the USA where the copyright protection pe-
period is 90-130 years. Increasing the term of copyright protection will create fairer competition in the country and boost innovation activity in terms of digital music distribution.

“This is something we would like to increase to be able to put us in a bit more fair competition possibilities with the US and also we have got a lot of artists who are going to lose the rights to their recorded performances during their lifetime...It's one of the major items on the IFPI agenda apparently.” (Deputy director of IFPI)

As far as fair competition is concerned, it is not possible to overlook the most significant problem digital music distribution still experiences on a global scale, namely digital piracy. Illegal downloads are yet another restrain on the increased investments in music digitalization making digital business models unsustainable. While improved legislation can account only partially for the diminishing of piracy, all experts agree a graduated response from the consumers should be attained. At the same time internet service providers should serve as an institution which monitors, restricts and penalizes the illegal downloads. The measures Finnish music industry has undertaken in order to educate consumers towards legal downloads have not been very adequate so far either. The interviewees believe educating the customers to be a difficult enterprise which requires an active participation not only from the part of music industry stakeholders but also the involvement of other closely related industries and companies such as internet service providers and media.

The future of Finnish music industry can also be regarded as strongly connected to other industries. The general opinion of the music experts is that in the near future digital music sales will increase and become a mass product through the improvement of digital technology and the internet broadband connection. As a result the record labels will outsource distribution to specialized digital service providers or internet providers while the usability of online digital retailers will improve. Moreover, music portals such as MySpace, media and TV formats will facilitate the artist visibility and communication with the audience. Therefore, music industry will be characterized more and more as an entertainment industry encompassing various promotional activities other than music sales.

As a whole the experts agree that the structure of the music industry would not change drastically in the future. While the core of the industry will remain the same, the major record labels will be engaged less in music distribution and promotion of albums. On the contrary, their main function will be the marketing and developing of artists.
This will give rise to the establishment and expansion of indie labels to satisfy the needs of specialized market niches. The profit share of live music performances will increase as concerts and festivals will further provide greater artist visibility.

Finally, what can be concluded about the Finnish music industry value chain after the digitalization is that the main activities will remain the same but they will be allocated differently among the players incorporating new service companies mainly in the distribution and marketing. What will undergo more significant changes, however, will be the dominant business model which are constantly emerging and replacing each other. The industry will have to adapt to the consumers’ preferences and requirements, thus the future dominant business models could not be predicted as of this moment.
7 CONCLUSIONS

7.1 Theoretical implications

The main purpose of this research as stated in the previous chapters was to identify how the digitalization of the music industry affects the contemporary music industry value chain. As it was explained from the very beginning in the introductory part, the author of this research has defined and attempted to study a distinctively practical research problem which can further enhance the profitability and viability of the Finnish music companies and organizations. Therefore, the contribution of this research to theoretical knowledge can be described as rather limited.

The main theoretical contributions of the study can be attributed to providing a more integrated overview of the existing theory in the music field. As such the thesis combined theories from various research areas: from disruptive technologies and new business models to music industry stakeholders and value chain activities. The theoretical chapter of the thesis identified the main stakeholders the music industry comprises of and the most significant digital innovations which at present affect the music value chain as well as the value chain activities and business models to be of greatest importance for the future development of the music industry in the ongoing digitalization process.

As a significant theoretical implication in this sense can be regarded the presentation of the contemporary music value chain in a light different than Porter’s (1985) generic value chain model of primary and secondary activities. Namely, the author of this thesis attempted to identify blocks of activities (production, distribution and consumption) rather than singular activities and further research the effect of the digitalization on each entire activity blocks as such. This research approach proved useful for the discovery of two other areas of music chain activities which have been by now somewhat underrated in the previous studies of the music industry value chain, i.e. live music performances and merchandising. At a later phase of the research, the interviews’ analysis suggested that live music acts and merchandising are growing in significance for the modern music revenues as well as for artist presentation and branding.

Another significant theoretical contribution of this thesis is applying the natural selection approach in the light of population ecology theory to the music industry which in the author’s opinion has not been done previously. The analytical part of the work affirmed this choice of approach as viable as it was proved that music industry stakeholders in Finland and even at a global level mostly follow the requirements and de-
mands of their constantly evolving environment. Hence, the music companies should adapt to the environmental changes and search for opening opportunity niches in the industry if they want to stay in business and make profit. As the theory suggested the Finnish music stakeholders are unable to influence significantly the change in their industry but they can relatively easily familiarize themselves with the current tendencies on a global level thanks to the process of digitalization. Moreover, the constantly improving digital technologies and the growing speed of the Internet broadband connection allow for a faster adoption of profitable business models in line with the needs of the consumers and provide further opportunities for the implementation of new business ideas.

And last but not least, this thesis confirmed and further emphasized an idea recently beginning to intrigue the music industry researchers, namely the industry transition from a music production industry to an entertainment industry. In its essence the contemporary music industry has been shifting its focus towards a greater artist visibility and better artist management and representation rather than album sales. In addition, the study discovered the growing importance of incorporating companies and organizations from other industries such as telecommunications, internet service providers, mobile operators, digital service providers and media. This has not yet been a subject of thorough previous research and as such this work provides initial theoretical ground works to be built upon in the future.

7.2 Managerial implications

In the author’s intent this study was conducted entirely with the purpose to provide music companies’ managerial personnel with an objective overview of the current industry situation due to the digitalization of music. Per se it was not attempted to provide solutions to particular problems or overcome management challenges as a result of digitalization. Nevertheless, the research offers several undoubted benefits for the music companies’ strategic management.

First of all, the study can facilitate managers in identifying inconsistencies in the company’s strategic planning related to digital music and digital business models. Knowing the main gaps in their value chain activities as well as the digital music consumers’ behaviour can be a valuable asset to the music industry stakeholders. In this way they can concentrate their resources on activities which have proved important to the consumers and profitable for the company at least in the short run. Moreover, they
can benefit from outsourcing or excluding activities which do not offer sustainability in the inconsistent digitalizing environment.

Several other managerial implications can arise from being familiar with the current music industry situation. The research can help the Finnish music industry players understand the global and local tendencies in music digitalization and therefore prepare them for any unexpected turbulences in the industry in the recent future. This will increase their speed of digital innovation and business models adoption and help them keep inline with their overseas counterparts. Additionally, the research results have bookmarked the tendency of live music performances’ increased importance for the revenues in the Finnish music industry. Digital innovations, media and social networks provide feasible tools for raising the awareness of the audience regarding certain live acts. Thus they can contribute for the enhancement of the music companies’ strategies and business plans towards putting a greater focus on live performances as part of the value chain.

As it was mentioned in several places in the thesis, the Finnish music industry is being mostly reactive until now, i.e. implementing good practices from successful music companies around the globe. There has not been any great digital innovation from Finland to make an impact in the global music business so far. However, having a clear overview of the current music industry situation and its possible future development due to digitalization can stimulate the introduction of a new Finnish digital technology or business model on the global music scene. This additionally will encourage a more proactive behaviour from the part of the music industry stakeholders in Finland.

Finally, the research suggested the growing interrelatedness between the music industry stakeholders in their attempt to adapt to the changing digital environment and survive. In addition, a significant involvement in the digital music distribution of players from industries other than music has been observed in the recent years. Thus, managerial implications from the study include identification of appropriate partner companies and organization within and from outside the music industry and increased cooperation between them.

7.3 Research limitations and suggestions for future study

Despite being evaluated as generally trustworthy in the methodology chapter, several limitations can be identified for this study. As it was mentioned before, the research had been conducted with regard of the needs of managerial personnel mostly of record labels and other companies providing music content to the customers. Therefore, several
other perspectives of the same research topic have not been taken into consideration. Such are the effects digitalization causes on artists and composers and especially how end customers perceive their personal benefits from digital music distribution and what determines their consumer behaviour. Hence, one area of interest for future research could be namely to target other main stakeholders in the music industry and investigate their reactions to music digitalization.

Another limitation of the research is its geographical restriction to the country of Finland and its music scene’s peculiar characteristics. Since Finland’s music market is small and dominated by local artists with a strong emphasis on live concerts and festivals, certain conclusions from the empirical analysis cannot be applied to other countries even if they seem to possess similar value chain structure. Moreover, it was explained previously in the thesis that all Finnish music industry stakeholders (even the major record labels’ representatives in Finland) are small companies which cannot make independent decisions about their courses of action towards digitalization. As a result, their value chain activities are mostly reactive to the forces outside their companies and outside the country. Changing the research location and organizational size to large multinational music corporations will provide an insight to how digitalization is enhanced globally and how proactive managerial decisions are being made.

One research area which has intentionally been omitted in the thesis due to its vastness and particularity is legislation. Law making and fighting piracy in the music industry are still among the most significant issues in the music world of today. Legislation inconsistency and piracy were problems which emerged repeatedly in the course of conduct of the study; however, the author believes they are out of the scope of her intended research. Nonetheless, they require more thorough examination in the future and could present an immense research subject for scholars.

Finally, the study acknowledged the considerable involvement of players from other industries in the reorganization of the music industry value chain. Therefore, as a certain limitation of this work could be considered the lack of interviewees representing companies such as the Finnish internet service providers or mobile operators as well as the Finnish mobile phones manufacture Nokia (Nokia comes with music). In the author’s opinion, the involvement of other industries in the distribution and promotion of digital music content will increase in the future and as so could be defined as an area of research interest for further studies.
SUMMARY

Music digitalization has been identified as the most significant phenomenon in the music industry for the last two decades. At present, the physical sales in the music industry have been decreasing rapidly while digital music consumption has been going up slowly but steadily. The advancement of digital technology and the wide spreading of the internet have facilitated the digitalization in the music industry and greatly affected all stages of the music industry value chain such as music creation, distribution and consumption.

As a result, the digitalization has created new music consumer culture which has necessitated the establishment of novel business models such as music subscriptions and à-la-carte downloads websites and live streaming. This has led to the observation of two distinct phenomena in the music industry, namely the disappearance of certain intermediaries from the value chain (disintermediation) and the emergence of new and specialized ones (reintermediation). The dynamic digital environment presents the music industry stakeholders with the challenge to adapt to the requirements of the constantly changing modern consumers’ needs and demands.

Therefore, the purpose of this study was to identify how music digitalization can influence any changes in the Finnish music industry value chain. It was intended as an overview of the Finnish music industry giving the industry stakeholders a useful insight to the current situation they are operating in and their competitive environment. The sub-questions of this research were:

1. What role does digitalization play for the music industry stakeholders?
2. How is the Finnish music industry value chain being reorganized as a result of digitalization?
3. How do the Finnish music industry stakeholders adapt to the process of music digitalization?

The above questions determined the choice of methodological approach for this study as qualitative as a lengthy verbal description of the process under study was required. The research utilizes entirely primary data which was collected through five semi-structured interviews with six experts from different units of the Finnish music industry value chain. The interviewees include the digital director of a major record label, the deputy director of IFPI Finland, an independent researcher on the globalization and the internationalization of Finnish rock and metal music, the managing director of an indie label and the managing director and the business development director of the
only Finnish digital service provider SecuryCast. The choice of interviewees aimed to provide assessment of diverse viewpoints on the industry value chain due to the interviewees’ varied fields of expertise.

The data analysis determined the importance of local artists in the Finnish music scene and the traditionally strong attachment of Finnish consumers to physical records, which results in the belated adoption of digital technologies and business models in the country. The interviews supported the claim that music consumption in its digital form is going to become dominant in the nearest future. However, at the time being the industry is in a stage of experimenting with the business models and it is not possible to make any prognosis which model will be approved by the consumers in the longer run.

Moreover, the stakeholder structure of the industry does not seem likely to change significantly in its core over the time. The main stakeholders such as artists, major and indie record labels, retailers and other distributors are to maintain their current positions in the value chain. Nevertheless, as the music industry develops towards becoming an integrated entertainment industry, the functions of the stakeholders are also being reconsidered.

The record labels are becoming less involved in music production and distribution as digital technology provides means for cheaper and more effective music reproduction, packaging and delivery. Instead, they are focusing their efforts on artist management and branding as well as enhancing the artists’ visibility to the audience. On the other hand, the indie labels need to become more active in talent scouting and marketing new music acts as their most valued feature is their ability to adapt faster to the environmental changes and better satisfy niche markets’ demands.

The greatest changes in the industry can be observed in the music distribution. While at present physical distributors still maintain their leading position, the digital music retail is exhibiting a stable growth rate and is expected to surpass the physical copies sales in the future. Consequently, new digital retailers are constantly emerging and enhancing their music content and customer base.

Another contemporary observable phenomenon in the music distribution is related to the increased participations of companies and organizations from outside the music industry such as internet service providers, mobile operators and mobile phone manufacturers as well as social networks. Various media play another important role in the marketing and branding of artists through live music contests. Live music and merchandising as previously underrated segments of the industry are currently providing a further contribution to the music profitability thanks to the digitalization.
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APPENDICES

APPENDIX 1 Interview questions

Personal introduction of the interviewee

*Theme I: Music industry and digital innovations*

1. Since music industry is the focus of this research, how would you define music industry in your own words? What do you think it includes?
2. How has digitalization already affected the music industry? What has changed from what it was before?
3. In your opinion what digital innovations are the most important for the music industry? Why?
4. What role do digital innovations play in the music industry today? How have they changed music creation, distribution, consumption?
5. How do you think digitalization will affect the music industry in the future?

*Theme II: Music industry and the value chain*

1. How does Finnish music industry resemble the global music industry in terms of content? How about in terms of structure?
2. How does Finnish music industry differ? Where do you think the differences come from?
3. What companies and organizations are the main players in the Finnish music industry? What are the relations between them?
4. Can you identify some of their main functions?
5. Which ones of these organizations and companies, if any, have emerged due to digitalization?
6. How has the importance of these players changed after the digitalization? Which ones were the most important before and which ones are the most important now?

*Theme III: Music industry stakeholders’ actions*
1. How has the Finnish music industry been prepared beforehand for the change?
2. How has it been able to react after the change?
3. How has the industry been able to influence the change in some way?
4. How does Finnish music industry respond to the global music industry digitalization process?
5. Do you think these measures are adequate? If not how can they be improved?
6. What measures still need to be taken in the future?
7. How do you imagine the Finnish music industry in the future? Let’s say in 10 years from now.
8. Can you please try to summarize the whole issue discussed so far? Is there anything you forgot to mention or I haven’t asked but you find relevant?

**APPENDIX 2 Additional questions to Sakara Records managing director**

1. Why was Sakara Records established?
2. Is it easy to make a breakthrough album?
3. Do you think digitalization has helped aspiring bands to get notices by the record labels or by the audience?
4. How did you decide to start signing other bands and how did you discover them?
5. Are you planning to expand the number of artists you represent and include new acts? And more importantly, if you are planning, how do you search for them?
6. What services do you offer to the musicians you represent?
7. What sort of distribution channels do you use to market Sakara Record’s music?
8. As a band member how has internet helped you gain popularity and fan base? Do you agree that the music industry nowadays is becoming more transparent? How do you see the artists’ relationship with the audience?